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AN ASSESSMENT OF THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES FINANCING IN NIGERIA

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ABSTRACT

In all economies of the world, Small and Medium Scale Enterprises (SMEs) have been a force to reckon with in the growth process; providing employment and facilitating inter-sectoral linkages. Nigeria SMEs however, have not lived up to expectations. This study focuses on the problems and prospects of SMEs in Nigeria. The major objective of the study is to evaluate the roles and activities of Small and Medium businesses in Nigeria. Accordingly, the study posits that the myriads of problems faced by SMEs in Nigeria can be encapsulated into lack of infrastructure, finance, management problem among others. In the process of carrying out the research, personal interview and questionnaire, simple percentage and chi-square methods were also used to analyze the data collected. From the analysis, it was gathered that adequate finance and managerial capability will lead to the success of SMEs and based on the findings, some useful recommendations were made. Hence, it was concluded that the issue of SMEs is not an aspect that can be undermined in an economic development.

Keywords: financing, Risk, Business, capital.

INTRODUCTION
BACKGROUND TO THE STUDY:

The emergence of Small and Medium Scale Enterprise (SMEs) as a driving force in the economies of Nigeria in recent time is a contradiction of previously held belief that the prosperity of Nigeria depends on giant corporations. Though, the industrial revolution of the 17^{th} and 18^{th} centuries was centered on large industrial complexes, SMEs have proved to be good sources of stimuli for industrial development. The roles of SMEs as catalyst for economic growth and development are well documented, and they have been shown to play important roles in the economies of the industrialized countries and the Newly Industrializing Countries (NIC).

Towards the actualization of the development potentials of the SMEs sectors, the Federal Government of Nigeria (FGN) established the Small and Medium Enterprises Development Agency of Nigeria(SMEDAN)

The definitions of Small and Medium Scales Enterprises (SMES) are country and region specific. In defining its various criteria such as the number of employees and capital base are usually used to classify enterprises. Using the number of employees, Osa-Afiana(2002) reported that the Nigerian United Council on Industries (NNCI) adopted the following classification in July, 2001:

(i). Micro/cottage Scale: between 0 and 10 employees;
(ii). Small Scale: between 11 and 100 employees;
(iii). Medium Scale: between 101 and 300 employees.

Using the levels of financial endowment of firms Oyeyinka (1998) reported that the Federal Ministry of Industries, in 1992, defined SMES in terms of asset base as follows:

(i). Cottage Industry: Total project cost not more than ₦1.5 million, including working capital, but excluding cost of land; (ii) Small Scale Enterprises: Project cost between ₦1.5 million and ₦50 million, including working capital, but excluding cost of land;
(iii). Medium Scale Enterprises: Project cost between ₦50 million and ₦200 million, including working capital, but excluding cost of land.

STATEMENT OF THE PROBLEM

Small and Medium Businesses in Nigeria has some prospects especially when we are still a developing country. Some notable problems include the following:

(i). There is insufficient capital in the business organization.
(ii). The effect of government policies e.g. wage legislation, the way it affects the level of productivity and how the business organization cope with these policies is a major source of concern to SMEs.
(iii) Inadequate and poor infrastructure.
(iv). Inadequate government support and poor patent management.
(v). The way the business organization copes with its personal problems is very critical and demands attention.

OBJECTIVES OF THE STUDY

The major objective of the study is to evaluate the roles and activities of Small and Medium Scale Enterprises (SMEs) financing in Nigeria.

Specifically, this study intends to achieve the following objectives:

(a). To examine the sources of fund for the SMES in Nigeria
(b) To determine the place of skilled man power in financial management of SMES funds.
(c) To determine the nature, type and strategies adopted by SMES in facing competition.
(d). To examine how the business organization cope with economic changes such as economic downturn, recession and boom as well as political changes.

STATEMENT OF HYPOTHESIS

To achieve the studies specific objectives, the following null hypothesis were formulated:-

H_0: Effective managerial capability does not enhance business (SME) growth
H_0: Adequate finance will not lead to entrepreneurial success

LITERATURE REVIEW

The purpose and objective of this review of related literature is to explore and examine existing articles and research studies relevant to the present study "problems and prospects of small and medium scale Enterprises (SMEs)." The rationale for this is that, a review will help in determining what contribution this study can make in terms of adding new knowledge to the existing ones. This is because it is imperative to establish and also ascertain the present state of the art and extent to which previous researchers and writers in related issues had contributed to the study.

