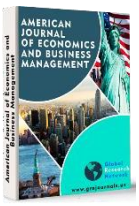

American Journal of Economics and Business Management

Vol. 7 Issue 10 | **pp.** 874-879 | **ISSN:** 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Institutional Distrust as a Determinant of Approach towards Government Credit Facilities among SMEs in Africa

Onuoha, Angela Chidinma [1], Wilson Amandi Samuel [2], Nonye Irene Anele [3]

[1,2] Department of Economics, Imo State College of Education, Ihitte Uboma

[3] Department of commerce and cooperative, Federal college of Education (technical) Umunze, Anambra state

Abstract:
Small and Medium Enterprises (SMEs) in Nigeria, West Africa have several challenges while attempting to get credit facilities, as evidenced by the numerous studies carried out over the years. Conversely, little is identified about the relationship between institutional distrust and SMEs' approach towards government credit programs. This study examined the variations in small and medium business practitioners' approach to government credit facilities based on institutional distrust. The Study adopted a quantitative methodology. 225 (two hundred and twenty five) SME owners from different localities in Abia and Imo States, South Eastern Nigeria were conveniently assembled to participate in the survey. Questionnaire was used for data collection. The Ordinary Linear Regression analysis was adopted. Results revealed that institutional distrust significantly determined SMEs approach towards government credit programs. R.Square = .894 (89%) variation in the dependent variable is explained by the independent variable. P<0.05 (Alpha). Implication of the study reveals that Institutional distrust plays a major role in determining how fairly credit facilities are distributed in South Eastern Nigeria. The study is constrained by variance problem with self-report measures and complexity of sampling method for generalization. Thus, the result is in consonance with the expected outcome of the study which states that institutional distrust determines SME's approach towards government lending programs. Further study is suggested to access how distrust can be prevented from spreading to structured height.

Keywords: Institutional-Distrust, government, credit facility, SME, approach.

Citation: Angela Chidinma , O. ., Samuel , W. A. ., & Anele , N. I. . (2024). Institutional Distrust as a Determinant of Approach towards Government Credit Facilities among SMEs in Africa. American Journal of Economics and Business Management, 7(10), 874–879. Retrieved from https://globalresearchnetwork.us/index.php/ajebm/article/view/2991

Received: 21 Aug 2024
Revised: 29 Aug 2024
Accepted: 20 Sep 2024
Published: 23 Oct 2024

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Introduction

Small and medium-sized businesses, or SMEs, are widely believed to be an essential component of every society's commercial climate. Scholars have agreed that a crucial route to tackling the issues of unemployment, inadequate socioeconomic development, fair wealth distribution, and poverty alleviation is via small firms. (Abisuga-Oyekunle et al., 2020; Azimkhan et al., 2020; Fatoki, 2014; Kowo et al., 2019; Manzor et al., 2019; Meflinda et al., 2018; Sawean& Ali, 2020; Zafar & Mustafa, 2017). In recent decades, scholars and practitioners have focused a great deal of research attention on small and medium enterprises. (Eid & El-Gohary, 2013). In fact, the majority of SMEs research is to create a conceptual pathway to overcome the underdevelopment of the industry. Significantly, studies on SMEs have highlighted the importance of having a strong corporate culture that supports diversification, lessens reliance on imports and the government, and helps the impoverished population create an alternative to a failing economy.

In Nigeria, SMEs have been characterized as an efficient means of reinforcing the nation's development (Eniola & Ektebang, 2014).. There is a wealth of literature highlighting the prevalent obstacles to SMEs' expansion and success in Nigeria. (Ademola, 2013; Ayodeji, 2015; Daferighe et al., 2019; Gbandi&Amissah, 2014; Murritala et al., 2012; ; Shettima, 2017; Taiwo et al., 2013; Yahaya et al., 2015).Thus, adverse business environments, bad management, inadequate infrastructures, insecurity, corruption, limited access to contemporary technologies, and inadequate funding were the main obstacles faced by SMEs. Access to financing, however, is a major barrier for SMEs, which have drawn a lot of attention from the Nigerian government. In fact, different rules have been put in place to give SMEs access to credit facilities. Even though it's still quite difficult to obtain credit in the country, it's widely acknowledged that credit facilities play a major role in the growth of the economic system supporting small businesses. Nonetheless, the government has made a number of interventions through the Central Bank of Nigeria (CBN) and other governmental organizations to lessen the effects of the recent economic downturn, particularly with regard to SMEs. A typical example is in order to support the growing demand for healthcare goods and services, a N100 billion credit facility was specifically targeted to the healthcare sector.

