SMEs FINANCIAL CONSTRAINTS IN NIGERIA AND ISLAMIC FINANCE OPTION: THE CASE FOR KADUNA STATE

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ABSTRACT:

Small and Medium Enterprises (SMEs) have assumed a central position with policy makers in developing countries, as it is commonly believed that they possessed the greatest potential to the promotion of sustainable economic growth and development. However, access to finance has been identified as the major constraint militating against their operational sustainability, growth and development in Nigeria. The recent introduction of full blown Islamic Banking in the country coupled with the huge Muslim population provides an opportunity for SMEs to access alternative finance to fund their operations. This paper examines the prospects of Islamic Banking and Finance products to serve as an alternative funding source for SMEs in Kaduna State, Nigeria. The main sources of data for the study are primary and secondary. Primary data for the study were obtained through the use of structured questionnaires and interview guide while the secondary data were obtained from Central Bank of Nigeria (CBN), World Bank and other scholarly publications. The main finding of the paper is that Islamic Finance is well received by the SME entrepreneurs and most of them are eager to access the products to develop their businesses but are however constrained by the limited number of institutions offering the products. It is recommended that urgent steps should be taken by the Nigerian government and

Islamic based organisations towards hastening the spread of Islamic Banking and Finance institutions and products.

Key Words: *Small and Medium Enterprises, Islamic Banking and Finance, Prospects, Economic Growth, Operational Sustainability.*

INTRODUCTION

Sound and efficiently managed banking system form the basis for economic growth and development the world over. This is because banking institutions have the statutory responsibility and capacity to mobilise deposits from surplus spending units and grant credit facilities to deficit spending units of the economy (households, government and industry). The intermediation role played by banks is in their ability to create money through multiple credit expansion for economic activities. The beneficiaries of the credit facilities are then expected to return the proceeds back to the banks in the form of deposits and repayments (Adamu, 2009). However, banks' ability to create money could be severely impeded in situations where loans granted have turned into bad and doubtful debts as was the case with 24 out of the then 89 operating banks in Nigeria which had almost 2.1 trillion of non-performing loans and advances (CBN, 2009). From a historical and practical perspective, Nigerian banks favour financing of commerce and general trading for quick returns and ability to pay higher interest. This is against the need to lend-long term to the real sector for quicker economic development of the country. In the last eight years however, attention has been shifted towards industry reforms aimed at strengthening Nigerian banks to be among the strongest and most competitive in the world and especially within the sub-Saharan Africa.

The major flank of the reform exercise is the consolidation of the banking sector through the instrumentality of Mergers and Acquisitions (M&A). Consolidation is a reform policy aimed at raising the capital base of the Nigerian banks to N25.0 billion from about an average of N2.0 billion. The capitalization directive was intended to create stronger banks that would act as spring board for the growth and development of the other sectors of the economy especially Micro industries and Small and Medium Enterprises (SMEs) (Emeni,et. Al. 2008). The importance of small and medium scale enterprises (SMEs) in the promotion of economic development in any economy cannot be over emphasized (Udechukwu, 2003). SMEs play important role in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balances through industrial dispersal and generally promote effective resource utilization reduce poverty and create wealth. All of these are considered critical to the engineering of economic development and growth (Emeni, et.al, 2008). Part of the anticipated benefits of consolidations is prospects for increased credit facilities to the real sector, especially the SMEs sub-sector. Unfortunately, post consolidation credit extension by Nigerian banks has continued to neglect the SMEs and the real sector in general. The huge capital that the new mega banks generated during the consolidation exercise has been largely channelled to non-

SMEs and non-real sector of the economy. Instead, focus of lending activities was towards commerce and merging lending that turned out to be bad and doubtful debts (Adamu, 2009). This has necessitated the second round of reform exercise embarked upon by the current CBN Governor, Mal SunusiL amido Sunusi.

The second round of the reform exercise relaxes the uniform capital requirement for banking licence. Instead the new policy created a three tier banking licence regime. These are i) National/International banks, ii) Regional banks and iii) Specialised banks. Each of these categories has different capital and operational requirement and limitations. With this new reform Islamic banks are categorised under specialised banks which, enables the licencing of Jaiz Bank as a full blown Islamic bank in Nigeria. Consequently, the purpose of this paper therefore, is to examine the relationship of bank consolidation and credit extension to the small and medium enterprises sub-sector of the Nigerian economy. This is because historically, most industrialised countries of the world attained industrialisation through small and medium industries and businesses and Nigeria cannot be an exception. Therefore the specific objective of this paper is to examine the constraints SMEs faced in accessing funding from Nigeria's conventional banks and the opportunities offered by the licencing and commencement of operations of Jaiz, Islamic bank in Kaduna State, Nigeria.

