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# Governance, Institutional Quality, Growth and Inequality In Africa: A Study of Central Bank of Nigeria

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***Abstract:***

*This paper examined the role of institutional quality on economic growth and reduction of inequality in Nigeria. Survey research design was adopted and data were collected through primary and secondary sources. Population of the study was 600 businesses across Nigeria. Descriptive and inferential statistics were used for data analysis. Findings revealed that the bottlenecks facing businesses in accessing loans have significant effects on business creation in Nigeria. The study concluded that lack of policies and interventions are not the problems for small businesses to obtaining funds from government, but effectiveness and efficiency of these interventions and policies.*

**Key words:** Governance, Institutional Quality, Growth, Inequality & Central Bank of Nigeria

## 1.0 Introduction

There is an increasing interest on the role of governance and institutional strength and quality on economic growth and development. Making this point clear, Zhuang, De Dios and Lagman-Martin (2010) explicated that the renewed interests globally on how the instrumentalities of good governance and institutions' quality can be appropriated to bring progress to human experience, especially with respect to growth of national economies and income inequalities in development effort is real.

The reason for this attention given to the governance-institution cum growth-inequality paradigm is anchored on the essentiality of the interrelationship that exist among the variables.

The design of governance structures and institutions in any country is in such a way as to afford the country's progress in both human and infrastructural development.

It is on this premise that countries design policies to ensure effective government and human capital optimisation; enthrone political processes that ensure political stability through credible electioneering activities and violence-free polity.

In such political configuration, rule of law ensures that individual voices are heard and accountability rendered through an effective regulatory framework that guarantees doing the right things. On the bases of the above, strong country's institutions are built that guarantee individual development and rights to opportunities, freedom and welfare that, in the long-term, is expected to bridge income disparities among stakeholders and makes for economic growth and development.

Nigeria has been struggling to leave to its full potential, despite its huge natural and mineral resources. Its huge population and diversity in terms of culture and belief systems, which are meant to be avenues for tremendous competitive advantage to the country, appear to be more of a curse as a result of many ethnic and religious crises over the years. These things could be attributed to humongous level of unemployment and poverty across the country.

Private businesses that are supposed to be contributing immensely to employment creation appear to be struggling in this regard as a result of the seeming lack of support from agencies of government such as the Central Bank of Nigeria (CBN).This institution of government plays huge role in regulating macro and micro-economic activities in Nigeria. It has the mandate to maintain the external reserves of the country, promote monetary stability and sound financial environment, and act as a banker of last resort and financial adviser to the Federal Government (FG).

They also provide funding to the private sectors such as small businesses through other agencies like the Bank of Industries (BOI), Bank of Agriculture (BOA), Federal Mortgage Bank of Nigeria, Nigeria Export Import Bank, Microfinance banks, among others. These other institutions that are under the supervision of the CBN appear to be weak in dispensing their duties of providing fund for the private sectors to thrive. This brings to the fore the question of institutional quality and the roles it plays in economic growth and in mitigating the problem of inequality.

Institutions could be seen as organisations saddled with the responsibility to regulate the activities of businesses or other functions. Corroborating this, Greif (2006) opines that institutions might be defined as a set of social factors, rules, beliefs, values and organisations that jointly motivate regularity in individual and social behaviour. The interest of this work, however, is on institutions as organisations, and the focused institution is the CBN.

There is a growing interest on the relationship existing between institutional quality and growth of an economy.Udah and Ayara (2014) avered that institution and economic performance nexus has attracted considerable attention in economics literature in recent decades. Similarly, Iheonu, Ihedimma and Onwuanaku (2017) posit that the role of institutions has continued to receive attention by researchers in recent times as possibilities exist of economic fundamentals alone not being the only decisive factor of economic performance, but also the level of institutional quality. Evidence abound about the relationship between the quality of institutions and economic growth, poverty and inequality reduction. The positive impact of institutional quality on development has been pointed out by cross section analyses (Hall & Jones, 1999; Acemoglu et al., 2002; Rodrik et al., 2002) as well as case studies (for example, Rodrik, Subramanian &Trebbi,2003).