SOURCES OF FINANCE FOR SMALL AND MEDIUM SCALE ENTERPRISES (SMES):

The financing of small and medium business is accomplished with some combination of:

(1). Equity capital
(2). Debt capital

Equity and ownership are synonymous. The SMES owner is often short of debt capital. Therefore, to secure equity capital without going into debt, it is necessary to give up some part of the ownership of the company, (Geoffrey, 1991).

SOURCES OF EQUITY FINANCING

1. **Owner(s) And Originator(s) of the Company:** The primary source of equity of SMEs is found supplied by its owners(s). It is often mandatory for SMEs owners to have a large portion of personal assets invested in the business either directly or indirectly.
2. **Relatives and Friends:** This is common to sole proprietorship. In its relatives and friends occasionally make an investment in the company.

3. **Wealthy Individual Investors:** Because of the native of the federal income tax laws, SMES may be an attractive investment for wealthy individuals.
4. **Customers:** Sometimes, a potential or actual customer will provide either equity or debt capital which could either be in large quantities, or to develop a supplier who can provide services to the customer at a lower cost. The customers can provide debt capital at a lower cost. The customers can provide debt capital to SMES by loan guarantee, by leasing and by making loan directly to the SMES.
5. **Bill Discounting:** SMEs can also source fund through the sale of financial instrument such as Treasury bill, treasury certificate etc. The primary advantage to equity capital is that it is not necessary to repay it. Because of this the more equity capital a company has the more financially solvent a company is considered to be.

SOURCES OF DEBT FINANCING

1. Commercial Banks
2. Owner(s) or Originator(s) of the Company
3. Trade Creditors
4. Bank Credit (Bank overdraft
5. Accrual:

IMPORTANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) TO THE NIGERIA ECONOMY

The examination of the importance of SMES to an economy should not just be seen in terms of the nation but it could be analyzed within the scope of a village or local government. Abdullahi et 'al (1982) stated "its contribution to the economic well being of Nigeria is not only indelible but equally enormous and tremendous". To become better able to appraise the efforts of SMES in this direction requires a critical identification and definition of the following:-

1. Stimulation of Entrepreneurship
2. Rapid expansion and diversification of industrial and business sectors of the economy
3. Creation of substantial employment opportunities
4. Stimulation of indigenous business ownership
5. Integration of Agro-industrial development
6. Promotion of even development
7. Even Distribution of income.

PROSPECTS OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES)

Considering the general constraints attached to business in Nigeria today, due to unfavorable economic trade, one will not be too amazed to note that SMES prospects has not been adequately favorable.

Notwithstanding, the following are expected prospects of SMES in Nigeria.

1. It is possible for SMES owner(s) to combine two or more occupations. He may be a shop owner and at the same time be a partner in partnership business.
2. A sole trade does not pay company tax since the business and the sole trader are regarded as one natural person. In other words, there is no separation between personal and business assets and property. What he pays is personal income tax like any other individual. 3. More often than not, a sole trader operates for his own premises and usually uses hand tools. As a result of this advantage, his overhead cost is greatly reduced.
4. There is cordial relation between the employer and the workers to the extent that worker can discuss their domestic problems with their employer.
5. Establishment of various financial institutions and credit guarantee schemes, and the provision of infrastructures, which were fundamental factors of enabling environments.
6. The owner(s) has every independence to control the business.

7. They are more convenient to customers than big ones.
8. Their wide geographical dispersal gives them better proximity to the market.

PROBLEMS ENCOUNTERED BY SMALL AND MEDIUM SCALE ENTERPRISES (SMES)

The problems facing the growth of SMEs over its life cycle which tends to limit the growth of its operation or considerably reduced it.

To succeed, the owner(s) or a business man must be an originator or initiator, able to get things done and motivate people, apart from cash flow problem which is a major problem of SMEs which is requires more and more cash.

