SMALL BUSINESS LOAN DECISIONS: A SURVEY OF CRITERIA IN JAPAN AND NIGERIA

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JAPAN AND NIGERIA present striking contrasts not only in terms of their varying levels of economic development but also in the levels of the socio-economic infrastructure enjoyed by their small-scale firms. The latter is a direct consequence of the recognition of small businesses in Japan as "the fountain head of vitality for the national economy" (SMEA/SBC, 1984, p1). Thus for more than six decades the problems in small businesses in Japan have attracted the attention of state policymakers culminating in a number of policies to promote their growth and development[1]. Complementing the public sector's support systems for small firms are those of the private sector, particularly in the area of financing.

For the public sector, four areas of policy are identifiable. These include the modernisation and structural strengthening and management stabilisation of small businesses. Others are those dealing with compensating their handicaps in coping with their business environment as well as those aimed at providing special assistance to the weakest link in the chain of this sector in Japan[2]. These policies in addition to enhancing their competitive edge and image through improvement in their productivity, technology and management skills, have brought other advantages. For instance, the financing sources via government-affiliated financial institutions, judicious fiscal incentives and a system of state-funded guarantee and insurance schemes have undoubtedly secured for them greater private financial sources otherwise not easily accessible to them.

On the contrary, although small businesses in Nigeria have attracted varying degrees of attention from Federal and State authorities, yet they have not been beneficiaries of such elaborate promotional 'largesse' as in Japan. The implication of this scenario in the two countries of relevance here is an inquiry into what their bank officials perceive as influential in their decisions on small business loans. A corollary to this is another related issue — to what extent do these factors differ in the two countries and how do they affect the attitude of their institutions towards small business loan applicants? Or more specifically, to what extent do they favour or disfavour small businesses in benefiting from more sympathetic considerations from banks in the two countries in general?

Consequently, the objectives of this paper are three-fold:

1. To identify the characteristics of small business borrowers which lenders (banks) consider important or influential when appraising the former's loan applications in both Japan and Nigeria.
2. To identify the characteristics of lenders and their environment which in turn influence their inclination to lend to small business borrowers.
3. To determine the extent which small business lending decisions made by banks in the two countries differ.

This paper examines these issues through a survey of high-ranking bank officials charged with the responsibility for loan decisions — small business loans inclusive. It is held that the perceptions of these officials should not be so divergent were it not to be for the disparities in their environments and those of their small business customers.

Background

A better insight can be gained from a brief introduction of the related financial institutions from which the bulk of external finance for small business is derived in both countries. In Japan, the relevant financial institutions covered in the survey were the ordinary (commercial) banks and the private financial institutions for small business (PFISB)[3]. Ordinary banks as they are called in Japan are the equivalent of commercial banks in the UK and the United States of America but differ from the latter by operating an entirely branching banking system. In general, time deposits constitute the bulk of their total deposits while long-term lending and holding of securities are the main domain of their investments. Within the ordinary banking group, the survey was restricted to two — the city banks (toshi ginko) and the regional banks (chiho ginko) which however are the major sources of finance for small businesses within the group. The city banks which are so-called because they are virtually based in large cities, though operating a nationwide network of branch offices, have at their command enormous financial resources unsurpassed by the other banks in the financial system. However, their business relations with big businesses, often paternalistic, imply that a larger share of their financial resources flow into this sector. Invariably, only the crumbs are picked up by the small businesses. But even at that, they still dominate the rest of the banks in the share of loans to the small business sector as evident in Table 1.

Each regional bank operating principally in a local economic area or in an administrative district (prefecture) but extending its operational frontiers to neighbouring prefectures, serves local clientele. These are usually regionally-based businesses, mainly small businesses and local public entities and are important suppliers of funds to the call-loan markets. The broad group of private financial institutions for small business (PFISB) comprises of three institutions. These are the mutual savings and loans banks (sogo ginko), the credit associations (shinyo kinko) and the credit co-operatives (shinyo kumiai). These specialised institutions established under specific laws for their respective operations raise funds via similar types of deposits as the ordinary banks. However, their major operations involve lending to small businesses. But whereas the mutual savings and loans banks are increasingly acquiring the semblance of the ordinary banks, the other two still remain predominantly organised along the lines of co-operatives institutions, reserving a larger proportion of their lending services for their members[4].