The current SME credit guarantee programs, real sector assistance facility, and commercial agriculture loan scheme are among the CBN's intervention facilities.. In fact, government credit schemes are available to businesses, particularly MSMEs throughout the nation, provided they fulfil the requirements in order to be eligible for the credits. Nevertheless, there are hints that the majority of SMEs' owners do not make use of these government support programs. It is indicated that the majority of SMEs in Imo State, South East region of Nigeria primarily lack access to credit programs, particularly those from the government. However, most business owners may be reluctant to respond to government credit programs due to a lack of knowledge about credit, unfairness, and perceived local area attitude. The increasing lack of faith people have in the Institutional establishment could be a major obstacle to getting the credits.

The growing indices of public distrust towards government and institutional establishments during the past ten years could be linked to a number of characteristics of occurrences in several political systems. Institutional distrust is a term that characterizes interpersonal sentiments that mirror the political system and its underpinning views of dishonesty, fraud, and disgust. People's negative opinions towards the government and its institutions are referred to as political mistrust. It is true that the Nigerian political system and government have come under fire for a number of reasons, including their tendency to incite favoritism and their incapacity to keep their word. The public's faith in the government's ability to address today's issues has long since faded. When the government fails to carry out its basic duties and keep its political pledges, citizens tend to become suspicious of the institutional system.

Institutional establishments are typically thought to require specialized knowledge, technical proficiency, and awareness that their failure would negatively impact the institutional economic system's ability to function. The general public understands that maintaining the nation's economy depends on the government and other state actors. Nonetheless, the public's sense of distrust is heightened by the political establishment's ongoing dishonesty and misguided policies. Hence, sentiments have changed and nationalism has decreased. In particular, distrust lessens the propensity to recognize and support the policies and programs of the government and increases disloyalty. Recent studies have shown how institutional distrust affects citizens' willingness to comply with and accept government policy. (Ezeibe et al., 2020). Moreover, a wealth of research has been done on the subject, highlighting the ways in which lending requests, controlled financial institutions, business sizes, educational attainment, proximity to credit sources, collateral requirements, and the nature of those sources themselves can

all restrict access to credit facilities. (Etonihu et al., 2013; Nyaga&Nzulwa, 2017; Oke et al., 2020). This implies that financial facilities have long been inaccessible due to a variety of circumstances. There is, however, a dearth of study in the literature that looks at how institutional distrust affects people's desire to take part in credit programs that the government has created. Therefore, the main goal of this study is to look into institutional distrust as a little-studied factor that might be able to explain why small business owners in the South Eastern Nigeria have different approaches about using government lending facilities.

H1: Institutional distrust significantly determines how small and medium business owners approach government credit programs in South Eastern Nigeria.

Method

SME owners made up the study's population. Between January and March 2024, they were contacted in the South Eastern Nigerian states of Abia and Imo. The participants were primarily informed of the purpose of the study, that the survey was purposeful, and that they were free to leave at any moment. The questionnaire was distributed to 241 SME owners who gave their approval to participate in the study and were asked to complete it immediately. The surveys were then gathered and organized appropriately. Sixteen of the questionnaires that were returned had blanks on them, based on observations. They were so thrown away. For additional analysis, only the 225 surveys that were satisfactorily completed were considered.

Measures

A structured questionnaire was the tool utilized to collect the data. The questionnaire items were created using pertinent literature as a guide and were used to measure, on a five-point Likert-type scale, institutional distrust and SMEs approach towards government credit programs. There were two sections in the questionnaire: A and B. Part A assesses the Institutional systems cognitive, emotive, and behavioral aspects. Inquiries on previous encounters and the financial institutions' deemed propriety in credit distribution was covered in Part B. Because of this, the measure was subjective, and participants had to self-report how they understood the variables. Also, after a pilot investigation with participants outside the study group, a Cronbach Alpha 0.81 value was found for the scale.

