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Microcredits Antecedents and Small and Medium Scale Enterprises Survival During Covid-19; Evidence from Ondo State, Nigeria

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ABSTRACT

This study investigated the antecedents of microcredits and SMEs survival during Covid-19 in Ondo State, Nigeria. The study relied on primary data gathered through a structured questionnaire. The population for the study was 1999 SMEs in Ondo State; and the population subjects were 333 SMEs determined via Taro Yamane formula and were purposively selected across the State. The data collected were analysed using mean and one-way-Anova. The results showed a positive relationship between eligibility criterion structure, and socio-economic characteristics of both SMEs and banks and therefore, concluded that there is a significant relationship between microcredits antecedents and SMEs survival during Covid-19 in Ondo State, Nigeria. This study therefore, recommended that the financial institutions need to be directed by their respective regulatory bodies to relax loan eligibility criterions and other microcredit antecedents in other to accommodate more SMEs for quicker economic recovery.

Keywords: Small and Medium Scale Enterprises, Microcredit Antecedents, Business Survival, Covid-19, Financial Institutions

1. Introduction

The emergence of Covid-19 Pandemic and it consequences on the World economy has shifted the focus of policy makers and world leaders to the urgent needs for rapid development and growths of the small and medium scale enterprises (SMEs) as one of the quickest strategies for resuscitating the economy. Similarly, the availability of credit for SMEs has piqued the interest of academics and policymakers globally for many decades (Nwosu et al., 2021). In Nigeria, discussions on the dilemma of SMEs' financing have taken the form of seminars as well as several discussions with the aim of boosting the finance line for SMEs and explicitly integrating their contributions to the economy, particularly during the pandemic (Hashim, & Mohammad, 2021). This is due to the fact that financing is an important factor in determining the development and survival of SMEs (Olaoye, *et al.,* 2018). According to Muhammad, Olusegun, and Sonny (2018), access to credit enables small enterprises in most Sub-Saharan African nations to make productive investments that contribute to the growth of the national economy and reduce poverty. External financing for small and medium-sized companies is key during this crucial Covid-19 phase for growing start-up businesses. Furthermore, without external financing, small and medium-sized companies are unlikely to be able to compete in foreign markets, grow their operations, or form commercial alliances with major corporations (Akingunola, *et al.,* 2018). Access to

funding is perhaps the most critical impediment to company's growth and start-ups highlighted by current SMEs and future operators (Olowookere & Hassan, 2021).

Businesses in Nigeria that employ fewer than 300 people and/or have an annual revenue of less than 100 million naira are considered SMEs (Akingunola, *et al.,* 2018). According to a study by Udo et al. (2019), SMEs make up around 96 percent of Nigerian enterprises and about 90 percent of the industrial sector's total number of companies. Nevertheless, they only produce 6% of the GDP, compared to 40% in Asia, 50% in the US, and 60% in Europe (Ariyo, 2021). Only 5% of SMEs have loan portfolio, therefore they must utilise alternative sources of funding for both working capital and investment (Akingunola *et al.,* 2018). Due to a plethora of challenges in obtaining bank funding, practically many SMEs finance their initiatives with their own money, family wealth, and friends' funds (Gololo, 2017).

Financial services such as credit, deposits, payments, insurance, and other risk management services are all part of what is known as "access to credit," which describes how easily individuals and organisations may get these benefits. Those who unknowingly have limited or no access to financial services are referred to as "underbanked" or "unbanked" (Harris & Gabson, 2006). Access to credit, according to Rahman (2016), is "the absence of price and non-price barriers to the use of financial services." Commercial banks have been unable to meet the financial demands of low-income individuals in many countries because to rigorous baseline criteria (Seles, 2019). Therefore, in this epoch of Covid-19, specifically, the credit facilities offered by Microcredit Institutions (MFIs) play a key role in filling the vacuum for financial products among low-income workers.