Judged from the point of view of ownership along, only few Nigerian banks would qualify as private institutions in the same sense as in Japan. Nonetheless, it would seem justifiable to apply the classification to them since the principal source of their funds is deposits like their Japanese counterparts. In Nigeria, the two types of private banking institutions are commercial banks and merchant banks. Commercial banks in Nigeria like in Japan operate through a network of branch offices but differ in lacking the delineation into city and regional banks in Japan. On the contrary, they operate urban and rural branch offices though the former far out-number the latter in spite of their coverage of a lesser geographical area. Compared with merchant banks, commercial banks are much more dispersed and have a longer history of association with Nigerian businesses of all sizes, true merchant banking being a phenomenon of the late 1960s and concentrated mainly in large urban centres. Moreover, the financial resources at the disposal of the latter as a whole far outstrip those of the former.

TABLE 1

LOANS OUTSTANDING TO SMALL AND MEDIUM-SIZED BUSINESS BY TYPE OF FINANCIAL INSTITUTION

JAPAN			NIGERIA		
Lending Institution	**Share**	**(%)**	**Lending Institution**	**Share**	**(%)**
All Financial Insts.		100	Commercial banks	7.5	
City banks	27.6				
Regional banks	21.7				
Trust banks	2.8				
Long-term Credit banks	4.6				
All banks		56.7			
Mutual Savings/Loans banks	13.4				
Credit associations	15.5				
Small Business Finance Corporation	2.9				
Peoples Finance Corp.	2.8				
Central Bank of Commercial and Ind. Co-op	4.6				
Environmental Sanitation Business Finance Corp.	0.3				
Others	3.8				
Financial Institutions for Small Business		43.3			

Source: Small Business Finance Corporation of Japan. Annual Report, 1986, p9. Central Bank of Nigeria, Research Department, Lagos.

Notes: Figures for Japan (for end of fiscal 1986) and for Negeria (percentage of aggregate loans and advances to small businesses in 1985).

Operationally, merchant banks in Nigeria are least attracted to small businesses leaving private financing of the nation's small firms (by the formal financial sector) mainly to commercial banks. It is on this basis that commercial banks formed the focus of the survey in Nigeria. But it is instructive to add that until the early 1980s, the financing of small businesses by commercial banks depended entirely upon the discretion or disposition of each banking institution. Thus the extent to which small businesses received the patronage of each bank varying as it were, was neither prescribed by the monetary authorities nor were the banks strongly persuaded by the prospects of future lending opportunities as these nascent businesses matured. However, since the beginning of the 1980s, they have been mandatorily required to set aside a stipulated percentage (presently 16 per cent) of their aggregate loans and advances to indigenous (Nigerians) borrowers for small businesses. The impact of this policy guideline accounts for slightly more than 7 per cent of their aggregate loans and advances in fiscal 1985 for the small business sector as in Table 1.

Methodology

Sample:

Sixty bank branch offices drawn from three-quarters of the commercial banks represented in Lagos constituted the sample for Nigeria. Lagos, apart from being Nigeria's capital and the principal financial centre, plays host to the head offices of 15 out of the country's 26 commercial banks[5]. The sample population was drawn from bank branch offices and the respondents included officials directly involved in lending operations. Specifically, these were branch managers, sub-managers, assistant managers and in a few cases, senior lending officers.

Unlike in Nigeria where respondents were from the branch offices, the Japanese sample came from the head offices of 51 financial institutions. This deviation in the survey technique was dictated by the existence of a long history of business dealings in Japan between financial institutions and small business borrowers as a distinct and clearly-defined group with great possibilities for well-articulated organisational guidelines on small business lending in most, if not all of them. A breakdown of these institutions by their classifications in Japan were 12 city banks (all of the nation's city banks), 8 regional banks, 7 mutual savings and loans banks, 12 each of credit associations and credit co-operatives (all of them based in the Western (Kinki) region of Japan) were drawn randomly from a directory (Teikoku Nenkan) of businesses in the region.

Procedure

Each of the Nigerian bank official was represented with a structured questionnaire featuring multiple-choice questions as well as questions embodying verbal frequency and horizontal numeric scaling techniques. The response format for the verbal frequency was limited to 5 levels of response choice of 'always', 'often', 'sometimes', 'seldom' and 'never'. That for the horizontal numeric scale had also 5-points: from 'unimportant' denoted by 1–2 to 'very important' represented by 4–5 with the mid-points as 'somewhat important'. The characteristics for which opinions were sought were drawn up after a thorough review of the relevant literature on the different dimensions of leading criteria[6]. In addition, an 'other' category was included in each case to explore other possibilities not considered in the given responses.

