THE CHALLENGES OF MANAGING RISKS BY BANKS IN THE FINANCING OF SMALL AND MEDIUM TEXTILE FIRMS IN NIGERIA

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ABSTRACT

Small and medium enterprises (SMEs) contribute approximately 40% of Nigeria's GDP. There have been several interventions by the government in the past to stimulate the growth and success of Small and medium enterprises (SMEs). Nigeria boasts of a robust and vibrant banking sector which is currently competing effectively in the global financial space. This study looked at the challenges of managing risks by banks in the financing of small and medium textile firms in Nigeria to proffer solutions to these challenges and encourage the banks to continue to extend credits to this very important sector. The study made use of primary data which were analysed using simple percentages while hypotheses were tested using Analysis of Variance(ANOVA) inferential statistics. The research findings showed that there is indeed a high funding need by these operators to increase their capacity. It was discovered that a high rate of default is caused mainly by lack of transparency of the operators, poor SMEs cash flow analysis by the bankers and outright diversion of funds among others. One major recommendation in light of the findings is that Small and medium textile firm operators are encouraged to keep proper accounting records and where necessary, employ the services of professionals. Generally, a healthy relationship between SMEs and banks will ensure the growth of not just the sector but the overall development of the Nigerian economy.

Keywords: Risk Management, Small and Medium Enterprises, Textile, Finance, Development

1.0 INTRODUCTION

According to the Organisation for Economic Co-operation and Development (OECD, 2015), Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees and this number varies across countries. There are three criteria which are normally used by countries and organizations to define SMEs, these include the number of employees, total assets and annual revenue (Bloem, 2012). Small and medium firms play a major role in driving economic growth especially in sector like Agriculture where it account for more than 90% of firms out putthus constituting a major source of employment and generating significant domestic and export earnings (OECD Reports, 2004).The economic development of a nation is often measured by indices such as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capita, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry (Aremu & Adeyemi, 2011).

Textiles and clothing contribute to employment both in developed and developing countries, especially in areas where alternative jobs may be difficult to find. In Europe for example, the sector is dominated by small and medium-sized enterprises concentrated in several regions that are highly dependent on this sector (Odey*et al*., 2018).Nearly two decades after independence, the Nigerian textile industry was the major key player in Nigeria and this industrial sector contributed significantly to employment and growth in the economy. However, this industry has undergone a considerable decline over the years. Currently, the Nigerian textile industry is gradually experiencing revitalization, with over twenty-five textile mills, which run at a sector average of at least 40% capacity. It directly employs over 25,000 people and has been able to create lots of direct and indirect jobs (Oxford Business Group, 2008). The near absence of the textile industry has also led to a high dependence on imported products, almost making the country a dumping ground for substandard products. Proshare (2016), reports that the current exchange rate crisis facing Nigeria stems from the country's high import content. The local manufacturers are faced with immense competition from these foreign goods and several start-ups have shut down as a result. Therefore, promotion of such enterprises is of paramount importance since it enhances wealth distribution, economic self-dependence, entrepreneurial development, employment and a host of other positive, economic uplifting factors (Aremu, 2004).

The first use of the term 'Risk Management' in the United States was very much in the early 1950s and by 1969, the concept had already spread to some parts of Europe such as the United Kingdom.

The business environment has evolved in recent times to become dynamic, fast-paced and with this comes risks, thus risk management became very essential as a proactive measure to hedge against different types of risks in almost all kinds of businesses such as manufacturing, services, trading, etc. Different scholars have examined risk management practices within different firms, small, medium and large and identified different kinds of risk exposure and management. Risk management is applicable in areas such as interest rate risk, product development risk, foreign exchange risk, credit risk, among others, and some risk management practices include, but not limited to using derivatives, hedging, speculator and other risk management strategies. In the aftermath of the global financial crisis which occurred between 2007 and 2009, risk management became prominent globally.

According to Bertsch *et al*., (2016) organizations are usually faced with three main types of risks:

a. Predictable risks – Organizations expect these risks;
b. Risks by Chance – Such risks occur by chance; and
c. Unknown or Unexpected risks – The organizations are not aware or expect such risks.

Elahi (2013) opined that executives' dedications at a strategic level is justified by risk management. Risk management knowledge and practices aids firms in gaining and obtaining competitive advantage. However, developing risk management proficiencies is a challenging task, it has to be an all-encompassing and organization-wide effort matched by an integrated risk strategy and sustained by top management. Olamide *et al*., (2015) identified in the study of the effective risk management on bank financial performance that there is a positive relationship between risk management practices and bank performance. El-Masry (2006) indicated that larger businesses more prefer to use of derivatives as compared to small firms and public firms are more likely to use "derivatives" rather than private companies.