Literature Review

The Concept of Small and Medium Enterprises (Smes)

Definition is one of the debatable issues about Small and Medium Scale Enterprises (SMEs). Attempts to define SMEs has led to diverse definitions and unresolved debates. Policy makers, researchers, and others involved in the promotion and development of the small business sector use different terms such as micro enterprises, informal sector, small businesses, small enterprises, small scale industries, small and medium sized enterprises etc. to define/describe SMEs. Generally, there is no universally agreed definition of micro, small and medium scale enterprises (MSMSEs). Due to this, lack of standardization, countries and agencies have adopted their own working definitions (Gebrehiwot, 2006; Assan, 1999).

The absence of consistent and universally acceptable definition of the MSMSEs has evidently led to confusion and failure to distinguish among different segments and has significant implications on the structure of interventions and promotional supports that could be provided to a certain specific segment of the sector. It is, however, not possible or even desirable to provide a universally acceptable definition of small enterprises. The generally held view is that the scale of the business needs only to be defined for the specific purpose that it is intended to be achieved and be appropriate to the context to which it is to be applied in the country's development process (Gebrehiwot, 2006; Leegwater, 2008). It is, therefore, reasonable, for each country to have clear and agreed national definitions that would guide discussions on the sector and for research purposes and, most importantly, for facilitating appropriately tailored supports and promotional packages to the sector. Although the boundaries between micro, small, medium and large enterprises are at best arbitrary, categorizing business enterprises by scale of operation is important for functional and promotional purposes to achieve the desired goals of development (Leegwater, 2008). Loveman and Sengenberger (1990) stated that "small enterprises" or small and medium enterprises are elusive concepts because they do hide a large heterogeneity in the types of firms covered in the definition. It is for this reason that different countries adopt different working definitions for different scale levels of enterprises.

Definitions of MSMEs have usually been based on either quantitative or qualitative characteristics of enterprises. Nonetheless, many developed and developing countries apply the quantitative definitions. Quantitative definitions are based on specific parameters which include factors such as the number of employees, assets, capital, sales turn over, etc. (Gebrehiwot, 2006). This kind of definition is mostly preferred because it enables the design of target specific policies and programs to the various segments of the sub-sector. There are, of course, other definitions based on the size of the market, value-added, profits, type of ownership, etc (Leegwater, 2008).
In Nigeria however, different institutions have adopted different definitions to suit their purpose. In the 1990 Federal Military Government budget, SMEs were defined for the purpose of bank credit as those enterprises with capital investment not exceeding N10.0 million. However, in 1992, the National Council of Industry (NCI) streamlined the definition of industrial enterprises with a view to unifying the various definitions and for it to be reviewed every four years to reflect current realities. SMEs were defined as any enterprises with capital investment not exceeding N1.5 billion.

Features of Small and Medium Enterprises (Smes) In Nigeria

Despite differences in definitions of small scale industries both within and outside national boundaries of countries, one of the distinctive features of SMEs is that they are sole proprietorships, partnerships or limited liability companies. But even where they are registered as limited liability companies, this is merely on paper as their true ownership is either one man or partnership (Udechukwu, 2003). Most SMEs are labour intensive companies having centralized and or personalized management and have limited access to long term capital. And even where they have access to short term financing it is usually at a penal rate of interest and other conditionality's. Because of its nature of ownership and management there is flexibility in decision making and often informal employer-employee relationship. Usually partners in most SMEs pursue individualistic goals at the expense of the overall interest of the business. Consequently, mortality rate among SMEs is very high as a result of mistrust that often develops among owners (Udechukwu, 2003)

Another distinct feature of the SMEs in Nigeria is their relative dependence on imported raw materials and spare parts. They also suffer from the lack of inter and intra sectoral linkages and therefore miss the benefits of economies of large scale production (Onugu, 2005). Lack of adequate skills and technical know-how, capital inadequacies or sheer ignorance on the part of most of the promoters and founders of SMEs led them to purchase obsolete and inefficient machinery and equipment thereby setting the stage ab-initio for lower levels of productivity and poor product quality with serious consequences on product quality, output and market acceptability (Mambula, 2002). It is therefore not surprising that many of them had to either close down completely or scale down their operations at the expense of labour. Because of their distinctive features as highlighted above, the SMEs sub-sector is facing quite a number of problems militating against its growth and development cheaply amongst them is their inability to access funding of any type from conventional banks in Nigeria and Kaduna State in particular.