According to the data that was gathered throughout the course of the Covid-19 research, a significant number of enterprises were unsuccessful. Because of this, it was difficult for creditors to make an accurate assessment of the profitability of the companies to which they had extended financial assistance, as well as the skills of the company owners and the possibility that they would be returned for their investments (Hashim & Mohammad, 2021; Ikechi & Nwadiubu, 2021; Nwosu, 2021). As a result of the fact that Ondo State is home to one thousand nine hundred ninety-nine (1999) small and medium-sized businesses, this region in Nigeria's southwest is considered to be the state's second biggest. As a result, the author of this research investigated the factors that led to the success of small and medium-sized enterprises (SMEs) in Ondo State, Nigeria, during the COVID-19.

2. Literature Review and Hypothesis Development

2.1 Factors Influencing Small and Medium-scale Enterprises Access to Microcredits

2.1.1 Collateral Requirements

The term "collateral" refers to the amount of a borrower's assets that are pledged to a lending institution for loan repayment of a (Gitman, 2003). In the event of loan failure, small and medium-sized enterprises (SMEs) in particular are required to provide security in the form of assets (such as homes, companies, automobiles, and anything else that may really pay back the principal) (Garrett, 2009). Loan collateral has to be able to be sold under standard market circumstances, at a price that is commensurate with its worth in the market, and within a time frame that is acceptable to the lending institution. However, in order for most banks to approve loan requests and to provide financing for small and medium-sized businesses (SMEs), the collateral must be one hundred percent or more of the total amount of the financing (Akpan, & Nneji, 2015).

2.1.2 Small business support services

In order to establish and cultivate a thriving SME market, governments in every region of the globe have developed a variety of services and programmes to lend assistance to small and medium-sized enterprises (SMEs). These services and programmes include legislative initiatives and support programmes. The reduction of poverty and the promotion of the growth of existing small firms are the key focuses of support programmes designed for small and medium-sized businesses, often known as SMEs. This is done in order to connect small and medium-sized businesses with the larger developmental goals of the nation (Atmadja, *et al.,* 2016). The current administration in Nigeria has put into operation a variety of social intervention programmes in order to aid and ensure that small and medium-sized firms (SMEs) survive the current economic challenges created by the Covid-19 Pandemic. These programmes include: These programmes include the N-power Programme, the Conditional Cash Transfer (CCT), the Government Enterprise and Empowerment Programme (GEEP), the Home-Grown School Feeding Programme (HGSF), the Farmer-Moni Programme, the Trader-Moni Programme, the Market-Moni Programme, and the Survival Fund, amongst others.

2.1.3 Structure of financial Sector

It is impossible to overstate the significance of competition in the banking industry, particularly in terms of the costs of the numerous services and products that are provided by different financial institutions. In addition, the level of competition in the financial sector is what determines the prices of financial goods, as well as the extent to which small businesses are able to access financial resources. This is because the level of competition is what supplies the financial goods (Ayuba & Zubairu 2015). The direct competition that exists within the banking industry may have an effect on the growth of businesses that are younger and more recently established. If there is just a little amount of competition in the banking business, it will be damaging to the industry's attempts to preserve its overall stability (Olaoye *et al.,* 2018).

2.1.4 Awareness of funding opportunities

It is of the utmost importance for both small and medium businesses and financial service providers that there be an open flow of information within the financial sector (Nahamya, *et al.* 2015). In order for small and medium businesses to be successful in their search for potential providers of financial services, it is essential for these businesses to possess appropriate information. Financial institutions need information in order to be able to analyse the possible risks connected with small and medium-sized enterprises (SMEs) that ask for bank funding and also to access the area where the same SMEs would be operating and its market segments. This information is necessary for the financial institutions so that they can evaluate the potential dangers associated with the small and medium-sized businesses (SMEs) that ask for bank funding (Nahamya, *et al.,* 2017).

2.1.5 Access to Finance

When it comes to financing companies, there are two different forms of external finance that are considered to be of the utmost importance for small and medium-sized organisations (SMEs). Equity finance is the first kind of funding, and it often takes the form of venture capital. Small businesses that have just recently been founded are eligible to get this form of financing (Deakins, et al., 2008). On the other hand, since small businesses do not have access to equity investment, they are compelled to look for debt financing, which is

primarily made available by banks and non-banking organisations. Indeed, owing to the restrictions for the issuance of debt, access to debt finance is very restricted, and this is particularly true for smaller firms (Akingunola, *et al.,* 2018).