Kaufmann and Kraay (2008) had argued that there exists a strong positive correlation between quality of institutions and growth across countries. Acemoglu and Robinson (2010) pointed out that institutions are the fundamental determinant of economic growth and cause development differences across countries. This is because institutional structure defines incentives and penalties, shapes social behaviour and articulates collective action, thus conditioning development (Alonso & Garcimartín, n.d). One important constraint that inhibits market interactions and defines the incentive structure, choices agents make, and hence economic performance, is institutions (Udah & Ayara, 2014).

Institutions like the CBN has the potential of spurring businesses by formulating, implementing and monitoring business friendly policies which will help in generating employment and bridging the gap between the poor and the rich through employment generation, poverty and inequality reduction and growing the economy. However, in a situation where such institutions are weak in formulating, implementing and monitoring these policies, the reverse may be the case.Udah and Ayara (2014) pointed out that in an environment of weak institutions and ineffective governance structures, economic agents behave in a way that could distort the smooth operation of the multiplier process, and government expenditure will not result in the desired outcome.

If the quality of institutions are inadequate and weak, the gains of defaulting on a financial contract can be so prominent that they prevent the achievement of the contract itself. In addition, good institutions are required to ensure the ability of the finance markets to channel resources so as to finance productive activities (Siong & Azman-Saini, 2012). Markets fail to function efficiently if there are perceived short and long-term uncertainties created by unclear and frequent changes in rules and procedures governing the operation of the market (Udah & Ayara, 2014). Therefore, the link between institutional quality and finance and economic growth and development is visibly significant (Siong & Azman-Saini, 2012). It is against this backdrop that this study was necessitated to look at how the CBN has performed in terms of providing adequate guidelines, regulations and policies and interventions that promotes small businesses, access to finance and channeling of resources into productive sectors of the economy.

Nigeria has over the years witnessed alarming rate of inflation, unemployment figures are frightening, poverty is on the rise and the gap between the poor and the rich has increased astronomically over the years and middle class seem to only exist in books and not in reality any longer. CBN makes policies that help in regulating money in circulation, control lending rate, inflation, exchange rate, interest rate and the rest. These policies however seem not to be working as exchange rate is at its all-time high, interest rates are in double digits and inflation is at a cut throat level. Furthermore, finance is made available to be lent to different sectors of the economy through other financial institutions like microfinance banks and Bank of Industry. It however seem that it is only the ones meant for big corporations that get to them while those meant for small business appear not to be getting to them thereby raising the question of whether these businesses are aware of the loans, whether the conditions are too stringent or whether the money is diverted to other sectors, uses or pockets. All these, questions the governing and institutional quality of CBN and the other financial institutions that aid the CBN.

As a result of lack of funds to the small businesses that will enable them to expand and thrive, most of the businesses die or remain stagnant without fulfilling their potentials of creating employment, reducing poverty and improving economic growth in the country. Thus, if the situation is not handled as quickly and as properly as it should, the situation may continue thereby worsening economic hardship, increasing poverty and inequality in the polity. It is against the backdrop of these consequences that this study is necessitated.

The major objective of this study is therefore to examine the role played by institutional quality on economic growth and reduction of inequality. Specifically, the study seeks: to identify various ways CBN has assisted in creating enabling environment for businesses to thrive; and to explore the various bottlenecks encountered by businesses in getting funding from various agencies and how it affects business creation.

Following the introduction and statement of problem and objectives of the study captured in section 1, Section 2, gives the review of related literature, Section 3, deals with methodology and data, while Section 4, discusses Data Analysis and Presentation of Result, while Section 5, x-rays the Implications, Recommendations and Conclusions of the Study.

## 2.0 Review of Related Literature
### 2.1 Theoretical Literature

Governance can be seen as a system of managing a country's resources. It is like a way of making sure that things are done the right way. This definition is buttressed by the World Bank (1992) that opined that governance is the style of leadership and the method used in the management of a country's human and material resources. It is linked with provision of leadership and direction so as to maximise performance. Udah and Ayara (2014) posited that it links with the ability of a country's leadership to manage its resources optimally.