Factors Constraining Smes Access to Financial Resources

The basic characteristics of SMEs as highlighted earlier-on indicated that they tend to be located in urban and semi-urban areas. However, they face a number of constraints which include difficulty in employing competent people with skills in financial management because of the salaries such people demand, financial problems arising from late payments by debtors and the inability to raise their own finance and access to financial services from formal sources. This category of SMEs usually looks to the banking sector and other financial intermediaries for instruments to finance working capital and to provide credit for short term liquidity management. However, they often fail to access the financial resources in the required amounts because banks evaluate them on the basis of a check list, including: Audited financial statements for last three years (including management accounts for current year), project feasibility studies, highlighting strengths weaknesses, opportunities and threats, three to five years financial projections, and adequate collateral where available (CBN baseline study, 2004).

Studies in Ghana and other countries consistently reveal that a large proportion of entrepreneurs identify inadequate access to finance as a paramount concern (Aryeetey, 1994). The principal purpose of Aryeetey's (1994) study was to gather information on the nature of SMEs demand for finance in relation to indicators of firm performance. The study found that small entrepreneurs are often distrustful of banks, skeptical about their chances of getting credits and are reluctant to go through the tedious application process. Aryeetey(1994), maintained that if banks and other financial institutions are indeed going to develop this market, there is the need to document the extent and characteristics of SMEs demand for finance including their relative preferences for semi-formal and formal financial instruments and their willingness to pay a higher cost for convenience. From the view point of banks, key concerns are uncertainty as to credit worthiness can be based on simple indication of likely success and the extent to which small enterprises can provide collateral needed to offset the risks involved in lending to them.

Various studies, e.g. Schaltz (1994), Fatunla (1972) and Aryeetey (1994) disagreed with the view that finance and capital shortage are the main problems of SMEs. They argued that survey data may over emphasise credit as a binding constraint in that many SMEs reveal high growth rates despite lack of access to bank finance and that many are able to grow quite rapidly in terms of both assets and employment despite limited access to bank finance. However, it would be too risky to underestimate the all-important role of finance in the sustenance of any enterprise let alone those in the SMEs sub-sector. Conclusions from these studies Schaltz, (1964), Fatunla, (1972) and Aryeetey, (1994), is that lack of credit as a major constraints for growth and sustainability of SMEs might be overstated to the extent that most entrepreneurs tend to over-look their internal management and marketing practices as constraints to their growth and development. Because of the nature of their ownership, most SMEs are, sole proprietorship, partnership or limited liability with one dominant owner whose decision is usually final (Olorunshola, 2003). This is usually a major constraint to the growth of the enterprises since management decisions are usually not broad based but personalized. Furthermore, other important source of SME funding, like customers advances and supplier credit are often not considered as loans (Umar, 2008). In fact borrowing alone may not solve the financial problems of most firms since weak demand and strong competition may be the causes of their low liquidity (Onugu, 2005). It is, however, also true that lack of access to credit does curtail the ability to exploit highly profitable opportunities and the growth of the SMEs sector could be accelerated if external financing were more readily available. An indicator of the existence of high demand for financing by the SMEs can be seen from the high rates of application for loans and other financing options by the SMEs and their willingness to pay penal rates (above market rates) to access such funding (Udechukwu, 2003).Aryeetey's (1994) supports this assertion and also observed that SMEs demand for finance is over whelming in favour of bank loans. There aren't enough funds from informal lenders despite charging exorbitant rates. In all it was confirmed that firms experiencing rapid and sustainable growth are likely to demand and receive external finance much more than the stagnant ones.

In most SMEs the need for sound financial and accounting records are rarely appreciated. But even where such records are kept, their accuracy is usually doubtful. In the case where bank finances were accessed it is usually in amounts far less than what is required and are contracted 'at a high cost in relation to the term to maturity of loans and the real return on investment' (Kasekende, 2001). In Nigeria loans are of very short duration nearly between 3 - 12months and the average interest rate is way above the inflation rate. This makes it rather difficult for borrowers to realize a high enough real returns to finance repayments. According to Kasekende (2001) the smaller the enterprise, the less likely its management will understand the need for financial management and the poorer the understanding of financial management. That is, the smaller the size of the enterprise and the farther away from the urban centre the enterprise is, the less aware the firm is of the financial instruments available. This makes them vulnerable to shocks to revenue or costs and therefore, they are unlikely to expand beyond the rate of investment supported by retained profits (Kesekende, 2001). It is therefore inevitable that they have low rates of return on investment and lack of good financial records and acceptable collateral reduces their credit worthiness. These peculiarities might explain the high rate of collapse among SMEs. The inability for conventional banks to meet the financial needs of small and medium firms in Nigeria and the need for the Muslim population of the country to run away from *Riba* in the form of interest necessitated the establishment of Islamic finance based banks.