2.2 Theoretical Review

2.2.1 Information Asymmetry Theory

In 1970, Akerlof presented this theory. The information asymmetry theory believes one party possesses relevant information while the other(s) do not. Some asymmetric information models may be utilised when only one party can enforce or punish for violations of an agreement. Stiglitz and Weiss (1981) showed that asymmetric information may lead to adverse selection, moral hazard, and monitoring costs. Asymmetric information raises transaction costs.

2.2.2 Credit Rationing Theory

Stiglitz and Weiss established Credit Rationing Theory in 1981 and predicted that asymmetric knowledge might affect the risk-return distribution, leading to credit rationing and a divergence between capital demand and supply (Alfo & Trovato, 2006). Due to asymmetric information, financial organisations' credit restriction practises may not have been successful. As a result, adverse selection and moral hazard may occur if less profitable projects are funded over more profitable ones. Since lenders don't know the firms' bankruptcy risk, they think its high and hike interest rates. Asymmetric information may cause uneven loan allocation among similar businesses.

2.2.3 Pecking Order Theory

Myers and Majluf (1984) established this theory (1984). "Inside" management knows more about the company's true value than "outside" investors. Due to investors' assumptions that stock was riskier than debt, information asymmetries increased external financing costs. Myers (1984) and Myers & Majluf (1984) said firms will fund investment initiatives using internal money to prevent information asymmetries. When internal equity was exhausted, enterprises turned to borrowed financing.

2.3 Empirical Review

Gololo (2017) looked at the ways in which Nigerian commercial banks assist in the growth of small and medium businesses. The purpose of this research is to determine the level of assistance provided by commercial banks in Nigeria to companies of a smaller or medium size in meeting their capital needs. The study calculated, using secondary data, the percentage of commercial bank loans to small and medium-sized firms as a fraction of total credit from 1991 to 2012. The time period covered by the study was from 1991 to 2012. The research used a paired sample t-test to investigate the significance of the ratio of loans to Small and Medium Scale Enterprises in order to evaluate the efficiency of the Small and Medium Scale Enterprises Equity Investment Scheme implemented by banks in the process of providing credit to Small and Medium Scale Enterprises. This was done in order to determine whether or not the Small and Medium Scale Enterprises Equity Investment Scheme was successful. According to the results, even after the equity plan was implemented, commercial bank loans did not have a substantially positive influence on the distribution of loans to finance SMEs. This was the case despite the fact that the equity plan

had been implemented.

Muhammad *et al.* (2018) conducted a comparative review of Nigeria's more practical SMEs funding. Using the net present value (NPV) method, the study investigates whether conventional bank usury is more feasible for SMEs' growth and innovation than Islamic bank financing. The difference between the present values of all loans received and discounted loans payable from 2000 to 2017 showed that Islamic banking has a better and larger NPV than usury financing, making it much better and more worthwhile for companies to grow and innovate.

Research was carried out by Basheer (2019) to investigate the effect that the Amanah Ikhtiar Malaysia (AIM) microfinance programme had on the level of success achieved by microbusinesses located in Sabah, Malaysia. By using a cross-sectional research approach, he was able to reach the conclusion that there is a positive and significant connection between the provision of microfinance (AIM) and the achievement of success by microenterprises. Mahmood and Rosli (2013) highlight the impact of microcredit on company performance in their research on the performance of small and medium-sized enterprises (SMEs) in the state of Kelantan. The conclusion reached was in line with what Mustapa, *et al.,* (2019) had anticipated. Ovat (2020) conducted research to evaluate how access to credit from commercial banks aided the expansion of SMEs in Nigeria. Techniques of co-integration and error correction were used throughout the course of this empirical inquiry. According to the findings of the study, loans from commercial banks in Nigeria have not had a substantial influence on the country's small and medium-sized enterprises.

