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THE MAJOR FACTORS THAT MILITATE AGAINST THE ABILITY OF NEW STARTUPS TO ACCESS MICRO CREDITS IN LAGOS NIGERIA

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Abstract

The main objective of this academic study is to identify the major factors that militate against the ability of new startups to access micro credits. Both inferential and descriptive methodologies were employed in this study. The research also involved the use of primary and secondary data with stratified and simple sampling techniques used to determine the specific number of startups to be involved in the study. Correlation and multiple regression analysis were used for the statistical analysis. The SPSS analysis of the data revealed that collateral requirements, availability of support services, awareness of existing credit opportunities and the nature of the country's financial sector all influence the ability of new startups to access micro credits. Thus, it is recommendable for Nigerian government to formulate and implement financial policies that would enable startups to have access to microfinance. It is also important for microfinance banks should endeavor to cut down collateral requirements as well as interest rates, so as to encourage more and more startups to access funds. These simple strategies will help new startups to access loans and credits.

Keywords: business startups, microcredit, microcredit institution, business growth

Introduction

1.1 Background to the study

In most countries, the small and medium enterprises are increasingly emerging as a crucial aspect of the economies. This is particularly the case in developing countries, which currently have many economic issues, including high unemployment rates and inadequate infrastructural development. Consequently, small and medium enterprises have always been expected to play a central role in the quest to deal with the issue of unemployment. Furthermore, Fatoki [1] noted that small and medium enterprises could trigger sustainable economic growth and also ensure equal distribution of wealth by minimizing the gap between the rich and the poor. In a nutshell, small and medium enterprises can stimulate economic growth of developing countries, especially those in the sub-Saharan region.

In their study, Gree and Thurnik [2] observed that it is quite difficult to sustain the economic contribution of the small and medium enterprise without creating new businesses. The creation of new businesses is one of the surest ways of absorbing the ever increasing number of job seekers in the developing countries. According to Fatoki [1], newly established small and medium enterprises are those firms that have not been in existence for more than forty two

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months. The author is of the opinion that by increasing the rate at which new businesses are created, a country will inevitably experience a huge economic growth through job creation.

Contextually, small enterprises could be defined as businesses that have less than ten employees, while medium enterprises consist of between eleven and fifty workers [3]. In most developing countries, majority of businesses and firms fall under the category of small and medium enterprise. For instance, in Brazil, small and medium enterprises made up 99% of the country's formal companies [4]. Similarly, in the United Kingdom, 99.8 % of the jobs are under this category of businesses [5].

Small and medium enterprises are notable recognized as the largest employer of labour and also play a crucial role in the diversification of nations' economy. They are able to lead to the diversification of the economy as they always ensure efficient mobilization of the country's social and economic resources. This category of business serves as stimulus for innovation and could therefore offer a greater level of competition. This explains why it is very imperative for governments of developing nations to employ suitable strategies that could boost funding of this category of businesses and consequently enhance economic development of the nation.

Even though small and medium enterprises are crucial for the economic development of every country, there are still a number of challenges facing this category of business. Unfortunately, these issues have huge negative effects on the businesses' ability to operate effectively and optimally. In developing countries like Nigeria, some of these challenges include lack of capital, poor infrastructures, erratic power supply and high cost of finance. These issues also limit the rate at which new enterprises are being created in Nigeria [6]. They are also responsible for the high rate of business failure in the region [7].

Of the all the factors listed above, inaccessibility of fund is the major issue confronting businesses, especially the newly established ones [8]. According to the author, the main sources of funds for many businesses are personal savings, family savings and contribution from friends. Most times, the money obtained from these sources is inadequate, thereby necessitating the need for both old and aspiring entrepreneurs to approach formal financial institutions for help. Unfortunately, an overwhelming majority of these applications are usually rejected. For instance, an empirical study conducted by Fatoki [1] revealed that 75% of loan applications from South African studies are usually rejected by the banks. The author further observed that just two percent of small and medium enterprises in the country were able access loans from the conventional banking institutions. Similarly, Fatoki [1] also revealed that only two percent of businesses that seek private equity were able to obtain that successfully. Sarwoko *et al.* [9] also affirm the existence of a considerable finance gaps for newly established firms. The authors attributed this gap to the absence of investment readiness among these institutions. What this implies is that the investors and financial institutions are not solely responsible for the inability of new start-ups to access fund. Start-ups are expected to grow and expand, in order to convince investors and the banks. This is because, investors and banks are always wary of whom and how they lend money to small and medium enterprises, especially the newly established one.