Each questionnaire was administered personally in the case of the Nigerian sample. In each case, sufficient time was allowed for the respondent to study the questionnaire. This necessitated calling more than once before a completed questionnaire could be turned in. Clarifications were provided only when sought by the respondents in instances of seeming ambiguity. Of the 60 questionnaire forms administered, 47 were returned but only 42 (70 per cent) of them were satisfactorily completed.

In Japan, the same questionnaire format was used after a painstaking translation into the Japanese language. The translation was aimed at ensuring that the questions would be understood, thus improving the quality of the responses in view of the survey technique employed. This did not appear to have influenced the quality of the responses in any adverse manner. Mailing technique instead of the personal survey used in Nigeria was largely dictated by logistic problems and anyway does not seem to have affected the quality of responses given their familiarity with the language of the questionnaire. To encourage response, a self-addressed and stamped envelope was sent along with each questionnaire. Of the 51 financial institutions surveyed, 27 responded by the expiration of the deadline. From this number of effective responses, 26 questionnaire forms (51 per cent) were acceptable. A breakdown of these usable questionnaire forms gave 5 each to the city banks, regional banks, mutual savings and loans banks and credit co-operatives and 6 to the credit associations.

Analysis and Results

The overall importance of specific borrower-lender characteristics to lending officers in each country were examined. Then a comparison was made between their ranking of these characteristics. The comparison was made using the Wilcoxon-Mann-Whitney U-test for independent samples[7]. For both sets of characteristics, this was found to be statistically significant at 5 per cent level. Furthermore, the Spearman rank correlation coefficient computed to test the degree of association between the two sets of ranking indicated a marked dissimilarity of preferences by ordinary banks in Japan and commercial banks in Nigeria at 5 per cent level of significance.

The interpretation of the foregoing analysis which dominates the rest of this section is broken into four sub-headings, namely, characteristics of small business, characteristics of lenders themselves and their environment, frequency of their lending decisions and other influencing factors.

Characteristics of Small Business Borrowers

Of the eight suggested characteristics of small business loan applicants in Table 2, bank lending officers in Nigeria ranked highest as 'very important', the purpose of

TABLE 2
RANKING OF INFLUENTIAL BORROWER CHARACTERISTICS

	NIGERIA		JAPAN			
	Comm. bank n=42		Ord. bank n=10		PFISB n=16	
Characteristics	**Mean**	**Rank***	**Mean**	**Rank***	**Mean**	**Rank**
1. Purpose of loan	4.43	01	4.00	05	4.19	03
2. Profitability of business	4.29	02	4.20	02	4.25	02
3. Stability of demand for products and/or services	4.17	03	3.90	06	3.44	07
4. Value of supporting collateral (if loan secured)	4.12	04	4.00	04	4.13	05
5. Integrity and competence of management	3.88	05	4.60	01	4.38	01
6. Value of outstanding debts, if any	3.57	06	4.10	03	4.13	04
7. Present and past size of total and current assets	3.48	07	3.60	07	3.63	06
8. Deposit account balance	3.17	08	3.00	08	2.94	08

Source: Survey Questionnaire.
Notes: 1. PFISB=Private Financial Institutions for Small Business.
2. Scale 1-2 (unimportant); 4-5 (very important); mid-points (somewhat important).
3. *Wilcoxon-Mann-Whitney U-test 0.105<1.96 (significant at the 0.05 level).
4. *Spearman Correlations 0.4047<0.738 (significant at the 0.05 level).

loan (N=4.43). This was followed by the profitability of the business (M=4.29), stability of demand for the firm's products and services (M=4.17) and value of supporting collateral security, if loan secured (M=4.12). The rest, integrity and competence of management (M=3.88), value of outstanding debts, if any (M=3.57), present and past size of total and current assets (M=3.48) and deposit account balance (M=3.17) were rated as 'somewhat important'.

For the lending officers in Japanese ordinary banks, integrity and competence of management of the business owner/manager (M=4.60) ranked first as 'very important'. Others in this category included the profitability of business (M=4.20), value of outstanding debts, if any (M=4.10), value of supporting callateral security (M=4.00) and purpose of the loan (M=4.00). Ranked as 'somewhat important' were the stability of demand for products and services (M=3.90), present and past size of total and current assets (M=3.60) and deposit account balance (M=3.00).

Their counterparts in private financial institutions for small business (PFISB) considered in the following order: integrity and competence of management (M=4.38), profitability of business (M=4.25), purpose of loan (M14.19), value of outstanding debts (M=4.13) and value of supporting collaterals (M=4.13) as 'very important'. Those ranked as 'somewhat important' were present and past size of total and current assets (M=3.63), stability of demand for products and services (M=3.44) and deposit account balance (M=2.94).