Ikechi and Nwadiubu (2021) investigated the ways in which the performance of Nigerian small and medium-sized enterprises was impacted by the use of commercial bank loans. An ex-post facto research approach was used for the study. A least square regression analysis was performed on time-series data in order to discover connections, and unit root tests were utilised in order to avoid the production of false positive results. The findings of the research indicated that even if it is not statistically significant, there is an inverse link between the volume of commercial bank loans (CBLSME) made accessible to small and medium-sized enterprises (SMEs) in Nigeria and the production of such enterprises (OPSME). The research also found that a sizeable part of people working for SMEs are probably underemployed. This finding shows that Nigeria's unemployment rate may not have dropped despite what seems to be an increase in the number of activities carried out by SMEs.

It is clear that Nigeria, like many other countries throughout the world, places an emphasis on both the demand and supply sides of capital for small and medium-sized businesses (Olaoye *et al.,* 2018). The demand side encourages banks to lend money to small businesses by providing them with guarantees, as well as to provide further financial assistance by means of microfinance, low-cost capital, and an innovation fund. This focus is helping to reduce information asymmetries between the two sides, which is beneficial to the supply side (lenders and borrowers). Lenders and borrowers need to communicate with one another and provide relevant information in order to improve the situation (Olowookere *et al.,* 2021). Despite this, small and medium businesses continue to face a number of obstacles when attempting to gain access to microfinance, particularly during the Covid-19 Pandemic. These obstacles include a lack of requirements for collateral, the structure of the financial sector, awareness of funding opportunities, and small business support services, amongst other things (Ikechi & Nwadiubu, 2021). Therefore, the purpose of this research was to conduct an empirical investigation into the antecedents of microcredits and the survival of small and medium-sized enterprises (SMEs) during Covid-19 in Ondo State, and the following

hypothesis was developed as a result:

H_0: Microcredits antecedents does not have a significant relationship with SMEs survival during Covid-19 in Ondo State, Nigeria

3. Data and methods

This study adopted a survey research design. According to SMEDAN (2019), there are 1999 SMEs in Ondo State. Therefore, the study population consisted of all the SMEs in Ondo State, and the population subjects were the SMEs owners. The study used multi-stage sampling technique. Firstly, random sampling technique was used so that the whole population of SMEs within the state would have equal chance of participation in the study. Also, purposive sampling technique was used to select the target respondents (owners and/or managers) on whom the questionnaire was administered. The Cronbach's alpha values were used to determine the questionnaire's reliability. Table 1 shows the Cronbach's alpha value of 0.60; the value is more than 0.6 and therefore considered reliable (Zikmund, 2003). Taro Yamane formula was used to determine 333 sample size, and the data collected were analyzed using mean, standard deviation, ANOVA. The eligibility criterion, savings, loan structure, and the socioeconomic characteristics were used as the proxy for microcredit antecedents, while sales, revenue, cash low, and costs were the proxy for SMEs survivability.

The full regression model used to investigate this study is stated as follows:

$$SSUR = \beta_0 + \beta_1 ELC + \beta_2 SAG + \beta_3 LST + \beta_4 SEC + \varepsilon$$

Where:

β_0 = Estimation of the y-intercept
β = Slope of the regression line
SSUR = SMEs Survival
ELC = Eligibility Criterion
SAG = Savings
LST = Loan Structure
SEC = Socio-Economic Characteristics
e = predictive error term
It is expected that all the independent variables will have a positive relationship with the dependent variable

Table 1: Reliability Analysis (Cronbach's Alpha)

Construct	No. of Items	Cronbach's Alpha
Eligibility Criterion	5	α = 0.67
Savings	4	α = 0.60
Loan Structure	5	α = 0.66
Socio-Economic Characteristics	5	α = 0.77
SMEs Survival	4	α = 0.77

Source: Author's Computation, 2022

4. Data Analysis and Discussion of Findings

4.1 Microcredits Antecedents and MSMEs survival

From table 2, the entire eligibility criterion identified showed above average mean of $\bar{X} = 3.5338$. The ability to produce a guarantor ($\bar{X} = 3.841$), the timeliness with which

loans are approved ($\bar{X} = 3.583$), credit history ($\bar{X} = 3.498$), the capacity of SMEs ($\bar{X} = 3.420$) to access credit during Covid-19, and landed property or asset ($\bar{X} = 3.327$) to secure microcredit have a great influence on the capacity of SMEs to access microcredits during Covid-19.