Other problem areas as illustrated by Bello et'al (1996) among others are:

1. Inadequate qualitative data for decision making and strategic planning.
2. Difficulty in recruiting higher level technical manpower.
3. Inability to cope with the demand of opportunity arising from rapid economic and political changes.
4. Lack of management capability to cope with demands of modem day business. Hence, the future in some cases, outright collapse of many SMEs.
5. Inadequate infrastructure.
6. Lack of funding organizations.
7. Inadequate government support and poor patent management.

SOLUTIONS TO PROBLEMS OF SMEs

Yusuf (2003) she proffers the following enumerated solutions to the problems:

(I). Determination to Face Challenges
(2). Provision of Adequate Capitals
(3). Recruitment of Competent Workers
(4). Adequate Supervision of the Workers
(5). Provision of Moral and Financial Support by Government
(6). Effective Management and Administration

RESEARCH METHODOLOGY

The study is a descriptive form of research; this the arrangement of condition for collection and analysis of data in such a way that it combines the purpose of the researchable area it is intended to elaborate on the problems and prospects of SMEs. The questionnaire was used.

The population of the study will be in the three (3) local government areas where they are located, which are Okene Local Government, Lokoja Local Government and Kabba/Bunnu Local government.

The study sample size consists of 90 individuals drawn from both among the senior who knows the operation of the business under study.

Data collected for this work were from both primary and secondary data sources.

The method of analysis used is the percentage and chi -square for analysis of hypotheses formulated.

DATA PRESENTATION AND ANALYSIS

DATA ANALYSIS

This chapter gives a detailed analysis of data collected during the research

TEST OF HYPOTHESIS

The relevant hypothesis formulated earlier in the conduct of this research study will be tested in order to accept or reject the statements.

In this research study, chi-square will be used

Test of Hypothesis I

Ho: Effective managerial capability does not enhance business growth

Responses from respondents

Table 4.2.1

Responses	SA	A	SD	D	Total	Ratio
Managerial Capability	37	24	8	11	80	0.3333
Management Supervision	46	24	-	10	80	0.3333
Management Process	46	26	-	8	80	0.3333
TOTAL	**129**	**74**	**8**	**29**	**240**	**1.0000**

SOURCE: *questionnaire administered (2012)*

We shall use the contingency table for the expected frequency for testing hypothesis.

TABLE 4.2.2

SA	A	SD	D
43.00	24.66	2.67	9.67
43.00	24.66	2.67	9.6
43.00	24.66	2.67	9.67

Calculation of chi-square observed and expected frequency for testing hypothesis.

Table 4.2.19

Responses	F_0	F_e	$F_0 - F_e$	$(F_0 - F_e)^2$	$\Sigma(F_0 - F_e)^2/F_e$
Strongly Agree	37	43.00	-6.00	36.00	0.8372
Agree	24	24	-0.66	0.44	0.0177
Strongly Disagree	8	2.67	5.33	28.41	10.6400
Disagree	11	9.67	1.33	1.77	0.1829
Strongly Agree	46	43.00	3.00	9.00	0.2093
Agree	24	24.66	-0.66	0.44	0.0177
Strongly Disagree	0	2.67	-2.67	7.13	2.6700
Disagree	10	9.67	0.33	0.11	0.0113
Strongly Agree	46	43.00	3.00	9.00	0.2093
Agree	26	24.00	1.34	1.80	0.0728
Strongly Disagree	0	2.67	-2.67	7.13	2.6700
Disagree	8	9.67	-1.67	2.79	0.2884
TOTAL					**17.8300**

Degree of freedom =(c-1) (r-l)
df = (4-1)(3-1)
= 3 x2
= 6
Degree of freedom = 6
Level of significance = 0.05
Chi-square table value = 12.59
Chi-square calculated value = 17.83
Decision Rule,
As a decision rule, since the calculated chi-square (17.83) is greater than the tabular chi-square value (12.59), we then reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1), which posits, that "effective managerial capability improves progress"

Test of Hypothesis II

H_0: Adequate finance will not lead to entrepreneurial success
Responses from questionnaire.