Aside from the responses in Table 2, others such as repayment ability and schedule, duration of the loan as well as 'connection' in the case of Nigeria were cited by the respondents. On what they perceived as responsible for the riskiness of small business loans, the following factors in Table 3 were outstanding. The prevalence of fraud or the greater susceptibility of small businesses to fail (M=4.10) and their lacking in appropriate collateral security (M=4.05) were ranked as 'very important' in Nigeria. Ranked as 'somewhat important' were poor cashflow (M=3.64), poor credit-rating (M=3.60), lack of competence (M=3.45), low equity (M=3.430) and poor market for products and/or services (M=3.29).

TABLE 3
RANKING OF PERCEIVED RISK FACTORS IN SMALL BUSINESS LOANS

	NIGERIA Comm. bank n=42		JAPAN Ord. bank n=9		JAPAN PFISB n=16	
Risk Factor	Mean	Rank	Mean	Rank	Mean	Rank
1. Fraud or greater susceptibility to failure	4.10	01	3.78	02	3.75	02
2. Poor collateral security	4.05	02	3.67	03	3.63	03
3. Poor cashflow	3.64	03	3.67	05	3.44	04
4. Poor credit rating	3.60	04	3.67	04	2.81	07
5. Lack of competence	3.45	05	3.78	01	4.00	01
6. Low equity	3.43	06	3.22	07	3.31	05
7. Poor market for products and/or services	3.29	07	3.56	06	2.94	06

Source: Survey Questionnaire.
Notes: 1. PFISB=Private Financial Institutions for Small Business.
2. Scale 1-2 (unimportant); 4-5 (very important); mid-points (somewhat important).
4. Spearman Correlations 0.571<0.786 (significant at the 0.05 level).

In Japan, lack of competence (M=3.78), fraud or greater susceptibility to failure (M=3.78), poor collateral security (M=3.67), poor cred-rating (M=3.67), poor cashflow (M=3.670), poor market (M=3.56) and low equity (M=3.22) in this descending order were ranked as 'somewhat important' by respondents in ordinary banks. On the other hand, the ranking of the private financial institutions for small business of these factors was lack of competence (M=4.00) as 'very important' and fraud or greater susceptibility to failure (M=3.75), poor collaterals (M=3.63), poor cashflow (M=3.44), low equity (M=3.31), poor market (M=2.94) and poor credit-rating (M=2.81) as 'somewhat important'.

The contributory factors to this perception of the riskiness of small business loans rated as follows: in Nigeria, the high incidence of diversion and/or mis-use of funds (M=4.48) by small business owner/managers ranked top as a 'very important' factor. Shortage of information and the absence of formal record-keeping to assess their creditworthiness (M=3.83), the predominant weak nature of their ownership structure and the limited scope of their business operations (M=3.38) and the problem of developing internally within the lending institutions, effective screening appraisal and supervisory procedures for small business loans (M = 2.52) were rated 'somewhat important'. However, the respondents did not consider term loans to be outside their scope and specialisation (M = 1.71) and therefore was ranked as 'unimportant'. Table 4 illustrates the ranking of these contributory factors.

On the other hand, respondents in ordinary banks in Japan did not consider any of these factors as 'very important'. However, small businesses' weak ownership structures and the limited scope of their operations (M = 2.80), their high incidence of diversion and/or mis-use of funds (M = 2.70) and the shortage of information on their activities as well as absence of reliable records (M = 2.70) were ranked as 'somewhat important'. Both the problem associated with developing effective screening, appraisal and supervisory procedures (M = 1.80) and the issue of lack of expertise on term lending (M = 1.80) were considered as 'unimportant'.

The ranking of those of them in private financial institutions for small business (PFISB) differed from their ordinary banks' counterparts in their relative importance to the extent that they were all considered as 'somewhat important'. As Table 4 clearly shows, shortage of information and the absence of formal record keeping by small

TABLE 4

RANKING OF CONTRIBUTORY FACTORS IN THE RISKINESS OF SMALL BUSINESS LOANS

	NIGERIA		JAPAN			
	Comm. bank n=42		Ord. bank n=10		PFISB n=16	
Contributory Factor	Mean	Rank	Mean	Rank	Mean	Rank
1. High incidence of diversion and/or mis-use of funds	4.48	01	2.70	02	3.06	03
2. Shortage of information and absence of formal record-keeping	3.83	02	2.70	03	3.50	01
3. Predominant weak ownership structure and limited scope of business operations	3.83	03	2.80	01	3.31	02
4. Problem of developing internally effective screening, appraisal and supervisory procedures for small firm loans	2.52	04	1.80	05	2.44	04
5. Term lending outside bank's scope and specialisation	1.71	05	1.80	04	2.06	05