As already stated, it's just a small percentage of small and medium enterprises that source their fund from the conventional banking institutions. Thus, majority of new start-ups have to rely mainly on other sources for both their working capital and investment. Apart from personal savings, family savings and contribution from friends, start-ups also seek financial help from developmental banks, non-banking institutions and microcredit institutions [3]. Some of these financial institutions have the capability to provide financial assistance for up to seven years. There are also a number of non-banking institutions that specifically focused on funding small agricultural and allied firms.

Despite the existence of micro credits and other related institutions that are specifically developed for the sole purpose of providing financial assistance to small and medium enterprises, the ability of new start-ups to access fund remains extremely low. This challenge has promoted many policymakers and academicians to conduct specific studies on accessibility of finance and credits by small and medium enterprises. In Nigeria, many of these discussions occurred in form of seminars and debates. There have also been renewed calls for major stakeholders and partners to improve the finance line for SMEs and officially integrate their contribution in the economy. These seminars, discussions and studies have become even more relevant in today's modern society, as they are essential for ultimate survival as well as growth of new start-ups [10]. Without adequate funds, it will be practically impossible for new start-ups to undertake productive investments, which incidentally are essential for their survival and growth [11]. Furthermore, such productive investments are also essential for minimization of poverty and the development of economy, especially in Sub-Saharan countries like Nigeria. Thus, for start-up businesses to survive and grow, it is very imperative to always ensure they have unrestricted access to external finance. Such ability enables them to compete efficiently in the global market. It also allows such business to expand and collaborate with bigger firms. Ironically, despite the crucial role of finance for the success of new start-ups, access to loans remains a serious problem for majority of newly established small and medium enterprises [12]. This postulation has also been confirmed by several authors [1][8][11][12].

The availability of finance for businesses is based primarily on the principle of demand and supply. The high demand for money is the main factor that encourages banks to provide finance to businesses. For small and medium businesses, these finances are mainly provided through micro-finance, affordable cost of capital and innovation fund. On the other hand, the major focus on the supply side is on the decline of the asymmetries of information between borrowers and lenders [3]. Thus, in order to ensure consistent supply of the badly needed funds for business operation, it is important to always ensure adequate exchange of information between lenders and borrowers. Unfortunately, new start-ups and small or medium enterprises find it particularly difficult to access finance being provided by these banks. Manasseh [13] attributed this to lack of support services, collateral requirements, unawareness of existing loan opportunities, and the existing structure of the country's financial sector [13]. In Nigeria, the inability of new start-ups result to intense financial constraints, which is one of the primary reasons why such businesses collapse within first year of operations [7].

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Generally, financial resources are essential for efficient and optimal operation of every business firm including new start-ups. But as already pointed out severally, many start-ups find it extremely difficult to access funds badly needed for business operations. Thus, it has become very essential for business start-ups to have adequate understanding of the main factors to consider when applying for loans. It has also become necessary for all stakeholders to understand the salient issues that prevent new start-ups from accessing loans successfully. The various difficulties militating against start-ups' quest to access microcredit are all indicative of the need to improve the current financial systems in developing countries as well as adopt suitable mechanism specifically designed to assist small businesses financially. Therefore, this academic study will explore the major factors that influence the access of Nigerian new start-ups to microloans and credits. The finding of this study will provide some insights on how to solve the problem of loan inaccessibility among newly established small and medium enterprise and consequently save some of such businesses from imminent collapse.

1.2 Statement of the problem

Finance is one of the main factors that ensures the growth and success of every business establishment. However, various studies by reputable authors have indicated that small and medium enterprises are being confronted by a number of challenges in their quest to obtain financial help from banks and other relevant institutions [1][8][11][12]. In Nigeria as in other developing countries, the impact of this challenge is quite substantial as the country's private sector is dominated by informal small and medium enterprises. This implies that despite their huge contribution to the economic development of the country, this sector remains largely weak. The situation is further compounded by unsupportive legal systems, inadequate financial system and ambiguous official procedures that are prevalent in the country. Furthermore, an overwhelming majority of these businesses find it extremely difficult to meet the conditions set out by the banks. For instance, Beck and Demirguc-Kunt [11] noted that many small and medium enterprises lack proven track of financial record, collateral and the business network usually required for reference purpose. In addition to these difficulties, small and medium enterprise also has to deal with high interest rates usually charged by the lending institutions.

In Nigeria, entrepreneurial development is being increasingly encouraged across the entire country. The main reason for this is because of its huge potential to serve as a major source of employment for the huge number of unemployed youths in the country. Over the past few decades, the country has witnessed continued decline in real income and employment opportunities in bigger firms. Even the rate at which Nigeria' public sector employs new workers has also been continuously on the decline. These challenges have inevitably increased the role of the small and medium enterprises in boosting the economic development of the country as well as minimizing Nigeria's high rate of unemployment. Unfortunately, obtaining fund during the preliminary stage of such business establishment has been found to be particularly difficult. So in most cases, these start-ups were forced to rely solely on their savings, friends and family members. But the funds from these are usually below the required capital for sustaining new business's growth and survival.