In the light of these, this paper identified and analyse these risks and make suggestions on what the banks and firms in the textile sector can do to mitigate them. Nigeria has for so long depended on oil revenue as its major source of income. Given the volatilities in the world oil market, there is a pressing need for Nigeria to diversify, and the manufacturing sector is one of the key areas that can help achieve this objective. This makes this paper very important to banks, textile firms, government and potential investors. This paper made use of primary data, thus adding to its uniqueness.

The broad objective of this paper is to investigate the challenges of managing risks by banks in the financing of SMEs in Nigeria with special focus on the textile industry. The specific objectives of the study include:

i. identify and evaluate the associated risks in the financing of the SMEs on the part of the banks and operators in this area;
ii. review the factors responsible for the incidence of defaults in the financing of these SMEs; and
iii. proffer solutions aimed at minimizing the risks involved in financing and repayments of loans by the SMEs in the building sub sector.

The rest of this paper is structured thus: section two reviews relevant theoretical and empirical literature as well as state the study's hypotheses. Section three shows the methodology of the study, section four presents the results and analysis while section five concludes and proffer recommendations.

2.0 LITERATURE REVIEW

This section will be reviewing the theoretical and empirical literature that are relevant to this study as well as stating the hypotheses of the study, but first, here are some conceptual reviews.

Definition and Classification of SMEs

The Bank of Industry of Nigeria (BOI, 2018), defines small businesses based on categories – Micro, Small and Medium Enterprises. The indices of classification are the number of employees, total assets and annual turnover. The summary is as captured below:

ENTERPRISE CATEGORY	NO OF EMPLOYEES	TOTAL ASSETS (N 'MILLION')	ANNUAL TURNOVER (N'MILLION')
Micro	=10	= 5	= 20
Small	>11 = 50	>5 = 100	= 100
Medium	>51 = 200	>100 =500	= 500

Source: Bank of Industry of Nigeria 2018

Challenges Facing Small and Medium Textile firms in Nigeria

According to Osotimehin*et al*. (2012),some of the challenges facing small and medium textile firms in Nigeria include:

a. Lack of basic infrastructure
b. Poor access to financing
c. Capital shortage
d. Inflation

e. Competition from foreign goods
f. Poor governance structure

Amongst these problems, the lack of adequate infrastructure has continued to be a major source of concern to textile firms in Nigeria. The most important in this grid is the problem of inadequate power supply.

Risks Supervision and Management

Risk supervision and management according to Vanghan (1997) is a mechanism for managing adverse effects of risks and the potential opportunities. Due to the unrestrictive nature of the SMEs, their risks are endless. Some of these risks include machine break down, marketing risk, management risk, financing risk etc. It's therefore imperative to manage the predictable risk and take insurance cover on those risks that are unpredictable. Bank credit risk is one of the major management issues encountered by banks. Basel committee on risk management, Basel (2009) defines credit risk as the potential that a bank borrower or counter party will fail to meet its obligations per agreed terms. The quality or worth of managing credit risk is of immense importance to banks which absorb its financial risks in exchange of profits/benefits which is the essence of going into business.

2.1 Theoretical Literature

In this section, relevant theories relating to the subject matter of this paper will be reviewed. Such theories as the Grameen solidarity group model and the theory of bank lending/information asymmetry.

The Grameen Solidarity Group Model

According to Berenbach and Guzman, (1994), this model is based on group peer pressure whereby loans are made to individuals in groups of four to seven. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). Solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model. Under the Grameen Bank variation of this model, groups contain five members and savings must be contributed for four to eight weeks before receiving a loan. Savings must also continue for the duration of the loan term. Only two of the group members receive a loan initially. After a period of successful repayment, the loan revolves to other members. This model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (Berenbach & Guzman, 1994).

Theory of Bank Lending/Information Asymmetry

Information asymmetry exists when managers and business owners possess certain information about their business more than lenders or any other financial information user (Azende, 2012). Where there is information asymmetry, bank lending theorists can forecast or predict that lenders will respond to inherent risks by increasing lending margins. Asymmetry of information is more prone to small and medium enterprises due to their usually small size which characterises them as economically not attractive to commercial and microfinance banks(Ohanga, 2005). According to Ennew and Binks, 1995), the imperfections in small/medium enterprises credit and loan market emanate from the presumed high-risk level due to relative likelihood of failure, moral hazards, cost of accessing application form for loan processing and institutional/market failures.