Source: Survey Questionnaire.
Notes: 1. PFISB = Private Financial Institutions for Small Business.
2. Scale 1-2 (unimportant); 4-5 (very important); mid-points (somewhat important).
3. Spearman Correlations 0.600 < 1.000 (significant at the 0.05 level).

firms (M = 3.50), their weak ownership structure and limited scope of operations (M = 3.31), their high propensity to divert and/or mis-use funds lent to them (M = 3.06) were rated as 'somewhat important'. Similarly, the problem of developing an effective screening, appraisal and supervision over small business loans (M = 2.44) as well as the scope and specialisation on term loans (M = 2.06) were regarded as 'somewhat important'.

On the whole and in particular for commercial/ordinary banks, the perceptions of the respondents on the creditworthiness of small business borrowers appeared to have been strengthened by their response to a related question. Asked what would be their attitude to small business borrowers whose creditworthiness was hardly known, 90 per cent of them in Japan compared with 45 per cent or half of the Japanese figure in Nigeria would arrange to verify this through their institutions' established screening procedures. Another 45 per cent in Nigeria but nil for Japan would insist on adequate collateral security to compensate for this deficiency and/or the cost of obtaining it. However, in both countries, 10 per cent each would decline applicants at sight and avoid lending.

Characteristics of Lenders and their Environment

Ten characteristics held as impacting on the willingness of banks to lend to small business borrowers are given in Table 5. The opinions of respondents in the two countries' banking institutions were sought regarding their influences on small business loans. Of these, government regulations and legal constraints on lending (M=4.38) was rated as 'very important' in Nigeria while demand facing the banks int he loan market (M=3.70) although rated as 'somewhat important' was actually the first in the order of ranking by the ordinary banks in Japan. In Nigeria, the proportion of banks' portfolio in loans (M=3.62), sectoral distribution of their outstanding loans (M=3.62), their deposits' level and stability (M=3.29), growth rate of these deposits (M=3.24) and the demand facing them in the loan market (M=2.95) were rated as 'somewhat important'. Similarly, competition from other banks (M=2.45), interest rates or returns on banks' competing assets and investments (M=2.45) and the maturity structure of their security holdings (M=2.45) were ranked as 'somewhat important'. However, as was previously the case, specialisation in small business

TABLE 5
RANKING OF LENDER CHARACTERISTICS

	NIGERIA		JAPAN			
	Comm. bank n=42		Ord. bank n=10		PFISB n=16	
Characteristics	Mean	Rank	Mean	Rank	Mean	Rank
1. Government regulations and legal constraints on lending	4.38	01	2.50	09	2.70	07
2. Proportion of bank's portfolio in loans	3.67	02	2.70	07	3.07	06
3. Sectorial distribution of outstanding loans	3.62	03	3.50	02	2.21	10
4. Bank's deposit level and stability	3.29	04	2.40	10	2.43	09
5. Growth in deposits	3.24	05	2.70	08	2.43	08
6. Demand facing banks in the loan market	2.95	06	3.70	01	3.57	02
7. Competition from other banks	2.45	07	3.40	05	3.64	01
8. Interest rates or returns on competing assets/investments	2.45	08	3.40	03	3.57	03
9. Maturity structure of bank's security holdings	2.45	09	3.40	04	3.43	04
10. Specialisation of bank's lending officers	1.83	10	3.30	06	3.36	05

Source: Survey Questionnaire.
Notes: 1. PFISB=Private Financial Institutions for Small Business.
2. Scale 1-2 (unimportant); 4-5 (very important); mid-points (somewhat important).
3. Wilcoxon-Mann-Whitney U-test 0.5309<1.96 (significant at the 0.05 level).
4. Spearman Correlations −0.3939<0.738 (significant at the 0.05 level).

lending (M=1.83) was considered as 'unimportant'.

On the other hand, the Japanese ordinary banks considered the rest of the characteristics apart from the demand in the loan market as 'somewhat important' to them. Moreover, the relative positions of their ranking differed from those of their Nigerian counterparts as evident in the Table. Conversely respondents in private financial institutions for small business rated competition from other banks (M=3.64) as the first among equals in the characteristics they viewed as 'somewhat important'. Others varied from demand facing them in the loan market (M=3.57) in the second position to the sectoral distribution of their outstanding loans (M=2.21) in the tenth and last position.