Public Sector Smes Financing Sources in Nigeria

The realisation of the importance of SMEs in the drive for economic growth has been recognized by every known regime since the attainment of independence in Nigeria. This can be averred from the establishment of several developmental and sectoral credit lending institutions to enhance the development of SMES. Such micro credit institutions include the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND), the People's Bank of Nigeria (PBN), the Community Banks (CB), the Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Nigerian Export and Import Bank (NEXIM).The banking sector was also liberalized to pave way for proper funding of SMEs. Unfortunately, the performance of SMEs in Nigeria seems not to justify the establishment of this plethora of micro-credit institutions. Odedokun (1981) notes that in spite of the quantum of credit made available to the SMEs sector their contribution to the nations GDP was only 7% between 1970 and 1979.
The economic developmental role of SMEs andbeen that they constitute the largest number of banks' customer should ordinarily be enough a justification for banks to be willing to avail them with necessary funding. However, past studies on SMEs development, challenges and constraints have concluded that they suffer from identical weaknesses in developing countries, namely: inadequate access to finance; unfavourable macroeconomic environment and poor infrastructural facilities. According to CBN(2002), lack of information on the SMEs true financial conditions and performance is the major risk consideration limiting the banks' ability to fund the SMEs sub-sector. The inefficient judicial system is also a factor that discourages lending to SMEs. One of the disincentives to banks appetite for lending to SMEs is the difficulty in enforcing foreclosures on defaulting borrowers. The cost and timing of legal procedure for recovering small loans is about the same with that of large ticket lending (Usman, 2012). In addition, the business environment in Nigeria is generally considered risky and uncertain, which hinders the ability of firms to service debts. As a result of the foregoing banks shy away from lending to the small business sector of the Nigerian economy (Ogujuiba, *et al*, 2004).

Review of Islamic financing Model For Smes

As per back as early 19th century, Islamic Economists and jurist began a sustained critique of western backed, interest-based banking operations generally and especially the Muslim countries. This criticisms and extensive work by experts led to the establishment of a number of Islamic based savings institutions. The success of these savings institutions led to the establishment of the first Islamic bank, the Dubai Islamic Bank in the United Arab Emirates (UAE) in 1975. Since then and up to 2008 there are more than 300 Islamic banks established in several countries. Middle Eastern Region houses the bulk of the Islamic Banks followed by Asia and Europe and America of late (ITC, 2009). Black Africa is about the latest region to catch the fancy of Islamic banking and finance.

Islamic banking can be defined as a banking operation that complies with the provisions of sharia (Islamic Law). Under sharia law interest or *riba*in whatever form is generally prohibited (ITC, 2009). In effect Islamic banking is synonymous with interest-banking. Conventional banks are based on the principles of granting interest-based loans and advances through mobilisation of deposits from their customers and lending to economic agents in need of financing. Conventional banks earn income from interest spread between what they paid their depositors and what they charged their borrowing customers. Islamic banks on the other hand do not give out loans instead they adopt a Profit and Loss Sharing (PLS) mode of financing. The PLS mode of transaction is on the basis of sale, lease and or partnership arrangement defending on the needs of the customer and sharia compliance.

The viability of Islamic mode of financing and its effectiveness in filling the SMEs funding gap can be seen from the increasing number of venture capitals firms in the western world. PLS model is synonymous to Islamic Banking, because it was the evolution of Islamic banking that reincarnates the concept of PLS (Hussain, 2009). Venture capital, though, slightly Different from PLS, is also based on the principle of sharing risk and reward (Rashid,2003). Profit and loss sharing contracts according to Ahmad (2003), currently accounts for not more than 10%.of Islamic banking assets. This is an irony because Islamic banking is primarily based on profit and loss sharing. Of the many constraints to the development of SMEs worldwide and particularly in Muslim countries, the most formidable is a lack of access to credit facilities from conventional banks. Reasons for the poor access to the credit facilities include absence or inadequate collateral, inappropriate legal status, high transaction costs and the Muslim entrepreneurs' sensitivity to interest-based financing products from commercial banks. However, Alchian, et. al. (1972) believe that PLS mode of finance is appropriate for small firms; especially partnerships. They observed that there is a wide range of business contracts in an Islamic framework making it easy to choose a partnership contract and size of the firm to determine optimal profit sharing ratios.