The capacity of small and medium-sized enterprises (SMEs) to save substantial quantities of money was negatively affected by Covid-19, this consequently influenced their ability($\bar{X} = 3.922$) to get bigger amounts of microcredit. SMEs low savings negatively ($\bar{X} = 3.751$) affected banks confidence as well as their possibility of getting a bigger loan. The amount of savings influences the frequency of repayment and the amount of loss ($\bar{X} = 3.589$) sustained as a result of default caused by the Covid. In the same direction, on the overall, savings played ($\bar{X} = 3.587$) a vital role in securing microcredits during Covid.

The third identified antecedent is the loan structure which includes; the repayment plan, payback period etc. The repayment plan has ($\bar{X} = 3.162$), payback period($\bar{X} = 3.498$), the past loan data ($\bar{X} = 3.324$), different loan type available ($\bar{X} = 3.508$), and the transactional cost ($\bar{X} = 3.249$) have a great influence on the capacity of SMEs to access microcredits during Covid-19. The socio-economic characteristic of SMEs and banks is another identified antecedent to obtaining microcredit during Covid-19. The size of a company's asset base has an impact ($\bar{X} = 4$) on its ability to repay a loan. The number of years that a bank has been in operation has an impact ($\bar{X} = 3.333$) on its preference for lending to SMEs. SMEs with high social capital are more likely ($\bar{X} = 3.583$) to be chosen by banks when it comes to loaning money. The level of knowledge and/or exposure of company owners have an impact ($\bar{X} = 3.757$) on the quality of information and repayment options they provide. Lastly, the socio-economic characteristics have more than average effect ($\bar{X} = 3.6848$) on the capacity of SMEs to access microcredits during Covid-19 pandemic.

Table 3 showed the ANOVA manipulations of the relationships between the microcredit's antecedents and SMEs survival during Covid-19 in Ondo State, Nigeria. The association between eligibility criterion and SMEs survival was predicted at F = 107.165, P < 0.01 which specified that the precision level was almost 100%. This is also true for savings at F = 30.078, P < 0.01, loan structure at F = 13.422, P < 0.01, and socio-economic characteristics of both SMEs and banks at F = 419.891, P < 0.01. Therefore, this study in tandem with Hashim and Mohammad (2021), and Nwosu (2021) who established that there is a significant relationship between microcredits antecedents and SMEs survival during Covid-19 in Ondo State, Nigeria.

According to the findings of the research, the availability of microcredits to small and medium-sized enterprises (SMEs) in Ondo State, Nigeria, during the Covid-19 was critical ensuring their continued existence. In contrast to the findings of Nwosu (2021) whose study focused on the effects of microcredit on the performance of Small and medium in Malaysia and came to the conclusion that in times of anomalous economic circumstances, eligibility has nothing to do with loan accessing as long as it is a legitimate business, this study demonstrated that loan eligibility played a significant role in determining the survival of SMEs during the Covid-19 period. This study found that savings, loan structure, and socio-economic characteristics have a very high influence on the survival of small and medium-sized enterprises (SMEs). This finding is supported by Nwosu (2021), and Hashim and Mohammad (2021), whose study focused on the microcredit, sustainability practises, and business performance of micro-enterprises in Malaysia, that savings is a strong criterion in accessing loan by business owners.