Stiglitz and Weiss (1981) opined that asymmetry of information and agency problem are the main reasons why small/medium enterprises have limited access to bank funding. When banks lack full information or knowledge about the medium and small firms, they cannot certainly make a decision regarding their loan requests (Hutchinson & Xavier, 2004). Small and medium firms usually keep to themselves information unfavourable from the lending banks during the loan application and to reduce or avoid risk, the bank would ration the credit value or reject the credit application by ways of adverse selection, Mutezo (2013). In view of this, the study's first hypothesis is stated in its null form thus:

H_{01} = There is no significant relationship in the mean between bank risks management and payment of loans by small and medium textile firm operators

2.2 Empirical Literature

Abor *et al*. (2014) examined bank financing and its impacts on small and medium scale enterprises in Nigeria using evidence from the activities of the export sector. The empirical relationship was tested using probit model and the findings of the study revealed that SMEs access to bank credits and loans improves export likelihood. Furthermore, the study uncovers those larger and more productive firms as older firms are likely related to the export market. The study recommended that bottlenecks that prevented SMEs from accessing credits from banks should be curbed via policy interventions.

In studying credit rationing, risk management and SMEs in South Africa, Mutezo (2013) adopted the literature review method and noted that most SMEs have challenges in accessing loans from banks due to inadequate financial knowledge, credit history and collateral. The study concludes that the greatest problem of banks in South Africa is to find an efficient balance among bank risks due to financing activities on one hand and shareholders need for profit maximization.

Aguwamba and Ekienabo (2017) reviewed bank lending and its impacts on small and medium firms in Nigeria using regression methods as an analytical tool. The regression output reveals that bank lending is positively linked to SMEs performance. The study suggested that there should be a measure for creating a pool of funds for long term lending. Therefore, the second hypothesis is stated thus:

H_{02}: There is no significant relationship between risk mitigation by bank and payment of loans by small and medium textile firm operators

Jaroslav *et al*. (2015) aimed at defining and comparing the key determinants of credit and financial risk perceptions of micro small and medium enterprises with emphasis on entrepreneur's opinion about the business environment in the Czech Republic in 2015. The study outlined that financial risk is related to the business environment while other entrepreneurs claimed to have managed those risks. Also, SMEs exhibited a good understanding and knowledge of credit risk conditions of banks and presented a fair but positive assessment of these risk conditions compared to micro-enterprises.

Yuanyan and Barnett (2014) did an empirical examination of credit risk of small and medium scale enterprises for commercial banks using the Fuzzy analytical hierarchy process (FAHP) method with a combination of qualitative analysis. Empirical results from credit risk show that commercial banks should place more concern on personal assessment of business owners and SMEs enterprise environment which is typically different from large enterprises.

Azende (2012) studied the financing options of small and medium scale enterprises in Nigeria using Benue and Nasarawa states as a case study. Descriptive statistics and questionnaire analysis were adopted as methodological tools, alongside simple percentages. The hypotheses were tested using the chi-square test. The results of the study revealed that small and medium business significantly sourced finance more from the informal sector than the formal sources.

The third hypothesis of the study is then stated below:
H_{03}: There is no significant relationship between risks faced by small and medium textile firms and payment of loans.

According to Chong *et al*., (2014), operational hedging, financial hedging or both are some of the methods organizations use in managing exchange rate risk, while Faseruk and Mishra (2008) stated that non-financial firms would more likely use financial derivatives when dealing with US dollar exchange rate risk and the company's value can be improved when linking both financial and operational hedging.

Krause &Tse (2016) empirically proved that risk management practices increase the return and firm value and reduce the volatility of firm cash flow.

Olamide *et al*., (2015) in their research examined the influence of risk management practices on banks financial performance in Nigeria and found that risk management does not often guarantee positive performance of banks.

Abor (2005) conducted a study of risk management practices in Ghanaian firms and found that about 50% of the firms under study do not have proper risk management practices. Although they are involved in international markets, they have low hedging knowledge and techniques to use in their business.

Batten & Hettihewa (2007) in a study on risk management and derivatives used Australian Firms in their study and found that risk management practices are not only important for investor and decision makers in the international market but also important in national and regional markets. Large firms that are more transnationally visible are more likely to use of derivative, swaps, and options as compared to national firms.