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Unfortunately, preliminary literature review revealed that Nigerian businesses are being confronted by various challenges, many of which them from accessing funds and loans badly needed for business growth and survival. The predicament is particularly more pronounced among new start-ups, who generally have no capital base, appropriate collateral and other requirement usually demanded by banking institutions from prospective borrowers. In view of these predicaments, it has become imperative to carry out a more critical analysis of the major factors that militate against new start-ups access to microcredit and loans. The study will also be expanded to evaluate the impact of these financial constraints on entrepreneurial development in the country. This research has become very necessary as small and medium enterprises remains very essential for the survival of Nigerian's economy.

1.3 Significance of the study

The results and findings of this academic study will be very beneficial to all stakeholders. Firstly, the microfinance banks that operate in Nigeria will find the result of this study highly significance. This is because; the findings will lead to the identification of various challenges. This information will give microfinance banks some ideas on how to modify existing policies, so as to make funds and loans more accessible to entrepreneurs. Also, owners and operators of small and medium enterprises as well as start-ups can also find this study helpful as it will reveal various ways through which they can have better access to loans and credits. The study will also provide some hints on specific mistakes that business owners and aspiring entrepreneurs should avoid, when striving to obtain loans from financial entrepreneurs. Additionally, commercial banks can also benefit immensely from this study as the findings will offer some clues on how they can modify their services to meet the demands and needs of the market and consequently compete effectively in the microfinance sector. The Nigerian government will also find this study helpful since it will reveal the crucial role of microfinance banks for the economic development of the country as a whole. Furthermore, increase in volume and performance of the small and medium enterprise sector also ensures a complementary increase in taxes generated for the government. The results will also make some meaningful contribution in the government's policy in the area of microfinance sector. Lastly, other scholars conducting research on the relationship between small businesses and microfinance will also find this study beneficial. This is because, the study will add on to the literature that is available in that field.

1.4 *Research objectives and hypothesis*

The primary aim of this study is to determine the main factors that prevent new start-ups form accessing microcredit in Nigeria. Preliminary literature review has indicated that even though finance is extremely crucial for the success of every new business, its accessibility remains a very big issues. Thus, study strive to identify the most dominant factors that makes it impossible for newly established small and medium enterprises to access loans from microcredit institutions The study will strive to answer the following research question:

i. What are the main factors that prevent new start-ups from accessing microcredit in Nigeria?

From the above research questions, the following alternate and null hypotheses were derived:
H_1^1: There is a statistical significant relationship between collateral requirement and accessibility of micro credits;

H_o^1: There is no statistical significant relationship between collateral requirement and accessibility of micro credits;

H_1^2: There is a statistical significant relationship between availability of support services and accessibility of micro credits;

H_0^2: There is no statistical significant relationship between availability of support services and accessibility of micro credits;

H_1^3 There is a statistical significant relationship between awareness of existing credit opportunities and accessibility of micro credits;

H_0^3 There is no statistical significant relationship between awareness of existing credit opportunities and accessibility of micro credits;

H_1^4: There is a statistical significant relationship between the nature of the country's financial sector and accessibility of micro credits and;

H_0^4: There is a statistical significant relationship between the nature of the country's financial sector and accessibility of micro credits.

Literature Review

The Concept and functions of microcredit institutions

According to Robinson [14], microcredit institutions are generally referred to as developmental tools specifically designed for the provision of financial services and products at *micro levels* to the economically disadvantaged session of the population. Examples of such services include micro-insurance, small loans, micro-leasing and money transfer. This type of financial institutions is more common in the developing nations, where owners of small and medium enterprises find it difficult to access loans and other monetary incentives. Additionally, Ledgerwood [15] noted that microfinance institutions are also involved in the provision of intermediate services like training of members, development of self confidence, and formation of cooperative groups. Most of these trainings focus majorly on financial management and literacy.

Rutherford [16] defined microfinance banks as an institution that low income earners to convert small sums of money into large sums. The author also defined microcredit as any small loan offered to small and medium enterprises that are not eligible for loans available in conventional banks. In the quest to provide a clearer distinction between microcredit and loans from conventional banks, Rutherford [16] further described micro-credit as small financial incentives that allow poor individuals to engage in self-employment projects with the primary objective of generating income. Base on this postulation, microfinance banks can be rightly defined as institutions that allow poor people to improve their standard of living, safeguard money as well as other valuables of interest.