Frequency of Lending Decisions Made

To probe further into the frequency of decisions made in actual small business lending situations, the respondents were presented with a set of multi-dimensional questions. Their responses are presented in the verbal frequency scale in Table 6. Limiting the subsequent discussion to the scale with the highest frequency of responses for each decision and for each category of respondents, the following scenario is discernible.

On loan maturity-related decisions, 40 per cent each of the respondents in commercial banks in Nigeria and ordinary banks in Japan 'sometimes' preferred short-term lending while 38 per cent of those in PFISB 'often' made the same decision. In Nigeria, 27 per cent of the respondents 'often' restricted medium-long-term lending to their valued small business customers. However, for their Japanese counterpart, 60 per cent made this decision 'sometimes' but in the case of respondents in PFISB, 44 per cent 'never' did. On whether they considered granting short as well as medium-long-term loans on case by case basis, 31 per cent of the Nigerian respondents 'sometimes' did while 50 per cent of those in ordinary banks and 75 per cent in PFISB in Japan 'always' did.

With respect to the business cycle-related questions, all the respondents in both countries, 43 per cent, 50 per cent and 56 per cent for banks in Nigeria, banks and PFISB in Japan respectively, 'sometimes' actually lent during the early stage of the small firm's life cycle. There was also similarity in the frequency of decisions made by the respondents in both countries. For instance, 35 per cent of the respondents for Nigeria and 80 per cent for Japan 'often' actually lent during the rapid stage among the banks. However, 44 per cent of the respondents from PFISB 'always' actually did the same during this stage. Conversely, all of them differed in their preferences for lending at the maturity stage. Whereas 35 per cent of the Nigerian respondents 'sometimes' lent during this stage, 70 per cent of their ordinary bank counterparts in Japan 'often' and 44 per cent in PFISB 'always' did. On the other hand, 31 per cent of them in Nigeria 'always' hesitated to lend during the decline stage. Both categories of respondents in Japan, 70 per cent for ordinary banks and 38 per cent for PFISB, 'sometimes' hesitated to lend at this stage.

On their decisions at the screening stage, all the respondents agreed unanimously they 'never' adopted the rule of 'first come first considered' to curtail excess loan demands. Their frequency distributions were 45 per cent for Nigerian banks, 70 per cent and 75 per cent respectively for Japanese ordinary banks and PFISB. In addition, 31 per cent in Nigeria 'never' rationed credits as an alternative to the former decision. But 50 per cent of the respondents in Japanese banks 'often' rationed while 63 per cent in PFISB 'always' made the same decision. Again, whereas the Japanese respondents, 32 per cent for banks 'often' applied stricter appraisal yardsticks to prune down the number of 'successful' applications and 38 per cent for PFISB 'always' did, 29 per cent of the Nigerian respondents 'never'. Another area of commonalty in the decisions made was in the screening of 'troublesome' and unprofitable applications. All the respondents, 50 per cent each for banks in Nigeria

TABLE 6
FREQUENCY DISTRIBUTION OF LENDING DECISIONS MADE (%)

Decision	Always	Often	Sometimes	Seldom	Never
A. Loan Maturity	17.0	33.0	40.0	5.0	5.0
Prefer short-term lending	—	21.0	40.0	39.0	—
	31.0	38.0	—	6.0	25.0
	20.0	27.0	25.0	14.0	14.0
Restrict med.-long-term loans	—	10.0	60.0	20.0	10.0
to valued small firm customers	12.0	19.0	19.0	6.0	44.0
	21.0	19.0	31.0	10.0	19.0
Lend short, medium and long on	50.0	40.0	10.0	—	—
case by case considerations	75.0	19.0	6.0	—	—
B. Business Cycle:	2.0	5.0	43.0	33.0	17.0
Actually lend during the	—	—	50.0	40.0	10.0
early stage	6.0	19.0	56.0	19.0	—
	19.0	35.0	31.0	10.0	5.0
Actually lend during the	20.0	80.0	—	—	—
rapid growth stage	44.0	37.0	19.0	—	—
	17.0	26.0	35.0	12.0	10.0
Prefer lending during the	20.0	70.0	10.0	—	—
maturity stage	44.0	44.0	12.0	—	—
	31.0	24.0	14.0	14.0	17.0
Hesitate lending during the	—	10.0	70.0	20.0	—
decline stage	19.0	25.0	38.0	12.0	6.0
C. Screening Procedure:	5.0	10.0	12.0	28.0	45.0
Adopt 'first come, first con-	—	—	10.0	20.0	70.0
sidered' rule in excess demand	—	—	6.0	19.0	15.0
	17.0	10.0	24.0	10.0	33.0
Ration credits instead	30.0	50.0	20.0	—	—
	63.0	19.0	6.0	—	12.0
	14.0	10.0	26.0	21.0	29.0
Apply stricter appraisal stand-	30.0	32.0	28.0	—	10.0
ards to trim applications	38.0	12.0	19.0	19.0	12.0
	50.0	24.0	17.0	2.0	7.0
Screen out 'troublesome' ones	50.0	40.0	10.0	—	—
and consider the rest	63.0	25.0	12.0	—	—
D. Environment:	14.0	33.0	29.0	14.0	10.0
Actually lend more in	32.0	20.0	28.0	—	20.0
'boom' periods	19.0	19.0	19.0	6.0	37.0