Zhou & Wang (2012) examined in the study of managing foreign exchange risk followed by non-financial companies of UK that there is significance influence on foreign exchange derivatives on companies' foreign exchange risk disclosure. UK non-financial corporations used derivative to reduce firms risk exposure and unfavourable exchange rate movements.

Allen *et al*., (2012) concluded that US organizations use interest rate derivatives for the main purpose to hedge against interest rate fluctuation while keeping in view the economic uncertainty and variation in credit markets.

Saleem & Abideen (2011) conducted a study in the software development sector of Pakistan and concluded that most of the firm not use risk management practices, no proper documentation of risk management and firm who used proper risk management documentation and policies are enjoying high firm performance.

Christiansen &Thrane (2014) concluded that frontline managers havethe responsibility to make risk reports to general managers to take action. The reporting practice not only limited to risk identification but changed to risk assessment and defining risk responses. Action cannot be achieved directly through risk identification but risk and actions are interrelated and require careful analysis.

Vickery (2008) exhibited that with growing firm extent or phase, the possibility of compelling on fixed-term debt declines progressively. As comparison with large firms, small and medium enterprises are extra opposed to interest rate risk.

Zaleha*et al*., (2011) concluded that financial statement analysis are more supposed to subsidize towards managing risks and accounting management practices are more concerned with risk management. Similarly strategic planning, budgeting and budgeting control play a key role in management of firms' risks.

3.0 METHODOLOGY

This paper employs the descriptive survey design.

Population and Sample

By estimation, our potential respondents (the population) are aboutone hundred (100) people, (40 from the banking industry who handle SMEs loans and 60 from the textile industry).

The targeted sample size is fifty (50). The owners and managers of small and medium textile firms in Nigeria (30), randomly chosen, while 20 are from selected bankers who handle SME loans. Ten Nigerian commercial and microfinance banks were selected which implies a distribution pattern of two staff per bank.

Sampling Procedure

Since most textile firms in Nigeria are concentrated mainly in Northern and South-Western Nigeria, this study was constrained in terms of the sampling method to adopt. For ease of accessing data, however, we adopted a non-probability stratified sampling technique. In other words, it is chosen purely based on convenience. This method involves choosing the sampling units that are convenient in terms of data collection and the ability of the researcher to identify and locate the population members. However, due to reasons of cost-effectiveness, limited time and a large study area, purposive/judgmental and stratified sampling technique were adopted.

Method of Data Analysis

The data collected for the study will be analysed using simple percentages while the hypotheses will be tested using Analysis of Variance (ANOVA) inferential statistics. The null hypotheses will be accepted if the calculated F-ratio is less than the critical F-ratio, but will be rejected if the calculated F-ratio value is equal to, or greater than the critical value of F-ratio.

Instrument of Data Collection and Administration

This is a primary data research, therefore the questionnaire design method was used to gather the required information. The questionnaire is in form of structured and unstructured questions. The structured question is intended to guide respondents in selecting the appropriate answer from a list of alternative answers to questions asked. The unstructured types are intended to give freedom to respondents to express their opinion about key issues they may be facing in the textile industry.

4.0 PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

This section presents the primary data generated from the two sets of questionnaires distributed to bankers and owners/managers of textile firms in Nigeria. The analysis was done using simple percentages, mean and analysis of variance, ANOVA to test the stated hypotheses. We start with an analysis of the distribution of the research instrument.

Distribution of Questionnaires

Table 4.1 Distribution of Questionnaires to Respondents

S/N	Items	No. Distributed	No. Returned
1	Bankers	20	20
2	Small and Medium Textile Firm Operators	30	30
	Total	50	50

Source: Author's survey data, 2021

Fifty questionnaires were administered; out of this sample, 20 questionnaires were distributed to staff of banks who handle SME loans while the remaining 30 were assigned to operators (owners/managers) of small and medium textile firms. Next, the paper present some of the percentage frequency distribution of responses to the research instrument.