Robinson [14] and Ledgerwood [15] identified micro insurance and an essential component of microfinance. They attributed this to the fact that insurance is an important service in every aspect of life. In this context, micro insurance mainly involve the provision of insurance to low income earners, who incidentally are highly susceptible to risks such as natural disasters, illness and accidents. In developing countries, microfinance banks are involved in minimizing this vulnerabilities and protecting the poor members of the society. They strive to achieve this important objective by providing credits to the vulnerable members of the society, or increasing their earning opportunities. Furthermore, some microcredit institutions are also involved in the provision of savings services for building up resources, which the poor members of the society can fall back on during emergencies. Thus, even though microfinance credits are not part of the country's official banking sector, they nevertheless are instrumental for the success of new startups as well as old businesses.

Most times, the terms microfinance and microcredit are used interchangeably. However, the two are entirely different concepts. According to Mohammed and Mohammed [17], the term microcredit refers to small loans, while microfinance is appropriate where some institutions and nongovernmental organizations supplement these small loans with other financial services. Thus, microcredit is actually an integral component of microfinance. But unlike microcredit, microfinance is not just restricted to the provision of credit to the poor. They also include additional non-credit financial services like pensions, savings, payment services, and insurance. In a nutshell, the two concepts have to do with economic empowerment of the poor and vulnerable individuals as well as the provision of badly needed financial help to startups, small and medium enterprises.

Theoretical Framework

Information Asymmetry Theory

The primary objective of this academic study is to identify the main factors that prevent new start-ups from accessing microcredit in Nigeria. There are many theories that could be applied to this study. One of such theory is the information asymmetry theory, which states that when two parties are involved in transaction or decision making, there is always a situation in which one of the party has more relevant information that the other. Consequently, such information asymmetry could lead to imbalance of power between the two parties. In this context which basically involve microcredit institutions and start-ups, it is possible that the borrowers, which in this case are the start-ups, could possible obtain more information than the lender (microcredit institutions). For instance, the start-ups ought to be fully aware of the various risks associated with their investments. According to Matthews and Thompson [18], this could also have some grave consequences. It can result to the issue of moral hazards, where one of the parties is forced to bear all the risks due to the cost of such risks. The authors also attributed the existence of such risk to the fact that the two parties may have imperfect or conflicting information. The problems caused by such risks may inevitably lead to some inefficiency in course of transferring funds from the lender to the borrowers.

In their study, Matthews and Thompson [18] provide some specific ways through which the above stated issues could be overcome. According to them, the two parties have to focus more on the three ways through which financial intermediaries are being used. The first one involves the provision of the commitment for long-term relationship with the clients. The second approach has to do with information sharing while the third focused on the delegations and monitoring of those that applied for the loan. Therefore, the information asymmetry theory entails the need for microcredit institutions to always consider the need for relevant information when processing loan application. Such approach will help to redress the asymmetry of the information.

In another study, Leffileur [19] argues that the information asymmetries that exist between microfinance institutions and startups are the major factors that prevent the later form accessing the badly needed loans, especially in developing countries like Nigeria. To minimize the gap that exists between microfinance institutions and startups, the author recommends the development of financial systems that are more adaptable to the local contexts and scenario. What this implies is that the microcredit institutions need to be modified to make them more compatible to the local markets. Additionally, it also advisable to investigate more options that will enable the bank to minimize perceived risks through the promotion of sustainable guarantee funds for facilitation of better accessing to SMEs finance. In conclusion, the information asymmetry theory provides some insights on the barriers that exist between microcredit institutions and start-ups as well as some ideas on how to overcome such barriers.

Agent Theory

The agency theory was proposed by Jenson and Meckling [20]. The theory provides clearer explanation on the nature of the principal-agent relationship that exists between debt holders and the equity holders. In a principal-agent framework, the business is the agent and the finance provider is the principal. According to the agent theory, equity controlled organizations tend to channel an overwhelming proportion of their investment to expropriation of wealth from debt holders and this can cause an incremental risk for the principal. Base on this postulation, the principal can right be described as the stakeholders that have higher agency costs. This also implies that startups invest on high risk projects and this could make the cost of debt higher to share on marginal return on investment. This theory provides some insights on the costs of acquiring loans, which incidentally could be one of the major challenges that militate against the startup's access to microcredit.

Growth Cycle Theory

Another theory that could be applied to this study is the Growth Cycle theory. The theory, originally formulated by Berger and Udell [21], revealed the dynamic nature of financial needs. Thus, the theory reveals that as small businesses expand, they tend to garner more experience. It also becomes even more imperative for them to enhance their informational transparency. Such upgrade enables them to have better access to venture capital and loans. During the early years of small and medium enterprise, the venture capital will serve as a source of equity while the midterm loans become source of debts for the business. But as the small scale business evolve to medium and large enterprise; it tends to become more information-wise transparent. Coincidentally, this development also boosts its ability to have a better access to long-term financing as well as public equity [22]. The Growth Cycle theory is relevant to this study, as it demonstrates how startups could improve their access to loans and financial incentives as they grow older and bigger.