The return to civilian administration in Nigeria in 1999 gave the Nigerian Muslims the constitutional rights to call for the adoption of the Shari'ah law in some states of the federation. It also gave impetus to the call for the establishment of Islamic based banking and finance institutions. The realisation by the Nigerian Banks, of the fact that the increasing Islamic awareness of Nigerians may negatively affect their business in especially the Northern region of the country led them to begin to create Islamic finance windows to attract interest-free deposits and invest same in ethical funds and Shari'ah compliant investments outlets. They however were not lending on Islamic principles until the advent of Jaiz Bank in December, 2012. Though it is too early to assess the performance of the bank and the products, but the increasing introduction of varieties of financial products that emanate from the Islamic finance concepts is an indication of its viability.

Methodology of Study

This study was conducted within Kaduna metropolitan area consisting of three Local Governments of Kaduna North, Kaduna South and Igabi. Questionnaires were administered to 200 SMEs. The choice of these council areas is predicated on the fact that they are the most urban of all the local governments in the state. And secondly the only branch of Jaiz Bank is located within the Kaduna North Local Government and therefore, accessible to businesses around the other two council areas. Consequently, the unit of the study consist of only SMEs employing 3 – 100 workers and with a maximum total investment of not more than N50 million (about $313,000 USD). The procedures for analysing collected data are the descriptive method that includes the use of simple tables and percentages.

Results and Discussions

This section presents highlights from the results of the field survey among SMEs in Kaduna State, Nigeria. The study attempts to examine the perception of SMEs in Kaduna towards the Islamic Banking and Finance. The aim of the study is to evaluate the acceptability of Islamic Banking Products and Services to the SMEs owners and operators.

Distribution of Questionnaires Administered and Retrieved

SMEs spread across every line of businesses in Kaduna State. To ensure that major lines of businesses are well represented in our study, we present the summary of how the questionnaires were administered.

Table 4.1: Summary of Questionnaires Administered and Retrieved

Line of Business	Number of Respondents	Number of Responses	% of Responses
Commerce	100	85	42.5
General & Prof. Services	40	32	16.0
Educational Institutions	20	15	7.5
Manufacturing/Processing	40	25	12.5
Total	**200**	**157**	**78.5**

***Source*: Computations from Author's field survey July, 2012**

Table 4.1 indicates the response rate to the administered questionnaire. The results shows that more than 70% response rate were achieved for all the lines of business. The number of questionnaires administered was 200 out of which, 157 responded, giving a retrieval rate of 78.5%. The spread of the responses according to the lines of Businesses of the SMEs are 85 or 42.5% for commerce related businesses, 32 or 16% for general and professional services firms, 15 or 5.5% for educational Institutions (Private School) and 25 or 12.5% for manufacturing and processing businesses.

Table 4.2 Profiles of Respondents

Age of Business	**Freq.**	**%**	**Position in Organisation**	**Freq.**	**%**	**Legal Status**	**Freq.**	**%**
1 –10	35	22.3	Chairman/CEO	59	37.6	Sole – proprietorship	97	61.8
11 - 20	103	65.6	General manager	70	44.6	Limited Liability	34	21.7
Above 20	19	12.1	Manager Admin & Finance/Accountant	28	17.8	Partnership	26	16.6
Total	**157**	**100**		**157**	**100**		**157**	**100**

***Source*: Computations from Author's field survey July, 2012**

Table 4.2 summarises the general profile of respondents among the surveyed SMEs. The spread of the years of operation, position of the respondent officials and the legal status of the businesses indicated that the SMEs are well knowledgeable in their businesses. Majority of the SMEs have been in existence for more than ten years. This period is long enough to gain a meaningful experience about a business. The profile positions of those that filled the questionnaire on behalf of their respective organizations indicated that they have adequate knowledge of the business and its various means of seeking financing. The result also indicated that the respondent officials are sufficiently senior in the respect organisation for their responses to be relied upon to make certain conclusions. The distribution of respondents by position indicates that 59 or 37.6% are Chairmen/CEO (Proprietors), 70 or 44.6% are Managers/General Managers, while 28or 17.8% are Finance & Admin Managers/Accountants of the businesses respectively. Because of the nature of the ownership of the SMEs, final investment decisions and the source of the investible funds are usually taken by the Chairman/Proprietor of the business. Finance and Admin Managers or Accountants as the case may be keeps records of such transactions. In this case the General Managers and Accountants responded to our questionnaire on behalf of their organisations because of their relative senior position and access to the records.