Presentation of Percentage Distribution of Bank Questionnaire Response from Field Work

Table 4.2 percentage distribution of responses for General Financing of SMEs by Banks

S/N	ITEMS	SA	A	SD	D
1.	My bank has an SME lending Portfolio	14 (70%)	6 (30%)		
2.	The size of SME loans in comparison to other sectors is high.		4 (20%)		16 (80%)
3.	SME loans attract high-interest rate compared to others sectors	6 (30%)	4 (20%)		10 (50%)
4.	Extending credit facilities to SMEs would increase their capacity	18 (90%)	2 (10%)		
5.	Banks need to do more in developing the textile sector	20 (100%)			

SA – Strongly Agree A – Agree SD – Strongly Disagree D – Disagree

Source: Author's Computation, 2021

From the responses presented in table 4.2, the information generated from the field for general financing of small and medium textile firms by banks reveals that about 70% of the respondents strongly agree that their banks have an SME lending portfolio while 30% only agree to this question. Given the size of SME loans, 80% of bankers disagreed to the statement that their size of the loan is high compared to other sectors of the economy while 20% only agreed. On the basis that banking sector extension of credit facilities to small and medium textile firms would increase their capacity, about 30%, 20%, 50% of the respondents strongly agree, agree and disagree respectively. Furthermore, about 100% of bankers do strongly affirm that banks need to do more in developing textile sector of Nigeria.

Table 4.3 Percentage distribution of responses on Risk Management by Banks

S/N	ITEMS	SA	A	SD	D
1.	Lending to SMEs in the textile industry can be challenging in terms of recovery	8 (40%)	10 (50%)		2 (10%)
2.	Lack of transparency in terms of book-keeping by SMEs in the textile sector influences credit decisions	12 (60%)	8 (40%)		
3.	Poor cash flow analysis of SMEs contributes to loan defaults	12 (60%)	8 (40%)		
4.	Bank faces the risk of diversion of funds with SME finance in comparison to other sectors.	2 (10%)	18 (90%)		
5.	The inexperience of bank relationship officer in terms of loan evaluation and monitoring could result to financial risk.	10 (50%)	10 (50%)		

SA – Strongly Agree A – Agree SD – Strongly Disagree D – Disagree

Source: Author's Computation, 2021

Drawing an inference from Table 4.3, the percentage distribution of responses for risk management by banks shows that 40%, 50% and 10% of the respondents strongly agrees, agrees and disagree respectively that lending to small and medium textile firms operators can be challenging in terms of loan recovering. 60% and 40% of bankers strongly agree and agree respectively that lack of transparency in terms of bookkeeping by SMEs influences credit decisions of lenders. Also, 60% and 40% of bankers strongly agree that Poor cash flow analysis of the SMEs in the textile industry contributes to the defaults of loan. To know whether Banks faces the risk of diversion of funds with SME finance in comparison to other sectors, the responses show that 90% agrees while 10% strongly agree,while inexperience of bank relationship officer in loan evaluation and monitoring is related to financial risk according to 50% of response from Bankers.

Table 4.4: Percentage distribution of responses for Risk Mitigation by Banks

S/N	ITEMS	SA	A	SD	D
1.	In granting loans, collateral is a major factor for credit decisions	4 (20%)	14 (70%)		2 (10%)
2.	Credit rationing by bank helps in minimizing risk	6 (30%)	14 (70%)		
3.	Insurance cover would help in minimizing risk face by banks.	12 (60%)	8 (40%)		
4.	Offering training and advisory services to small and medium firms in the textile industry would help in improving their capacity and knowledgebase.	8 (40%)	12 (60%)		
5.	Regular monitoring and portfolio review would further minimize lending risk.	12 (60%)	8 (40%)		

SA – Strongly Agree A – Agree SD – Strongly Disagree D – Disagree

Source: Author's Computation, 2021

The percentage distribution for mitigation of risk by banks shows that most of the respondents agreed that collateral is a major factor in making credit decisions. 70% while about 30% strongly agrees and 70% agrees that credit rationing mechanisms of banks can minimize the risk of default. The percentage distribution also shows that 60% and 40% of the respondents strongly agrees and agrees respectively that the use of insurance can help in reducing the risk face by bankers. Corporate training to owners and managers (operators) as well as regular monitoring/portfolio review will minimize the risk of landing as confirmed by the 60% of the respondents.

Table 4.5: Percentage distribution of responses for general financing of small and medium textile firms (Firm operators' point of view)

S/N	ITEMS	YES	NO
1.	Access to finance has been relatively easy.	5 (16.67%)	25 (83.33%)
2.	There has been strong support from the government toward the financing of my business	7 (23.33%)	23 (76.67%)
3.	Have you at any time needed funding for your business?	28 (93.33%)	2 (6.67%)
4.	Have you ever applied to any bank for a loan	29 (96.67%)	1 (3.33%)
5.	If yes, do you often get approval for your loan request?	14 (46.67%)	16 (53.33%)

SA – Strongly Agree A – Agree SD – Strongly Disagree D – Disagree

Source: Author's Computation, 2021

Given the responses, the percentage value for those small and medium textile firm operators with relative access shows that 16.67% of the respondents claim to have access to credit and about 83.33% of the SME operators claimed otherwise. The percentage statistics also reveals that over the years, government effort towards the financing of small and medium-scale firms proved to be minimal at 23.33% while about 76.67% confirmed poor intervention of the government growing the SME sector via funding. Also, this study reveals that about 93.33% claimed to have needed business funding while 96.67 supported the above claim that they have actually applied for loans in finance institution but only about 46.67% of these loan applications were granted for payment.