Collateral requirements

Various scholars have identified collateral requirement as one of the major factors that militate against startups' access to micro credit [23][24][25]. Gitman [23] defined collateral as assets which borrowers provide to lenders as security for debt repayment. These security assets are primarily used for debt recovery in course of any default. According to Garrett [24], small and medium businesses are typically required to provide such security in form of properties like cars, businesses and houses. The assets must have fair market value and could be sellable under normal market conditions. Most conventional banks require the monetary values of the collateral to be equal or more than the loans issued to the borrower [25].

However, collateral requirements could lead to increased moral hazard issues. In their study, Kihimbo *et al.* [26] observed that collateral requirements increase moral hazard issues by exposing borrowers to more potential costs. Despite this, Kihimbo *et al.* [26] argues that collateral is necessary as it discourage borrowers from diverting the loans for personal use. Thus, collateral requirements could potentially eliminate all negative consequences that could possibly occur as a result of improper utilization of funds by SMEs and small enterprises. Unfortunately, the inability of startups and small businesses to provide collateral is the major factor that prompts lenders to shun this category of businesses.

Support services for startups and small business

A number of studies have also revealed that the ability of startups and small businesses to access micro credit could also be influenced by the availability of support services. In many countries, the governments have successfully established support services for startups and small businesses. Typical examples include support programs and policy initiatives specially designed to create and develop the informal sector. According to Charbonneau and Menon [27], the support services established by the government help small and medium businesses to fulfill their bigger obligation of contributing to the economic development of the country and minimization of poverty. In Kenya for instance, the government enacted the Micro and Small Enterprises Act, whose primary purpose is to encourage all Kenyans to establish small and medium enterprises [28]. The government strived to accomplish this important objective by creating a business friendly environment and also increasing access to capital and fund.

The various support services formulated and implemented by the government also enable small and medium business owners to have access to additional funding sources. This is typically accomplished by encouraging, promoting and supporting the private initiatives [29]. In some countries, the governments have specific departments, whose primary goal is to initiate programs that does not only create new businesses, but also strengthen the already existing ones. Many of

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such departments offer business owners some help in the business management and development such as preparation of business plans and relevant training on day to day running of such business.

Structure of financial sector

The nature and structure of a country's financial sector has also been identified by scholars as one potential factor that could militate against startup's ability to access micro credits. For instance, the level of competition in the financial sectors is one of the primary determinants of the cost of financial products and services in the banking sector. This postulation is also confirmed by Thorsten and Maksimovic [30], who in their study confirm that competition in the financial sector do not only confirm the cost of financial products and services, but is also one of the primary factor that determine accessibility of credits to small and medium businesses. The authors also noted that such direct competition is very much capable of including the growth of new firms. Generally, it has been observed that low competition in the sector could potentially undermine the sector's stability, which is actually bad for both new startups and already existing businesses [31]. Such scenario can also trigger a substantial rise in the cost of financial services and products and consequently discourage businesses from applying for loans and micro credits [32].

Another important element of the structure is the regulatory structure, which has a more substantial impact on accessibility of loans as well as market concentration. For instance, a study by Black and Philip [33] revealed that the entry barriers for countries with high regulatory regime are particularly high. According to the authors, the system's competitiveness will depend majorly on the country's regulatory regime rather than the actual market structure.

However, another separate study by Scott and William [34] failed to determine how accessibility of finance is influenced by government's interference, regulatory restriction, competitiveness of the banking system and process of intermediation. But the authors were able to observe that regulatory restrictions could potentially minimize the competitiveness as well as efficiency of the financial sector, which could also limit the bank's ability to make use of their information advantages.

Awareness of funding opportunities

According to Falkena et al. [35], information is important for both financial institutions and owners of small and medium enterprises. Without adequate information, it will be quite impossible for small and medium businesses to identify potential provider of badly needed financial help. On the other hand, financial institutions like micro finance banks require information for the evaluation of potential risk associated with doing business with small and medium enterprises. In his article, Oshitola [36] argues that information primarily deals with awareness of available funding opportunities for small and medium enterprises. Intense campaigns and programs specifically designed for creating such awareness is one of the most notable ways of boosting access to funds [37].

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In another study, Agostino [10] defined information asymmetry as useful and relevant information that inaccessible to major stakeholders in the financial market. Additionally, the author attributed the failure of many new startups to existing credit issues. Most of these issues could be attributed to the imperfection of the information in the risk presences. The difficulties encountered during the screening of prospective borrowers also tend to discourage some microfinance banks from doing business with some business owners.