With effective governance, policies and programmes of government are given the necessary guidance and direction to achieve its purposes. Governance is the channel through which policies are transmitted and enforced. Hence, an effective governance leads to better economic performance as a result of better equipped institutions that provide qualitative services. The effectiveness of existing governance structure determines to a large extent its ability to promote the transition toward a market-oriented economic order that would lead to a better performance of the economy (Udah & Ayara, 2014).

Institutions could be seen in different ways: they could be seen as the rules guiding the actions and inactions in a particular polity; it could also be seen as the bodies saddled with the responsibility to regulate activities and provide direction in a polity. Buttressing this point, Greif (2006) explicated that institutions might be defined as a set of social factors, rules, beliefs, values and organisations that jointly motivate regularity in individual and social behaviour. Thus, institutions can be seen as an inter-temporary contract that shapes behaviours. Aoki(2000) averred that institutions are systems of shared beliefs about the equilibrium of a game played repeatedly. Therefore, good institutions will be those that stimulate agents' activities with a better social return. The focus of this study, however, is on institutions as a body or agency that helps in regulating and governing activities in a polity.

Osabuohien and Efobi (2013) stated that here are two broad categories of institutions. They are the formal and informal. Formal institutions include rules and framework, documented by specific authorities in the society, to regulate the behaviour of economic agents, while the informal institutions include customs, beliefs, norms and culture that can inform behaviours of economic agents. According to North (2005), informal institutions are usually not written down. The major differentiating factor between these two forms of institutions is the way they enforce and or reward behaviour. While the formal institutions can punish unwanted behaviour with for example prison terms or monetary fines, the informal institutions, on the other hand,can only punish through peer pressure and reputation building (Helgason, 2010).

Researchers and bodies have over the years developed interest in investigating the role played by institutions on economic growth. Laying credence to this assertion, Iheonu, Ihedimma and Onwuanaku (2017) stated that the role of institutions has continued to receive attention by researchers in recent as there are possibilities that it is not economic fundamentals alone that decides economic performance but also the quality of institutions present in a polity. Similarly, Nawaz (2014) posited that studies have empirically investigated the growth effects of institutions at various stages of development. However, these studies have in most cases produced different and sometimes contradicting results, depending on the location and time of the study. Valeriani and Peluso (2011) wrote that studies have shown that the impact of institutions on economic growth is different across countries.Similarly, Saima, Nasir and Muhammad(2014) opined that existing literature primarily reveals that a positive relationship exists between institutions and growth but sometimes, institutions with the same characteristics yields tremendously dissimilar results across diverse groups, regions and societies.

## Role of Institutional Quality

To understand the forces influencing Africa's economic performance, many researchers have delved into the area of institutions in relation to growth and have discovered various roles it plays (Acemoglu, Johnson & Robinson, 2001, 2002). Good institutions have been documented to be critical in providing an enabling environment for economic prosperity to trickle down to the poorer segments of the population in sub-Saharan Africa (Thorbecke, 2013).Iqbal and Daly (2014) argued that weak institutions diverts scarce resources from productive sector to unproductive sector and therefore promotes rent-seeking activities, whereas strong institutions reduce the chances of rent-seeking activities and accelerate economic growth process and productivity of the growth inducing factors.

Ndulu,O'Connel, Bates, Collier and Soludo (2008) stated that a major research project undertaken by the African Economic Research Consortium (AERC) revealed that institutions are accorded considerable attention in explaining the growth of African economies.Chong and Calderon (2001) used a more rigorous approach to show a strong evidence of bi-directional causality, running from institutions and economic growth, and from economic growth to institutional quality. Their findings indicated that the poorer a country is, the stronger the influence of institutional quality on economic growth. Acemoglu, Cutler, Finkelstein and Linn (2006) concluded that private property right institutions are the main drivers of long-run economic growth, investment and financial development.