Hypothesis Testing

In testing the hypotheses, the analysis of variance (ANOVA) was used. In other words, the means of samples drawn from the population of bankers and small and medium textile firm operators was tested to confirm whether differences in the sample can be justifiably attributed to chance. By implication, the study is interested in proving that within the limits of experimental errors, there is sufficient evidence to support the claim that population means are the same or as well jointly related.

Table 4.6 Summary of ANOVA for risk management (Banks)

Source of variation	Sum of Squares	Degree of Freedom	Mean Square	Significance Level (α)	F-Calculated
Between groups	14857.8	2	7428.9	5%	3.55
Within Groups	-14668.8	7	2095.54		

Source: Author's Computation, 2021

In testing the first null hypothesis which states that there is no significant relationship between bank risks management and payment of loans bysmall and medium textile firm operators, the calculated F-Ratio of the ANOVA test is 3.55, which is less than the critical value of 4.72 at 5% level of significance. Therefore, we accept the null hypothesis and conclude that there is no significant difference between the mean responses of the five groups of respondents on bank risks management and payment of loans by SME operators.

Table 4.7 Summary of ANOVA for risk mitigation (Banks)

Source of variation	Sum of Squares	Degree of Freedom	Mean Square	Significance Level (α)	F-Calculated
Between groups	556.21	2	278.11	5%	-5.58
Within groups	-348.93	7	-49.85		

Source: Author's Computation, 2021

In testing the second null hypothesis of the study which states that there is no significant relationship between risk mitigation by banks and payment of loans by small and medium textile firm operators, the F- Ratio is 3.55, whichis greater than the critical value 4.72 at the 5% level of significance. We thereby reject the null hypotheses and conclude that there is a significant relationship between risk mitigation by banks and payment of loans by small and medium textile firm operators in terms of their means.

Table 4.8 Summary of ANOVA for Risks faced by Small and Medium Textile Firms

Source of variation	Sum of Squares	Degree of Freedom	Mean Squares	Significance Level (α)	F-Calculated
Between Groups	5537	1	5537	5%	219.60
Within Groups	-706	28	-25.21		

Source: Author's Computation, 2021

For the final test of hypothesis, our hypothesis three in its null form states that there is no significant relationship between risks faced by small and medium textile firms and payment of loans, the F-Ratio of the ANOVA test is 217.60, which is greater than the critical value 4.72 at 5% level of significance, we, therefore, reject the null hypotheses and conclude that there is a significant relationship in mean between risks faced by small and medium textile firms and payment of loans.

Discussion of Findings

We have analysed the management of risks faced by banks in financing small and medium firms in the textile industry in Nigeria. In course of doing this, the analysis was grouped based on risks faced by banks and those faced by small and medium enterprise operators in terms of risk mitigation and management.

Management of Risks Faced by Banks and Small and Medium Textile Firms

The ANOVA statistics for risks faced by banks in the course of lending to small and medium textile firm operators shows that there is no significant difference between the mean responses of the groups of respondents on bank risks management and payment of loans by small and medium textile firm operators. By implication, risks faced by banks as measured by lending to these firms in terms of loan recovery can be challenging. Lack of transparency in record keeping, poor cash analysis, risk due to diversion and inadequate experience of relationship officers in loan evaluation are jointly related in mean and thus gives a meaningful explanation to causes of risks faced by banks.

This result confirms the theoretical foundations of credit rationing theory which states that the presence of imperfect/unsatisfactory information from SME operators in the loan/credit market creates default risk and thus affirms the validity of the credit rationing. This explains why poor cash flow analysis, lack of transparency in keeping accounting records and fund diversion can make bankers apply credit rationing decisions to manage lending of credit. Furthermore, the analysis of variance output for risk faced by the textile firms reveals that there is a significant relationship in the mean between the risks faced by small and medium textile firms and repayment of loans. This implies that timing mismatch of sales/purchase of goods, poor business climate, poor record-keeping and accounts receivables mismatch can lead to lending risk since they are jointly related in mean. The result of this study correlates with the findings of Cheng *et al* (2016) who did an empirical examination of the credit risk of small and medium scale enterprise for commercial banks using fuzzy analytical hierarchy process (FAHP) and concluded that commercial banks should place more emphases on the evaluation of business owners and enterprise environment of SMEs in other to eliminate risk due to default.