Debt financing

Equity financing has been identified as one of the main external financing available for small and medium business owners [38]. Such funds are typically provided in form of venture capital, which could easily be accessed by small and medium enterprises. But in developing countries like Nigeria, the absence of equity financing force new startups as well as small and medium businesses to opt for debt financing. This type of funding is quite common among banks and even non-banking institutions. However, accessibility of such financing option remains limited for majority of small and medium enterprises. Deakins [38] attributed this to the relatively high requirements.

Mahembe [39] defined debt financing as a funding option that allows firms to obtain loans from financial institution with the promise to pay back within a specified period of time and with an agreed amount of interest. As already pointed out, it is the comments method used by startups to obtain funds for business operations. The process typically requires the borrower and lender to reach a consensual agreement regarding the fixed interest to be paid, as well as the duration for repayment of the loan. According to Mahembe [39], debts with less than 1 year of maturity are considered a short-term debt, while those that exceed on year are termed long-term debt.

The survival and growth of startups would not have been possible without adequate finance from the bank. This explains why an increasingly number of enterprises relies exclusively on banks to boost and expand their business operations. Additionally, the funding of investment consists of equity as well as some other types of debts. Despite the important of microcredit, a number of studies have led to the identification of certain challenges confronting startup’s quest to access loans. The most dominant of these issues include number of willing financial institutions, inability of the business to provide acceptable collateral, business plan and the cost of capital [12][32]. In Nigeria, the rate of business failure is considerably high among new startups. Many authors have identified debt finance as the main factors responsible for such high failure [3][7][40]. These authors also identified difficulty in accessing debt finance as the main factor responsible for such high failure. This study will explore these issues with the primary objective of determining the most prominent factors that militate against the ability of new startups to access finance.

Empirical Review

There has been lot studies aimed determining how the above stated factors influences accessibility of microcredit among startups and small businesses. In one of such studies, Anzoategui and Rocha [32] blamed low competition in the financial sector as the main factors responsible for the inability of startups to access to microcredit. According to the authors, lack of competition in the sector could trigger an increase in the price of financial products. Unfortunately, such situation can also have detrimental impact on the success and growth of startups as well as the stability of the overall banking industry.

In another study, Watanabe [41] blamed the disparity in the policies and practices of commercial banks as the main factor that influence the ability of small and medium enterprise to access loans and microcredit. This study revealed clear disparity on how different commercial banks that operate in the United Kingdom relate to startups. This postulation is similar to a publication by the World Bank [42], which identified the primary factors that militate against startups' ability to access finance as distortion of the financial sectors. This is in addition to factors like information asymmetry, high risk in lending business and lack of know-how on the part of the banking institutions.

Beck [11] also investigates the various factors that influence the ability of small and medium enterprises to obtain loans from financial institutions. The study focused mainly on businesses that operate in about seventy developing countries. A critical analysis of the findings revealed the weaknesses of the legal and financial systems as the main reasons why many startups, small and medium enterprises find it quite difficult to obtain the badly needed funds for their business operations. This finding has also been confirmed by some other scholars, who affirm the need for the provision of a proper regulatory framework [43][44]. According to these authors, a proper regulatory framework can help startups and small and medium enterprise to overcome existing financial constraints. Both Bigsten [43] and Yitayal [44] identified additional factors that militate against startup's access to microcredit as collateral requirements, information asymmetries, high risks long distance between the lenders and borrowers. They also named policies and nature of the microcredit institution as another factor that influences access to micro credits.

In sub-Saharan Africa, many banks are known to charge high interest for their loans. This issue has also been identified as one of the factors that decrease access to microcredit. According to Fatoki [1], high interest rate serves as a sort of deterrent for prospective borrowers, thereby discouraging them to approach banks for funds that could be used to grow their businesses. This is particularly true for small and medium enterprises as well as startups, which see such high interest as being bad for their business operation.

There have also been some attempts by scholars to categorize the various issues that prevent startups from accessing microcredit. In one of such studies, Fatoki [1] grouped the factors into two major categories namely internal factors and external factors. Specific examples of internal factors are managerial competencies, collateral, business information and networking. On the other hand, external factors include macro-economy, legal environment, ethical perceptions and corruption and crime. The above stated examples show that internal factors are absolutely under the control of the banks, while external factors are uncontrollable.

In another study, Olomi and Urassa [12] classified constraints of access to finance by small and medium enterprises into three major classes. The first class of constraints include lack of awareness regarding available loans, low level of skills and knowledge, poor credit history of the businesses seeking for loans, poorly developed business culture and inability of business owners to separate business issues form family and personal problems. The second category of issues has to do with lack of business experience and the number of competent personnel. Lastly, the third group deals with the regulation of the environment, credit reference bureaus and lack of system identification.