Table 4.2.20

Responses	SA	A	SD	D	Total	Ratio
Problem of Finance	48	26	0	6	80	0.3333
Finance from Personal Saving	56	24	0	0	80	0.3333
Finance from Bank	6	16	28	30	80	0.3333
TOTAL	110	66	28	36	240	10000

Source: *questionnaire administered (2012)*

We shall use the contingency table for the expected frequency for testing hypothesis

Table 4.2.21

SA	A	SD	D
36.66	22.00	9.33	12.00
36.66	22.00	9.33	12.00
36.66	22.00	9.33	12.00

Calculation of chi-square, observed and expected frequency for testing hypothesis II

Table 4.2.23

Responses	F0	Fe	F0 – Fe	(F0 – Fe)2	Σ(F0 – Fe)2/Fe
Strongly Agree	48	36.66	11.34	128.60	3.5078
Agree	26	22.00	4.00	16.00	0.7273
Strongly Disagree	0	9.33	-9.33	87.05	9.3300
Disagree	6	12.00	-6.00	36.00	3.0000
Strongly Agree	56	36.66	19.34	374.04	10.2028
Agree	24	22.00	2.00	4.00	0.1818
Strongly Disagree	0	9.33	-9.33	87.05	9.3300
Disagree	0	12.00	-12.00	144.00	12.0000
Strongly Agree	6	36.66	-30.66	940.04	25.6921
Agree	16	22.00	-6.00	36.00	1.6364
Strongly Disagree	28	22.00	-6.00	36.00	1.6363
Disagree	28	9.33	18.67	348.57	37.3600
TOTAL					**139.9682**

Degree of freedom (c - 1) (r - 1)
df = (4-1 (3-1) = (4-1) (3-1)
df =6
Level of significance = 0.05
Chi-square table value = 12.59
Chi-square calculated value =1 3 9.9682 Decision Rule:
As a decision rule, since the calculated chi-square
(139.9682) is greater than the tabular chi-square value (12-59), we then reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1) which posits that "Adequate finance will lead to entrepreneurial success"

CONCLUSION

This study has reviewed industrialization strategy in Nigeria and how Small and Medium Scale Enterprises (SMEs) fit into that industrialization process. Different definitions of SMEs were highlighted as well as the benefits that are likely to emanate from their proliferation to the Nigerian economy. The general problems facing them were identified. Amongst the problems faced by SIVIEs, finance was addressed by looking at various financing strategies. In particular, the challenges faced by SMEs in accessing funds from the conventional money and capital markets were noted. Without doubts, if SMEs are adequately encouraged in Nigeria, Nigeria economy would have a better opportunity to develop economical and otherwise. Finally, the researcher does not claim the entirety of the work as exhaustive, therefore, it is recommended for further study by anybody who will look into it in different perspective.

RECOMMENDATIONS

Based on the problems highlighted, the following recommendations are made.

a. To succeed in any endeavour in life, planning is significant. Therefore, Small and Medium Scale Business entrepreneur should adopt the policy of planning for their organization. This should include both short and long term plans. The short term could be annual, concerns with business expansion, diversification, either corporate or by product. This means that they have to conduct research. The research should be centre on price, promotion, marketing, etc. this will definitely enable them to tailor the market needs.
b. Small and Medium Business owners should employ personnel that are qualified to handle different segments of the business like account, marketing and operation.
c. There should be training and development of staff to meet up with the new challenges of their responsibilities for optimum result.
d. Small and Medium Scale Business Entrepreneurs should not relent on other promotion channels apart from personal contact selling. They could use other tools such as advertising in television, radio, newspaper, magazine, sales promotion, publicity and relations.
e. Motivation of staff plays a prominent role in the life of any business. As such, they should motivate their staff towards increasing productivity. This could be a sort of compensation in terms of bonus, as wheel as leave grants. Gift items could also be given to rewarding staff.
f. The government and financial institutions should make credit (at reasonable rate) and other financial incentives accessible to these industrialists so as to improve on or establish such business.
g. The government at various levels should take steps in improving the infrastructural facilities, most importantly electricity, roads and water supply which are key ingredients towards economic development because it will reduce the cost of doing business.
h. The government and other stakeholders should continuously organize training and research seminars, workshop etc to encourage these set of businessmen. This will enable them improve their managerial skills (Ediri and Ameh, 2006).

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