Table 4.3Summary of SMEs that Maintain Bank Account and Seek for Financing

Respondent with Bank Account	Freq.	%	Type of Bank	Freq.	%	Seek for Financing	Freq.	%
Yes	132	84.1	Commercial Banks	105	66.9	Yes & Successful	65	41.4
No	11	7.0	MFBs	32	20.8	Yes & Unsuccessful	69	43.9
Not Indicated	14	8.9	Others (Jaiz)	20	12.7	No	23	14.6
Total	**157**	**100**		**157**	**100**		**157**	**100**

***Source*: Computations from Author's field survey July, 2012**

Table 4.3 revealed that 132, representing 84.1% of the respondents maintain a bank account while only 11, representing 7% that do not maintain a bank account. Fourteen (14) respondents representing about 9% have not indicated whether they maintain a bank account or not. The table also shows that 105, representing 66.9% of the responding firms maintain an account with a commercial bank. About 32 respondents representing 20.8% maintained banking relationships with Micro Finance Banks while about 20 firms representing 12.7% maintain account with the newly established Jaiz (Islamic) Bank. Similarly 65 or 41% of the SMEs surveyed have indicated that they seek for additional fund to expand their operations and they were successful in raising the funds. About 44% said they were not successful in raising fund to expand their business activities while about 14.6 said they did not seek for funding from their bankers.

Table 4.4 Summary of SMEs Aware and Willing to Patronise Islamic Banks

Current Sources of Financing	Freq.	%	Awareness about Islamic Banking Prod.	Freq.	%	Willing to Patronise Islamic Banks	Freq.	%
Personal Sources	106	67.4	Aware	54	34.4	Willing	85	54.1
Commercial Banks	30	19.1	Not Aware	95	60.5	Not willing	65	41.4
MFBs	05	3.3	Not Indicated	08	5.1	Not Indicated	07	4.5
Others	16	10.2						
Total	**157**	**100**	**Total**	**157**	**100**	**Total**	**157**	**100**

***Source*: Computations from Author's field survey July, 2012**

Table 4.4 revealed that majority of the respondents 106, representing about 67.4%, use personal sources to raise funding for their business. Personal sources include personal savings, family and friends sources. About 30 or 19.1% obtained funding from Commercial Banks, 5 respondents representing 3.3% source funding from Micro Finance Banks and 16 or 10.2% did not indicate any source of additional financing. Results on table 4.4also showed that 54 respondents, representing 34.4% are aware of the existence of Islamic Banking Products, 95 respondents, representing 60.5% are not aware of its existence while 8 respondents or 5.1% did not indicate whether they are aware or not. It also be observed from 4.4 that 5.1% (85 respondents) are willing to patronise Islamic banks and 41% (65 respondents) indicated unwillingness to patronise Islamic Banks. Only a small percentage 4.5% (7 respondents) was indifferent and therefore did not respond to the question at all.

Conclusion and Recommendations

This paper is an introductory perception study intended to determine the level of awareness among SMEs in Kaduna State and their willingness to patronise Islamic banks and the products those banks will be offering to the market. We began from the premise that with the huge population of Muslims resident in Kaduna,the demand for Islamic based banking and finance products would be very high. However results from the survey indicated that a large number of SMEs and their owners are not aware of the existence of an Islamic based bank branch in

Kaduna. Those that are aware are also sceptical about its workability giving the entrenched nature of interest based banks and lack of knowledge about its products and services.
But generally the people are very receptive to the idea of Islamic Banking and Finance products and services once the modality of the banks' operation is explained to them. Conclusions drawn from this scenario is that the SMEs will be willing to patronise the services of Jaiz Bank and similar other institutions once they are fully informed of the opportunities they stand to benefit in addition to the religious requirement of avoiding usury of any kind. What iscurrently lacking now are two issues. One, there is very low public awareness of the existence of a branch of an Islamic Bank within Kaduna Metropolis and two the size of the State is too large for one bank branch to make much impact and be known widely.

This paper recommends that a massive public awareness should be mounted by the bank and other Islamic organisations with a view to creating awareness about the bank and its product offerings. There should also be an attempt by the promoters and Muslim investors to raise the capital of the bank as quickly as possible so as to enable it expand its operations to other locations and also be able to meet customers financing needs.

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