Research Methods

In this study, the research approach is based on inferential and descriptive methodology. The dependent variable is accessibility of micro credits, while independent variables include collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector. Both stratified and simple sampling techniques were used to determine the specific number of startups to be involved in the study. The former was used to categorize the respondents into discrete classes, while the latter was used to select participating startups from the total population. The study focused mainly on newly established small and medium businesses in Lagos central business districts. These are businesses that have been generally less than one year in operations. On the other hand, about four microfinance banks were involved in the study. In this case, the researcher approached the head offices of these banks for an interview with their respective chief marketing officers.

It is assumed that 50% of new startups within Lagos central businesses were being assessed. From this population, a sample size of 223 newly established small and medium enterprises was computed. However, out of the 223 questionnaires that were distributed to these businesses, it was just 123 that were filled completely and accurately, which represented a response rate of 55.1%. Thus, the fact that the response rate is more than 50% implies that is adequate and could be used for the study. The data obtained from the survey were arranged in a meaningful format and then analyzed statistically using Statistical Package for Social Science (SPSS).

As already pointed out, the research also involved interviewing of senior official of four microfinance banks. In this case, qualitative research technique was used to obtain the primary data. The in-depth interview involved a total of four bank officials, one from each of the participating banks. As a qualitative research approach, this technique primarily involve the generation of words instead of numbers for data analysis. This qualitative data collection method could also be used for a variety of purposes, a quality that makes it quite useful for this current study. In this case, it allowed the researcher to obtain more detailed information through the use of open-ended questions. To simplify the entire process, the researcher used recording instruments for the interviewing process. Ach interview session last for about 15 minutes and was done conveniently for the respondents. In course of the process, the interviewees were encouraged to expatiate their points by applying relevant examples and illustrations.

Results

Correlation Analysis

In this academic research, the Pearson's correlation matrix was used to analyze the relationship among all the stated independent variables, which include collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector. The results of this statistical correlation analysis are shown in Table 1. It shows that collateral requirements correlate positively with the availability of support services (r=0.331). Also, the statistical analysis shows a positive correlation between the nature of the country's financial sector and collateral requirements (r = 0.564).

Table 1: Result of the Correlation Analysis

	Collateral Requirements	Support Services	Awareness	Country's Financial Sector	Accessibility to finance
Collateral Requirements	1	0.331	0.054	0.564a	0.087
Sig. (two-tailed)	.	0.046	0.11	0.021	0.625
Support Services	0.331	1	0.062	0.141	0.294
Sig. (two-tailed)	0.056	.	0.716	0.425	0.091
Awareness	0.054	0.062	1	0.065	0.055
Sig. (two-tailed)	0.760	0.726	.	0.716	0.756
Country's Financial Sector	0.564a	0.141	0.065	1	0.309
Sig. (two-tailed)	0.001	0.425	0.716	.	0.076
Accessibility to finance	0.087	0.294	0.055	0.309	1
Sig. (two-tailed)	0.625	0.091	0.756	0.076	.

Regression Analysis

To determine the relationship between the dependent variable and independent variables, a multiple regression analysis was conducted. This analysis was based exclusively on this general regression model: $y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$. In this case, the values for the parameters are as follows:

y = accessibility of micro credits (dependent variable)

$\beta_1 - \beta_4$ = coefficients;

$x_1 - x_5$ = independent variables namely: collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector

ε = error terms

The summary of the regression analysis is shown in Table 2. The F-test was conducted with the primary objective of determining the significance of this model in the prediction of accessibility of micro credit, which is the dependent variable for this study. The statistical result indicated that collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector can moderately predict the accessibility of micro credit among new startups. The value of the adjusted r^2 is 0.703, which indicated its usefulness in the prediction as it is almost equal to 1. What this implies is that the approach explains 70.3% variance in accessibility of micro credits, with the remaining 29.7% accounting for factors not considered in the research objectives. This indicates the need to carry out more studies to investigate the specific impact of these other factors in the accessibility of micro credits among new startups.