Table 2: Microcredits Antecedents

	$(\bar{X})$	$W(\bar{X})$	St. Dev.
Eligibility Criterion			
Collateral Requirements: The capacity of small and medium-sized enterprises (SMEs) to fulfil collateral requirements has an effect on business investment returns during Covid-19.	3.420		.9555
Excessive Paperwork: The capacity of SMEs to get necessary paperwork during Covid has an effect on the timeliness with which loans are approved.	3.583	3.5338	1.0427
Credit History: The high chance of getting selected during Covid-19 for a loan is determined by the credit history of the applicant.	3.498		1.1237
Guarantors: Whether or not individuals are prepared to serve as guarantors has an effect on the ease with which credit/loans may be secured during Covid-19.	3.841		.9796
Landed Property or Assets: Covid19 negatively affected the development of SMEs when collateral assets are included in credit/loan application procedures.	3.327		1.2531
Savings			
The capacity of small and medium-sized enterprises (SMEs) to save substantial quantities of money during Covid-19 has an influence on their ability to get bigger amounts of microcredit.	3.922		.9505
The amount of savings during Covid-19 influences the frequency of repayment and the amount of loss sustained as a result of default.	3.589	3.58725	1.0335
Saving has a greater impact on the confidence that banks have in a person or organisation, as well as the possibility of getting a bigger loan during Covid-19.	3.751		1.2349
When it comes to securing bigger loans, having funds in excess of my loans/credits limit might provide a person a competitive edge in the market when it comes to borrowing more money.	3.087		1.2569
Loan Structure			
Uninterrupted loan repayments are impacted by affordable interest rates/costs of debt repayment.	3.162		1.0716
The quantity of money returned on loans or credit facilities during Covid-19 is influenced by the payback period.	3.498		1.2650
The quantity of money that has been borrowed in the past has an influence on how the business's needs are met during Covid-19.	3.324	3.3482	1.3160
The availability of different types of loans has an effect on the success of business operations during Covid-19.	3.508		1.4982
Transactional expenditures are determined by the fees charged by credit card companies for processing transactions during Covid-19.	3.249		1.2398
Socio-Economic Characteristics			
The size of a company's asset base has an impact on its ability to repay a loan during Covid-19	4.000		.7071
The number of years that a bank has been in operation has an impact on its preference for lending to enterprises during Covid-19.	3.333		1.1745
SMEs with high social capital are more likely to be chosen by banks when it comes to loaning money during Covid-19.	3.583	3.6848	1.1207
The level of knowledge and/or exposure of company owners have an impact on the quality of information and repayment options they provide during Covid-19.	3.757		1.0050
Because stronger collateral will be available as a result of strategic company partnership, the likelihood of obtaining a loan increase.	3.751		1.1672

Source: Author's Computation (2022)

Table 3: Microcredits Antecedents and SMEs Survival

ANOVA		Sum of Squares	df	Mean Square	F	Sig.
ELC	Between Groups	1628.173	6	271.362	107.165	.000
	Within Groups	825.491	326	2.532		
	Total	2453.664	332			
SAG	Between Groups	1009.689	6	168.281	30.078	.000
	Within Groups	1823.903	326	5.595		
	Total	2833.592	332			
LST	Between Groups	662.796	6	110.466	13.422	.000
	Within Groups	2682.994	326	8.230		
	Total	3345.790	332			
SEC	Between Groups	4199.843	6	699.974	419.891	.000
	Within Groups	543.455	326	1.667		
	Total	4743.297	332			

Source: Author's Computation (2022)

5. Conclusion and Recommendations

This study has established the eligibility criterions to a great extent determined SMEs access to microcredits and consequently their survival during Covid-19, and that savings, loan structure, and socio-economic characteristics have a high influence on SMEs survival and served as cushion for absorbing the shock imposed by Covid-19. This study thus concluded that microcredits antecedents do have a significant effect on SMEs survival during Covid-19 in Ondo State, Nigeria. Hence, microcredit antecedents do influence SMEs survival.

This study therefore issued the following recommendations:

i. Since the study showed that eligibility criterions do influences SMEs access to microcredit, the microcredit providers should make their loan eligibility criterion more business friendly such as relaxing the loan eligibility criterions and, with less paper work in other to accommodate more SMEs for quicker economic recovery.
ii. According to this study, savings do stimulate access to microcredits thus, there is a need for more advocacy for SMEs operators to incorporate saving culture by establishing a daily/weekly/ or monthly saving plans in order to boost their saving and credit history.

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