## Predictors of Governance and Institutional Quality

Much writing has sought to measure the expected governance/institutions–growth nexus involved in cross-country regression studies linking per capita income growth with measures of governance/institutional quality with some control variables that may also affect per capita income growth and this kind of empirical study has methodological weakness (Zhuang, De Dios & Lagman-Martin, 2010).Therefore, a more growing importance is being attached to measuring good governance and institutions by think-tanks and other multilateral agencies, leading to the publication of a large number of governance indicators series as exemplified by Worldwide Governance Indicators (WGIs) and the Global Competitiveness Index (GCI) produced by the World Bank and World Economic Forum, respectively. This study adopted the Worldwide Governance Indicators (WGIs).

## The Worldwide Governance Indicators are based on the Following Measures.

- Voice and Accountability, measured by the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, association, and the press.

- Political Stability and Absence of Violence, measured by the likelihood that the government will not be destabilised by unconstitutional or violent means, including terrorism.

- Government Effectiveness, measured by the quality of public services, the capacity of the civil service and its independence from political pressures, and the quality of policy formulation.

- Regulatory Quality, measured by the ability of the government to provide sound policies and regulations that enable and promote private sector development.

- Rule of Law, measured by the extent to which agents have confidence in and abide by the rules of society, including the quality of property rights, the police, and the courts, as well as the risk of crime.

- Control of Corruption, measured by the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as elite "capture" of the state.

## 2.2 Empirical Reviews

While Constantinos, Persefoni and Hashim (2014) had studied the role of institutions on economic performance, Oluwatobi, Efobi, Olurinola and Alege (2013) studied the role of institutions on innovations in Africa and Demetriades and Law (2006) examined the effect of institutions on financial development. Nabila, Shazia and Muhammad (2015) studied the impact of institutional quality on economic growth in developing economies of Asia with a panel data for the period 1990-2013. The result reveals that institutional quality has positive impact on economic growth. Also, Klomp and Haan (2009) examined the relation between institutions and volatility of economic growth for 116 countries for the period 1960 to 2005, using different indicators for political administration like political stability, regime types and uncertainty of policy. The study employed specific to general approach and found out that uncertainty and instability, democratic regime and economic growth volatility are negatively related to each other. Le (2009) investigated the relationship among institutions, remittances, trade and economic growth for the period 1970 to 2005 for 67 developing economies. Using different estimation techniques, the study finds that better quality of institutions leads to higher economic growth in the long run as well as in the short run.

Ulubasoglu and Doucouliagos (2004) explored the relationship between institutions and economic performance for the period 1990 to 1999. Using a sample of 119 countries, they used simultaneous model for econometric analysis, using two proxies for institutional quality, one for political freedom and second for economic freedom. They found that political freedom has positive impact on human capital and total factor productivity (TFP) and physical capital. Ali and Crain (2002) explained the interconnections among economic freedom, institutional distortion and economic growth. Using a sample of 119 countries for the period from 1975 to 1998, they concluded that civil liberties and political administration have no significant impact on economic growth. However, economic freedom plays significant role in enhancing economic growth.

Vijayaraghavan and Ward (2001) tested the empirical relation between institutions and economic growth for the period 1975 to 1990 for 43 countries. For analysis purpose, they used different proxies of institutional quality like property rights, structure of governance, size of the government and the political freedom. The results showed that well defined property right and the size of the government are significant determinants of institutional quality which enhance economic performance. This result was supported by Knack and Keefer (1995) who also examined the association between institutions and economic progress. They found that property rights are significant determinant of economic growth as Campos and Nugent (1999) also revealed in their empirical study that the institutions of governance improve the development performance.

## 3.0 Methodology and Data

The authors employed a survey research design given that data for the study was collected through interviews, questionnaire and publications from relevant agencies. The data collected from firms were from the owners of the firms who are responsible for looking for funds for their businesses, while data from the CBN was collected from the website and from the Development Finance Office (DFO) of CBN in Anambra State. The study covered twelve (12) states in Nigeria selected using Stratified Random Sampling Technique; the six zones in the country were used as strata so that the study will have a national spread where each of the geopolitical zones are represented in the study with two (2) states. The states selected through this process are Kogi and Nasarawa (North Central), Bauchi and Gombe (North East), Sokoto and Kebbi (North West). Others are Anambra and Enugu (South East), Cross River and Edo (South South), and Ekiti and Ondo (South West). The population of the study consist of 600 businesses, 50 each from the states. The firms selected were based on their years of existence (not less than 5 years), number of employees (not less than 5), registration status (must be a registered company under the Corporate Affairs Commission) and openness to the study (must be willing to participate in the study). There were also elements of randomness in the selection process of the firms. This means that a mixture of purposive and random sampling techniques were used in the selection of firms that participated in the study. The data were analysed with a combination of descriptive and inferential statistics.