Source: Survey Questionnaire.
Notes: Upper figures — commercial banks in Nigeria.
Middle figures — ordinary banks in Japan.
Lower figures — PFISB in Japan.
Ordinary banks and 75 per cent in PFISB in Japan 'always' did.

and Japan and 63 per cent for PFISB 'always' made this decision.

Finally, on the influence of economic trends on their decisions, 33 per cent of the respondents in Nigeria 'often' granted more loans to small businesses during periods of economic boom. On the other hand, 32 per cent of the respondents in Japanese banks 'always' did. But 37 per cent of their PFISB counterparts 'never' lent more during the same period.

Other Influencing Factors

Taking into consideration the influence of high transaction costs involved in small business lending on the inclination of lenders in general, the respondents in Japan where far-reaching policy actions with great potency of reducing them to a considerable extent are in operation, were requested to rate their relative importance to them. Table 7 shows their ranking of some of them. The ranking indicated vividly the elevated position of the level of business honesty and management expertise of small business owner/managers in the considerations both the ordinary banks (M=4.40) and PFISB (M=4.31). Commonly held by both as equally 'somewhat important' was the government-backed small business credit guarantee and insurance scheme with

TABLE 7
RANKING OF THE INFLUENCE OF SMALL BUSINESS ENVIRONMENT ON LENDING IN JAPAN

	Ord. banks n=10		PFISB n=16	
Factor	**Mean**	**Rank**	**Mean**	**Rank**
1. High level of their business honesty and management expertise	4.40	01	4.31	01
2. Small business credit guarantee and insurance scheme	3.90	02	3.88	02
3. Attractive interest earnings from small business loans	3.50	03	3.75	03
4. Complementary financial facilities from government-sponsored financial institutions	3.20	04	2.19	05
5. Other government promotional policies	2.80	05	2.50	04

Source: Survey Questionnaire.
Notes: 1. PFISB — Private Financial Institutions for Small Business.
2. Scale 1-2 (unimportant); 4-5 (very important); mid-points (somewhat important).
3. Spearman correlations 0.900<1.000 (significant at the 0.05 level).

a mean of 3.90 for ordinary banks and 3.88 for private financial institutions for small business. The second factor considered 'somewhat important' by both was the attractive interest earnings on small business loans; ordinary banks with a mean of 3.50 and 3.75 for PFISB. Complementary financial facilities provided by government-sponsored financial institutions whose operations more or less serve as 'signals' to private financial institutions on the viability of small business lending was ranked as 'somewhat important' with a mean of 3.20 for ordinary banks and 2.19 for PFISB. Other government promotional policies to improve the management and technological base of small businesses in Japan was ranked 'somewhat important' as well. Accordingly, the mean was 2.80 for ordinary banks and 2.50 for PFISB.

Conversely, their Nigerian counterparts where the above-mentioned support systems are absent were asked to rate the degree of importance they would attach to the policy measures listed in Table 8. Accordingly, they rated the establishment of a small business extension programme to counsel and assist small businesses in overcoming some of their structural deficiencies (M=3.64) as foremost among the policies considered as of 'somewhat importance'. Following this, was the

TABLE 8
RANKING OF MEASURES TO STIMULATE GREATER INTERESTS IN SMALL BUSINESS LENDING IN NIGERIA

	Comm. banks (n=42)	
Policy Measure	Mean	Rank
1. Establishment of small business extension programmes	3.64	01
2. Establishment of a credit guarantee scheme	3.64	02
3. Permitting a fixed percentage of losses on small business loans to be written-off in corporate tax computations	2.76	03
4. Establishment of refinancing facility or a secondary market for rediscounting of small business loans	2.64	04
5. Raising interest rates on small business loans	2.19	05

Source: Survey Questionnaire.

establishment of a small business credit guarantee scheme (M=3.64). Permitting a fixed percentage of losses on small business loans to be written-off when computing banks' corporate taxes (M=2.76) was ranked the third 'somewhat important' factor. Establishing a refinancing facility or a secondary market for rediscounting small business loans (M=2.64) and raising the interest rates on small business loans (M=2.19) were also considered of 'somewhat importance'.