Result

The research design used was cross-sectional. As can be seen from the result displayed in the Ordinary linear regression table below, it was determined that the hypothesis 'Institutional distrust significantly and positively determines how small and medium business owners in South Eastern Nigeria approach government credit programs' was correct at R=.945, R Square = .894, and P<0.05 (Alpha). Accordingly, 89% variation in the dependent variable (SMEs approach towards credit program) is explained by the independent variable (Institutional distrust).

Table1 – Ordinary linear regression analysis on the effect of Institutional Distrust on approaches towards government credit facilities

Model	R	R square	Adjusted R square	Std error of the estimate	Durbin Watson
1	.945[a]	.894	.891	.217	1.012

a. Predictor: (institutional distrust) b. constant: (SMEs approach towards government credit facility)

Interpretation/Discussion

The main goal of the current study was to ascertain how small and medium company practitioners' approach government credit facilities premised on Institutional distrust. According to the results of the Ordinary linear regression, approach towards government credit facilities were positively predicted by institutional distrust at R =.945, R. Square = .894 and p<.05. This means that (89%) variation in the dependent variable (SMEs attitude towards government credit programs) is explained by the independent variable (Institutional distrust). Thus, the outcome validated the study's hypothesis that small and medium enterprises' approach to government loan facilities in South East Nigeria would be influenced by institutional distrust. This indicates that small business owners are more likely to have a bad attitude about using the government-issued loan that is accessible if they believe that financial institutions are a part of the government institutional environment.

In a similar vein, the results show that those who continue to have trust in the system are inclined to report being happier and more willing to take part in credit programs. However, the majority of SME owners in the South East Nigeria have either internalized or externalized their distrust of the country's Institutional system due to several obstacles preventing them from obtaining credit facilities. This study, assumes that institutional distrust, as a behavioral component, significantly influences approaches regarding using the offered credit facility. As a result, credit restrictions may lead to behavioral changes brought on by evaluation and perception of the whole institutional landscape. The development and viability of small and medium businesses are severely impacted by the trend.

Practical implications of the Study

In South Eastern Nigeria, recent institutional and economic setbacks have bred disdain for the institutional establishment and the administration. Financial difficulties, which often determine SMEs' survival, may have contributed to the demise of numerous small enterprises within the research area (Murphy &Tocher, 2011; Schenk, 2015). This study may suggest that Institutional distrust is a factor that could be causing small and medium-sized businesses in South East Nigeria to see a decline in business. Accordingly, Institutional distrust plays a major role in determining how fairly credit facilities are distributed in South Eastern Nigeria.

Conclusion

In this study, Institutional distrust, a rarely studied correlate of approaches towards government credit facilities was examined. Ordinary regression analysis of the data revealed that approaches towards government credit programs are significantly determined by institutional distrust; hence, a crucial factor in the expansion and advancement of SMEs. Furthermore, the outcome implies that obtaining institutional trust is a prerequisite for utilizing government-sponsored loan options. Even so, there are certain constrains with the study. For instance, the usual variance problem with self-report measures has been raised. Further impeding generalization in the sampling process was also a limitation. However, by exposing Institutional distrust—a factor that limits the full accessibility of the government-provided credit facilities—the study added to the body of literature. Enhancing institutional efficacy is an open and undisputed method of reducing political mistrust.

Recommendations: Thus

1. Policymakers and Institutions can mitigate distrust stemming from perceptions of unfair methods and outcomes by fostering common concepts of equality and justice.

2. They should reinforce monitoring mechanisms that restrict access to credit for morally repugnant behavior.

Suggestions for further study

Further study is suggested to access how institutional distrust can be prevented from spreading to a structured height.

Originality

This study is the master-mind of Onuoha Angela Chidinma. The study contains crucial information that supports its publication since it fills gaps that prior studies were unable to complete properly. It has also depicted the genuine state of the matter and the solutions offered in the conclusion and recommendation.

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