The descriptive statistics are mean, frequencies and percentages. The threshold of acceptance for the mean is 3. The inferential statistics used is a parametric chi-square and the level of significance adopted was 5 per cent. Thus, if the probability value (p-value) obtained is less than the level of significance used, the hypothesis (null) will be rejected, otherwise, it will be accepted.

## 4.0 Data Presentation and Analysis

a)To identify various ways CBN has assisted in creating enabling environment for businesses to thrive.

***Table 1:*** ***CBN Intervention on SMEs between 2009-2019***

| S/N | Some Interventions by CBN aimed at helping Small Businesses/Farmers | Amount | Year of Esta. |
|---|---|---|---|
| 1 | Commercial Agriculture Credit Scheme (CACS) | 200 Billion | 2009 |
| 2 | SME Restructuring and Refinancing Facility (SMERRF) | 200 Billion | 2010 |
| 3 | SME Credit Guarantee Scheme (SMECGS) | 200 Billion | 2010 |
| 4 | Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) | 75 Billion | 2011 |
| 5 | Entrepreneurship Development Centres | | 2013 |
| 6 | Micro Small and Medium Enterprises Development Fund (MSMEDF) | 220 Billion | 2013 |
| 7 | Anchor Borrowers' Programme (ABP) | | 2015 |
| 8 | Textile Sector Intervention Facility | 50 Billion | 2015 |
| 9 | Non-oil Export Stimulation Facility | 500 Billion | 2015 |
| 10 | Export Rediscounting and Refinancing Facility (ERRF) | 50 Billion | 2016 |
| 11 | Youth Entrepreneurship Development Programme (YEDP) | | 2016 |
| 12 | Paddy Aggregation Scheme (PAS) | | 2017 |
| 13 | Accelerated Agriculture Development Scheme (AADS) | | 2017 |
| 14 | Export Development Facility (EDF) | 50 Billion | 2017 |
| 15 | Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS) | | 2017 |
| 16 | National Collateral Registry (NCR) | | 2017 |
| 17 | CBN-BOI Industrial Facility (CBIF) | 50 Billion | 2018 |
| 18 | Shared Agent Network Expansion Facility (SANEF) | 25 Billion | 2018 |

**Source:** CBN Circulars 2019, CBN Publication, www.cbn.gov.ng

Table 1 shows list of CBN initiated programmes between the year 2009 to 2019 arranged chronologically based on the year of establishment. The table shows the year of establishment of such programmes and how much were mapped out for the purpose. However, it is pertinent to note that not all the programmes are in form of loans. Some are in the form of training centres and facilitation centres like the Entrepreneurship Development Centres, National Collateral Registry (NCR), Youth Entrepreneurship Development Programme (YEDP) and Accelerated Agriculture Development Scheme (AADS). There is also a programmeon the pipeline for the establishment of National Microfinance Banks, which will leverage the facilities of NIPOST in the 774 L.G. As in the country to distribute the over N60 billion gotten from the compulsory five per cent (5%) taxed on the banks' profits and set aside for lending to the SMEs, but which have been unused and sitting in the CBN's vaults. Also, part of the vision to establish the bank is the need to ensure that another N26 billion CBN set aside to finance small-holder agriculture and other small, informal ventures under the Agribusiness/Small and Medium Enterprises Investment Scheme is properly harnessed.

From the list above, it is obvious that the issue of support to SMEs, which will help in reducing the gap and inequality in the polity is not as a result of lack of initiative or interventions, but that of implementations and the will to follow through the programme without bias, sentiment and corruption.