Summary and Conclusions

An appropriate starting point in the conclusion of this paper is a few comments on some aspects of the underlying study. At first glance, an absurdity in the study might be the seeming incomparability of the two sample populations. Critics might question the wisdom in comparing the state of affairs in two countries at varying levels of economic development, much less the promotional support systems for their small business sector. This study is simply not an exercise in comparison for its sake. Rather it is aimed at drawing attention to the Japanese experience in order to elicit greater action on small business promotion in Nigeria and in other countries in similar economic circumstances. It is therefore better to judge this study from the merits of its possible 'demonstration effect' or from the implications its findings in Japan have for Nigeria and other countries. Nevertheless, areas of possible limitations exist but they are not very serious.

One of such weaknesses would be the data samples. The Nigerian sample was drawn from highly placed bank officials who can be taken to be well acquainted with their institutions' lending policies. It is then safe to assume that their opinions would be in congruence with existing lending realities in the small business sector in Nigeria. When this is added to the fact that all the respondents were sampled in Lagos where the influence of their head offices and the monetary authorities is more pervasive, the element of individual bias is bound to be greatly reduced. Similarly, that the Japanese sample came from the head offices drastically reduced the chances for the individual respondent's bias.

Another likely source of weakness some would argue relates to the data gathering techniques used in two countries. The only difference of note however is that the Japanese survey was self-administered while the Nigerian one was administered by the researcher who did not interfere with the response process except in areas of ambiguity. As a matter of fact, the levels of ambiguity monitored during the personal survey were helpful in improving the quality of instructions in the mail survey.

Furthermore, the respondents' familiarity with the Japanese language in the latter survey might have obviated any limitations or bias inherent in the mail survey technique.

Turning attention to the findings in the preceding section, there are clear indications that despite differences in their institutional environments, there are still areas of similarity in both the frequency of decisions made and the ranking of the factors influencing these decisions. However, the relative position of importance of the lender-borrower characteristics examined, differed markedly in some cases. The lessons for Nigeria and other countries from this study need to be highlighted.

Government regulations and restrictions on bank lending can be counter-productive in the small-scale firm sector, especially when not matched with appropriate policies to 'entice' lenders. A very outstanding effect of government regulations and restrictions is the undue consideration given to the purpose of loan by the Nigerian respondents while their Japanese counterparts emphasised the borrower's integrity and management competence. That banks in Nigeria are critical of government regulations and restrictions and regard them as militating against their inclination to lead is understandable. Through the credit guidelines periodically issued by the central bank, they are administratively guided on which sectors of the economy to finance. However, in spite of being made the locomotive engine of the nation's economic growth, there is absence of appropriate 'lubricants' to cushion them against the attendant frictional effects of this role.

Commercial banks in Nigeria appear overly cautious to small business lending because of the fear of incurring losses. The implications of this institutional idiosyncracy towards risk for new small firms whose characteristics are usually unknown can only be imagined. A major cause of this attitude to risk may be the lack and/or inadequacy of existing support systems. In addition, the glaring inadequacies of most small business borrowers in what lenders consider 'minimum qualifications' for their loans inflate the dimensions of their misgivings for them. The other side of this coin however is the strong persuasion for short-term profits or returns within the rank and file of Nigerian banks. This is greatly reflected in their risk avoidance decisions though founded on an unrealistic premise that losses incurred on small business loans might drain down their overall corporate profits. Sight is often lost of the truism that banks can and in fact do grow with small businesses as demonstrated in Japan and other countries.

Needless to emphasise the point that small business people in Nigeria owe it as their duty to improve their credit ratings through improvement in their management expertise, avoidance of diverting or mis-using their loans, keeping of records of their business activities (no matter how unprofessionally kept). Nevertheless, it is trite to say that at the present level of development of Nigeria's small business sector, financing it demands some ingenuity on the part of financial institutions. Loan applications need to be judged, not on the criteria of conventional collaterals and non-existent or inadequate financial records of the firms but more on the individual firm's performance and its market prospects, present and future; not the past. The public sector in Nigeria in turn, has a decisive role to play in motivating lenders as evidence in Japan proves.

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