Table 2: Reliability results of the Regression Analysis

Variables	Cronbach's alpha	No. of Items
Collateral requirements	0.7319	3
Support Services	0.8462	3
Awareness	0.7453	3
Country's Financial Sector	0.7558	3

Table 3: Coefficient of Determinant (R^2)

Model	R	R^2	Adjusted R^2	Error Estimation
1	0.273a	0.747	0.703	0.71611

The results for the F-test analysis of the regression model (ANOVA) was shown in table 3. At $p < 0.05$, the linear regression F-test results ($F = 4.244$; and 446 df) are significant. Consequently, the alternate hypotheses (H_1) were accepted, while the null hypotheses (H_0) were rejected. This implies that the regression model employed in this study linearly illustrate accessibility of micro credits. Thus, the accepted hypotheses are as follows:

H_1^1: There is a statistical significant relationship between collateral requirement and accessibility of micro credits;

H_1^2: There is a statistical significant relationship between availability of support services and accessibility of micro credits;

H_1^3 There is a statistical significant relationship between awareness of existing credit opportunities and accessibility of micro credits; and

H_1^4: There is a statistical significant relationship between the nature of the country's financial sector and accessibility of micro credits.

In conclusion, the multiple regression analysis, which was carried out to determine the regression coefficients (β) revealed that collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector have a significant contribution to accessibility of micro credits.

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Discussion

As already stated, the primary aim of this study is to determine the main factors that prevent new start-ups form accessing microcredit in Nigeria. The results of the statistical analysis revealed that the collateral requirement of the microcredit institution is one of the factors that tend to discourage new startups from accessing micro credits. Many of these financial institutions are not willing to do business with any firms or corporation that does not have any asset to prevent as collateral for loan. This postulation is confirmed by the bank officials interviewed in course of the research. All of them admitted that collateral can never be waive out for prospective borrowers, as it remains the key to lending, especially for new startups and small business. Interviewee 1 further pointed out that "collateral serves as the borrower's contribution as it will go a long way in securing the credit facility". Thus, from all indication, the need to eliminate high risk remains that the primary reason why banks demand for collateral from prospective borrowers. Unfortunately, such requirement is obviously detrimental to the ability of new startup to access microcredit. For instance, Interviewee 2 listed examples of resources demanded as collateral as follows land, houses and businesses. Most Nigerian entrepreneurs that are trying to establish new business will unarguably find it extremely difficult to provide these requirements, which will in turn limit their ability to obtain the badly needed loans. The findings are in line with those of previous studies. For instance, the study by Kihimbo et al. [26] identified collateral as one of the major factors that discourages small and medium businesses from applying for loans.

The statistical analysis also reveals that the availability of support services could influence the ability of startups to access micro credits. This same observation was also made by Rambo [28], who specifically noted that support services tends to enlightened business owners about existing funding opportunities. Apart from creation of awareness, such support services also boost the chances of startups to partake in global value chains. Thus, this proves that the establishment of support service by individuals and governmental agencies can help in promoting the growth and survival of startups.

Also, the findings revealed that awareness of existing credit opportunities influence the ability of startups to access micro credits. Actually, the results of the statistical analysis confirm the existence of information asymmetry. What this implies is that microfinance banks do not have enough information regarding startups as well as small and medium enterprises. In other words, micro credit institutions requires information of startups, so as to carry out critical evaluation of the potential risk associated with doing business with such firms. This is also confirmed by interviewee 3, who noted that the essence of seeking and obtaining such information is to make sure the startups could be trusted. Thus, the availability of the required information is one crucial factor that determines the ability of startups to access micro credits. This hypothesis is also supported by Falkena *et al.* [35] who noted that the flow of information in the financial market is important for both new startups and the financial providers.

Lastly, the statistical analysis revealed that the nature of the country's financial sector could also influence accessibility of micro credits. For instance, interviewee 4 pointed out that the specific interest rates charged to borrower are determined to a considerable extent by the existing regulatory policies at both the national and local level. Thus, contrary to the findings of Scott and William 34, this study shows that regulatory restrictions and interference from government can also prevent some startups from accessing loans and financial incentives. Interviewee 3 supported such policies, as according to him, it helps ensure the efficiency and competitiveness of the financial sector.

Conclusions

The primary aim of this study is to determine the main factors that prevent new start-ups form accessing microcredit in Nigeria. Finance is one of the main factors that ensures the growth and success of every business establishment. However, the literature review indicated that small and medium enterprises are being confronted by a number of challenges in their quest to obtain financial help from banks and other relevant institutions. The predicament is particularly more pronounced among new start-ups, who generally have no capital base, appropriate collateral and other requirement usually demanded by banking institutions from prospective borrowers. The statistical analysis confirmed that accessibility of microcredit among start-ups are influenced by collateral requirements, availability of support services, awareness of existing credit opportunities, and the nature of the country's financial sector and accessibility of micro credits. Thus, it is recommendable for Nigerian government to formulate and implement financial policies that would enable startups to have access to microfinance. It is also important for both private and public sectors to create more awareness on existing financial opportunities for startups. Lastly, microfinance banks should endeavor to cut down collateral requirements as well as interest rates, so as to encourage more and more startups to access funds.

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