**Table 2:** List of Development Institutions set up by CBN between 2009-2019

| S/N | Name of Institution | Date of Esta. | Head Office |
|---|---|---|---|
| 1 | Bank of Agriculture | 2007 | Kaduna |
| 2 | Bank of Industry | 2007 | Lagos |
| 3 | Federal Mortgage Bank of Nigeria | 2007 | Abuja |
| 4 | Nigeria Export Import Bank | 2007 | Abuja |
| 5 | The Infrastructure Bank | 2007 | Abuja |

***Source:*** *CBN, 2019*

Table 2 shows the list of Development Finance Institutions set up to assist in getting funds mapped out for SMEs to get to them between 2009-2019. This list also buttresses the point that want of initiatives, interventions and institutions are not the major issues facing businesses in accessing funds that will help in establishing and expanding their business to bridge the gaps between the haves and the have nots. The issues appear to be that of the quality of the institutional framework and implementation of the somewhat laudable programs and initiatives.

b) To explore the various bottlenecks encountered by businesses in getting funding from various agencies and how it affects business creation.

**Table 3:** Issues faced by Businesses in the Northern Region

| S/N | Bottleneck Smiltating against access to finance | VGE (5) | GE (4) | NI (3) | LE (2) | VLE (1) | Mean |
|---|---|---|---|---|---|---|---|
| 1 | Processes involved in accessing the funds | 121 | 122 | 24 | 21 | 12 | 4.06 |
| 2 | Awareness about the availability of such funds. | 202 | 86 | 12 | - | - | 4.63 |
| 3 | Too high interest rate. | 63 | 86 | 24 | 61 | 47 | 3.19 |
| 4 | Distance of the loan giving bodies from the businesses. | 63 | 86 | 24 | 61 | 47 | 3.19 |
| 5 | Too many forms and other requirements. | 221 | 68 | - | 11 | - | 4.66 |
| 6 | Bad previous experience from such agencies. | 78 | 103 | 59 | 60 | - | 3.66 |
| 7 | Sincerity on the part of the agencies. | 50 | 33 | 19 | 109 | 89 | 2.49 |
| 8 | Corruption of personnel of the agencies. | 50 | 33 | 19 | 109 | 89 | 2.49 |

**Source:** Field Survey, 2019

Where:
VGE = Very Great Extent, GE = Great Extent, NI = No Idea, LE = Little Extent and VLE = Very Little Extent

Table 3 shows the descriptive statistics and frequencies for bottlenecks facing businesses in obtaining loan in the Northern part of the country. Judging from the mean of the questionnaire items whose benchmark for acceptance is 3, it showed that the bottleneck that poses the greatest challenge to these group of businesses is that of forms and other requirements with a mean of 4.66. This is closely followed by awareness about the availability of such funds with a mean of 4.63. Sincerity on the part of the agencies was the least problem as the mean showed with a value of 2.49, which falls below the acceptance region of 3. The next least challenge facing businesses in the Northern region with respect to obtaining finance to grow their businesses is high interest rate with a mean of 3.19, which is marginally higher than the threshold of acceptance which is 3.

**Table 4: Loan access stands in the North**

| S/N | Others | Yes | No |
|---|---|---|---|
| 1 | Have you ever accessed funds from any of the agencies of government? | 62 (21%) | 238 (79%) |
| 2 | If yes, will you apply again when the opportunity comes. | 29 (47%) | 33 (53%) |
| 3 | Would you like to get loans from government to expand your business if given the opportunity? | 29 (47%) | 33 (53%) |

**Source: Field Survey, 2019**

Table 4 shows the stands of loan access and the perception in the Northern region. From the table, it shows that only 21 per cent (62) of the respondents have accessed loans from any of the government agencies before, while 79 per cent (238) of the respondents have not. Out of the 62 firms that have accessed loans before, 47 per cent said that they will apply for loans again, while 53 per cent said they will not apply again. This may be due to the processes, procedures and requirement they passed through in the first loan process.