Risk Mitigation by Banks

Given the conclusion derived from the analysis of variance (ANOVA) on the survey response, the study documents a significant relationship/difference in mean between risk mitigation by banks and payment of loans by small and medium textile firms. The study affirms that collateral, credit rationing, insurance cover, offering training/advisory services to these SME operators and regular monitoring/portfolio review can help in mitigating default risk. Banks see small and medium enterprise as risky since they are characterized by a lot of uncertainties compared to large enterprise. Thus, SMEs are prone to high rate of failures as Zambaldi *et al*. (2009) noted in their study of credit extension to small firms that credit rationing could result from the lenders' inefficiency in classifying loan applicants to suit their risk categories due to opacity of information. Also, as a mechanism for managing risk, collateral is necessary for credit decisions, this again supports the investigations made by Arroyo (2007) who used the Argentines economy to study information asymmetry, credit rationing and banking concentration and concludes that financial institutions adopt collateral measures as a means of mitigating risk of default.

Essentially, this result implies that the choice of variables that captures the risk mitigation process in this study can help bankers/lenders in minimizing the risk emanating from lending to small and medium textile firms. This study again confirms the notion of Bank lending theory and information asymmetry of SME operators and managers. In the same vein, the results also lend credence to the work of Douglas, 2009 who did a study on the failure of risk management processes and conclude that running and maintaining enterprises with an insurance cover is the surest method of managing identified risk and eliminating uncertainties.

5.0 SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

This paper has looked at the challenges of managing risks by commercial, development and microfinance banks in financing small and medium textile firms in Nigeria. In the course of the study, theories such as the Grameen Solidarity Group Model and the theory of Bank Lending/Information Asymmetry were reviewed. Various empirical studies were also reviewed aimed at identifying the opinion of previous researchers in this area. The study adopted a descriptive survey design and data was primary in nature thus questionnaires were used as a means of data collection.

The population of the study is all individuals who own or manage a small or medium textile firm as well as commercial, development and Microfinance bankers who handle SME loans.The sample size is fifty (50) comprising of thirty (30) small and medium textile firm operators and twenty (20) bankers from ten banks, whose responsibility was that of loan administration. This study, for convenience, adopted the non-probability sampling method chosen purely based on convenience. The data collected for the study were analysed using simple percentages whereas the hypotheses were empirically tested using Analysis of Variance (ANOVA). The findings revealed that risks faced by banks in providing finance to small and medium textile firms can be very challenging due to lack of transparency in their book keeping, poor cash analysis, risk due to diversion and inadequate experience on the part of the firm operators. From the results, there is a significant relationship/difference in mean between risk mitigation by banks and payment of loans by small and medium textile firms. From the responses, it was seen that running and maintaining enterprises with an insurance cover is the surest method of managing identified risk and eliminating uncertainties.

Recommendations

In light of the above findings, the following recommendations are made:
The government needs to redesign some of the existing SME intervention programs to suit particular market segments and ensure proper monitoring to ensure timely repayment of loans. More awareness needs to be created at the grassroots level to encourage the small holders to participate.

Small and medium textile firm operators are encouraged to keep proper accounting records and where necessary, employ the services of professionals for this purpose. Proper record keeping will enable the operators to ascertain the profitability or otherwise of their business and also enable them to make proper budgets and forecasts before embarking on any investment and by extension borrowing.

The current credit bureau agencies should also be encouraged to have access to SMEs database for continual credit history updates of each operator. Finally, Banks should also ensure that staff faced with SME financing are properly trained and equipped with the necessary skills for credit appraisal and decision making.

Conclusion

Bank lending and SME borrowing are full of uncertainty. This uncertainty gives rise to risks and therefore calls for effective risk planning and monitoring techniques to reduce financial loss. Banks have an SME lending portfolio and that the size of their loans not quite high compared to other sectors, thus the extension of credit facilities will uplift their capacity and banks need to do more in growing and developing the SME sector in Nigeria.The risks faced by banks are as a result of such factors like lack of transparency in bookkeeping, poor cash flow analysis, diversion and inadequate experience of relationship officers in loan evaluation. Factors that add up to risks faced by banks are high-interest rate to borrowers, poor relationship between banks and small and medium firms, lack of risk measurement techniques, poor loan supervision, fraud within management, lack of evaluation skills, liquidation/winding up of SMEs, lack of integrity of SME operators, failure of credit managers to identify technical defect of loan contract, the inability of management to make the right investment decisions and so on.