**Table 5:** Issues faced by Business in the Southern Region

| S/N | Bottlenecks militating against access to finance | VGE (5) | GE (4) | NI (3) | LE (2) | VLE (1) | Mean |
|---|---|---|---|---|---|---|---|
| 1 | Processes involved in accessing the funds | 99 | 106 | - | 25 | 70 | 3.46 |
| 2 | Awareness about the availability of such funds. | 39 | 79 | - | 80 | 102 | 2.58 |
| 3 | Too high interest rate. | 56 | 119 | 20 | 16 | 89 | 3.12 |
| 4 | Distance of the loan giving bodies from the businesses. | 119 | 80 | - | 56 | 45 | 3.57 |
| 5 | Too many forms and other requirements. | 89 | 129 | 17 | 63 | 2 | 3.80 |
| 6 | Bad previous experience from such agencies. | 70 | 187 | 21 | 12 | 10 | 3.98 |
| 7 | Sincerity on the part of the agencies. | 69 | 90 | 54 | 70 | 17 | 3.41 |
| 8 | Corruption of personnel of the agencies. | 89 | 121 | 12 | 69 | - | 3.76 |

**Source:** Field Survey, 2019

Table 5 shows the challenges facing businesses in the Southern part of the country. From the table, it shows that the major albatross facing them is bad previous experience from the agencies judging from the mean of 3.98 obtained. This is followed by too many forms and requirements with a mean of 3.80. The less issue faced by the businesses in this region is that of awareness for the availability of such funds or programmes. This is closely followed by interest rates charged by the agencies of governments.

**Table 6:** Loan access stands in the South

| S/N | Others | Yes | No |
|---|---|---|---|
| 1 | Have you ever accessed funds from any of the agencies of government? | 73 (24%) | 227 (76%) |
| 2 | If yes, will you apply again when the opportunity comes | 40 (55%) | 33 (45%) |
| 3 | Would you like to get loans from government to expand your business if given the opportunity? | 269 (90%) | 31 (10%) |

**Source:** Field Survey, 2019

Table 6 shows the stands of loan access in the Southern part of Nigeria. From the table, 73 of the 300 respondents that participated in the study stated that they have received one form of loan or the other from government, while 227 said they have not. Out of the 73 that have accessed loans, 40 of them, stated that they will apply again if given the opportunity, while 33 will turn down the opportunity if it presents its self again. However, 269 of the respondents said they would like to get loans from government to expand their businesses, while 31 said they will decline the opportunity if presented with it.

**Table 7:** Issues faced by Businesses Cumulatively

| S/N | Bottlenecks militating against access to finance | VGE (5) | GE (4) | NI (3) | LE (2) | VLE (1) | Mean |
|---|---|---|---|---|---|---|---|
| 1 | Processes involved in accessing the funds | 220 | 228 | 24 | 46 | 82 | 3.76 |
| 2 | Awareness about the availability of such funds. | 241 | 165 | 12 | 80 | 102 | 3.61 |
| 3 | Too high interest rate. | 119 | 205 | 63 | 77 | 136 | 3.16 |
| 4 | Distance of the loan giving bodies from the businesses. | 228 | 176 | 10 | 87 | 99 | 3.58 |
| 5 | Too many forms and other requirements. | 310 | 197 | 17 | 74 | 2 | 4.23 |
| 6 | Bad previous experience from such agencies. | 148 | 290 | 80 | 72 | 10 | 3.82 |
| 7 | Sincerity on the part of the agencies. | 119 | 123 | 73 | 179 | 106 | 2.95 |
| 8 | Corruption of personnel of the agencies. | 200 | 199 | 32 | 139 | 30 | 3.67 |

**Source:** Field Survey, 2019

Table 7 shows the cumulative responses of the respondents and the mean for the questionnaire items. Cumulatively, the table shows that all the issues pointed out as being bottlenecks to accessing loans are relevant except sincerity on the part of the agencies judging from the mean whose benchmark of acceptance is 3. The major challenge the respondents faces in accessing loans is excess forms to be filled and other requirements needed to qualify to be given the loan facility with a mean of 4.23. This is followed by bad previous experience from such agencies with a mean of 3.82 and then the processes involved in accessing the loan with a mean of 3.76. The least significant problem or challenge they face is sincerity on the part of the agencies with a mean of 2.95, which is lesser than the threshold of acceptance which is 3. This is followed by high interest rate with a mean of 3.16, which was marginally greater than the benchmark of acceptance of 3.

**Table 8:** Cumulative loan access stands in the Country

Table 8 shows the cumulative loan access in the country as sampled. The table shows that out of the 600 firms that participated in the study, only 135, representing 22 per cent have accessed one form of loan or the other from any government agency, while 465 representing 78 per cent have never accessed loans to grow their businesses before. Out of the 135 that have accessed loans before, only 69 agreed that they will apply again when the opportunity comes, while 49 per cent of the 135 said they will decline the opportunity to apply again. This may be attributed to the processes and procedures and other requirements like collateral to qualify for the loan. 500 out of the 600 respondents said they will like to get loans from any of the government agencies, while 100 said they will not like to receive any loan from government.

## 4.1 Test of hypothesis

Bottlenecks faced by businesses in getting funding from various agencies of government in Nigeria has no effect on business creation.

**Table 9:** Chi-Square output

Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | 771.146[a] | 28 | .000 |
| Likelihood Ratio | 836.988 | 28 | .000 |
| Linear-by-Linear Association | 3.128 | 1 | .077 |
| N of Valid Cases | 4800 | | |

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 38.88.

Table 9 shows the output of chi-square test of the effect of the bottlenecks facing businesses in accessing funds on business creation in Nigeria. Looking at the result, the Pearson Chi-Square Coefficient is 771.146 and the Asymptomatic Significance is .000, which is less than .05 level of significance. This shows that the bottlenecks facing businesses in accessing loans have statistically significant effects on business creation in Nigeria.

**Table 10:** Test of Effect Size

Symmetric Measures

| | | Value | Approx. Sig. |
|---|---|---|---|
| Nominal by Nominal | Phi | .401 | .000 |
| | Cramer's | .200 | .000 |
| N of Valid Cases | | 4800 | |

a. Not assuming the null hypothesis.
b. Using the asymptotic standard error assuming the null hypothesis.

Table 10 shows the effect size of the bottlenecks facing businesses in accessing funds from various agencies of government in Nigeria. From the Phi and Cramer's V coefficient as shown in the table, at .402, it indicates that cumulatively, the effect of the challenges businesses face is significant in establishing and expanding their business and reducing inequality at 40 per cent.

## 5.0 Policy Implication, Recommendations and Conclusions

### 5.1 Policy Implication

The findings of this study has some policy implications; it will help the CBN to focus more on implementing already established policies and programmes rather that spend so much on formulating new ones while the old ones are left to die off. Also, having seen from the analysis that one major challenge people face in assessing fund is the cumbersomeness of the processes and procedures, the CBN could do well to reduce these requirements needed to qualify for loans. Similarly, the agency needs to work with the National Orientation Agency (NOA) to reorient the perception of people about such loans because from the result, it is seen that people hold wrong impression about the policies.

### 5.2 Recommendation

Sequel to the findings of this study, it is recommended that:

- CBN needs to effectively monitor the already existing agencies so as to be on the know about their dealing with businesses to make sure that the funds are channeled to the right people and not diverted into private pockets or uses.

- More needs to be done in terms of creating awareness for the creation of agencies that are established to provide support for businesses and the availability of funds for businesses. This could be done •through the use of local means like town criers where they still exist, village heads, religious houses and meetings and other local meeting points.

- The agencies need to be located closer to the businesses and so more branches need to be established for this purpose.

- There is need for reorientation of businesses as their perception of these agencies and their sincerity appear to be in question; and

- There needs to be a way to reduce the cumbersome processes and stringent requirements to qualify for such funding so as to make the processes a smooth sailing experience.

### 5.3 Conclusion

The study concludes that it is not the lack of policies and interventions that are bedeviling businesses from obtaining funding from various government agencies, but the effectiveness and efficiency of these agencies, and the will to following through these interventions and policies so as to get to the targets (small businesses). Some of the agencies as pointed out by the respondents are far away from the businesses and the requirement in terms of collateral and the number of forms to be filled and brought to the agencies before qualifying for such funding appear to stringent and cumbersome.

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