This study will enable small and medium textile firms torevisit their style of operations. This is especially in the area of bookkeeping, ensuring transparency, proper planning of financing needs before borrowing, and so on. These are some of the factors which have been identified as risk factors in lending to SMEs. The banks should also critically review their loan size to SMEs and apply the recommendations made such as training of personnel, reduction in interest rates, proper cash flow analysis and loan evaluation of SMEs before loans and extended to SME. Proper monitoring processes will also assist in recovery. The Government is expected to review some of its existing programs for efficiency to enable SMEs to have easy access to these often low-interest funds to enhance their productivity. These will have a positive impact on the overallgrowth of the Nigerian economy.

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APPENDIX

QUESTIONNAIRE

BANKERS QUESTIONNAIRE

General Financing:

1. My bank has an SME lending Portfolio.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
2. The size of SME loans in Comparison to other sectors in high.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
3. SME loans attract high interest rate compared to others sectors. (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
4. Extending credit facilities to SMEs would increase their capacity
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
5. Banks needs to do more in developing the SME sector
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)

RISK MANAGEMENT

1. Lending to SMEs operators can be challenging in terms of loan recovery.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
2. Lack of transparency in terms of book keeping by SMEs influences credit decisions
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
3. Poor cash flow analysis of SMEs contributes to loan defaults
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
4. Bank face a higher risk of diversion of funds with SME financing in comparison to other sectors. (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
5. Lack of experience of bank relationship officers in terms of loan evaluation and monitoring could result to financial risk.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
6. In your opinion, what other factor could result to loan default due to financial of SME by banks.
   1. ____________________
   2. ____________________
   3. ____________________
   4. ____________________

RISK MITIGATION

1. In granting loans, collateral is a major factor for credit decisions
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
2. Credit rationing by bank helps in minimizing risk (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
3. Insurance cover would help in minimizing risk face by banks.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
4. Offering training and advisory services to SME operators would help improving SMEs capacity and knowledge base.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)

5. Regular monitoring and portfolio review would further minimize lending risk. (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
6. What other measures in your opinion can be adopted in mitigating risk of SME financing?
   1. ______________________________
   2. ______________________________
   3. ______________________________

SME QUESTIONNAIRE

GENERAL FINANCE

1. How long have you been in Business?
   (0 – 5yrs) (5 – 10yrs) (10 – 20yrs) (20yrs and above).
2. Accesses to finance have been relatively easy. (YES) (NO)
3. There has been strong support from government toward financing of my business
   (YES) (NO)
4. Have you at any time needed funding for your business?
   (YES) (NO)
5. Have you ever applied to any bank for loan?
   (YES) (NO)
6. If yes, how often is your loan request approved? (regularly) (sometimes) (never)

RISK SMEs

1. Timing mismatch between sales & purchase of goods can lead to default in payment
   (YES) (NO)
2. Poor Business Climate can affect ability to repay loans (YES) (NO)
3. Poor records keeping can lead to lending risk
   (YES) (NO)
4. Reluctance or unwillingness to repay loan can lead to lending risk (YES) (NO)
5. Accounts receivables mismatch can lead to lending risk (YES) (NO)
6. Borrowing from bank is risky can lead to lending risk
   (YES) (NO)
7. I have repaid previous loan promptly without default
   (YES) (NO)
8. Lenders generally see SME financing as high risk
   (YES) (NO)
9. Why do lenders see SME financing is risky?
   1. ______________________________
   2. ______________________________
   3. ______________________________

MITIGATION OF RISK SMEs

1. Provision of collateral for lending is an instrument of proper loan mgt.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
2. Adequate record keeping will improve ability to secure loans from banks
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)

3. Use of insurance cover will help in mitigation risk.
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
4. Financial discipline of SME's operators will help in reducing risk
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
5. Experience of SME operators is important in loan management
   (Strongly Agree) (Agree) (Strongly Disagree) (Disagree)
6. In your opinion, what other measures would you apply to ensure timely repayment of loans?

1. ______________________________
2. ______________________________
3. ______________________________

Thank you for your time and patience