

Financing Small and Medium Scale Enterprises in Nigeria

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Abstract: *This study was proposed in order to value financing of small and medium scale enterprises in Nigeria. The main objective is examining the influence of finance on business growth and development. The study employed the descriptive and explanatory design; questionnaires and interview were applied in order to collect data. The researcher made use of primary and secondary data. The study made use of correlation statistical tool. The respondents under the study were 65 small business owners. The study findings showed a positive significant relationship between finance and business growth and development.*

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I. Introduction

Small business ventures are the cornerstone of every economy which stands as a prerequisite to growth in the economy, vitality and elasticity in an economy that is developing. Financing is important to enable entrepreneurs to start up a business with the ability to expand the business and create employment opportunities. Most times, small businesses start with innovation from people who contribute personal cash and most likely swing people for monetary assistance with the hope of refunding such capital later when the business is well established. Be that as it may, in the event that they are effective, there comes a period when they require additional subsidies to grow and create or improve further. Some private ventures often run into challenges, as they find it difficult to get funds from financial institutions and other money related establishments. Most companies in Nigeria today from started a small business venture.

The development of a small business has been hampered by the absence of satisfactory learning and a very much organized monetary market for the preparation of funding to improve their development and advancement (Cook and Nixon, 2000).

Different assets established with the purpose of gaining profit from independent ventures however insights gave by subsidize directors demonstrate that an expansive number of candidates have not been effective in getting to these assets (Boateng, 2010). The need to investigate elective methods for raising capital for private company development cannot be over stressed. One of the creative approaches to raise stores for growth of little and medium scale organizations is funding.

However, small business segment constitutes more than 60% of the economy of the nation. The need to give moderate and open loan during a time span is something one cannot overemphasize. If SMEs are legitimately formed, it can possibly grow and lead to hastened growth of the economy (Venture Capital Nigeria, 2008). Most business ventures in Nigeria have been looked with monetary difficulties prompting business disappointments in the aspect of conflicts from producing Industries and infrequently terminations by regulative experts.

The circumstance is all the more aggravating and stressing when contrasted and what other creating and created nations have possessed the capacity to accomplish with their small ventures.

Their success relies on their expenditure needs and the prosecution of venture capitalists. Entrepreneurial outlay needs indicate their working requirements, even though the proceeding of bankers depends upon their compromise attitude and the good looks of different venture. Financing from the government, the overall monetary feeling, and opportunity of ancillary, good quality of small-scale and element mount store documentation, and minor organization lender family members skills have effects on the best way this one try is handled.

Additionally a variety of non-financial constraints hinder the good fortune of this enterprises. Small venture owners ponder planned clear or leak relationship in their ventures to outsiders.

There is a deficiency of long term fund for limited businesses due to banks and securities markets swear off on sharp defly investments in the particular sectors, which grows to be vital for the Government to

establish a scenario which can help grant funding on a long term basis for the sharp compromise investment during narrow business sector.

II. Objective Of The Study

The researcher's aim is to analyze the financing of businesses with a view to highlighting the effect of financial assistance to its growth and development.

III. Literature Review

According to Husain (2005), "the two main sources of savings for businesses are the internal and external sources of revenue". The first source of savings i.e. internal is the major source of revenue. Personal contributions and profit retained are types of internal savings. Therefore, the external type of revenue may include loans from banks etc.

According to Tonge (2001), he has additionally distinguished ways assets from relatives or friends are subsequent to individual reserve funds. Love (2003) has likewise distinguished the way that capital for set up regularly originate from value source.

According to Kauffmann (2005), proceeds, informal savings, inclusive of as their particular cause of revenue and feature taste get admission to out savings, through hindering their development and possible increase. Kaufman in addition states that SMEs lack the right approach to foreign savings due to the undeniable fact that the particular SMEs cannot reach the circumstances set by budgeting institutions in as much as they see SMEs as a risk-prone venture as a result of inferior guarantees and lack of data through their strength to pay off the advances.

Ayeertey (1998) stated that special application for SMEs loans in Nigeria possess an opportunity of being reviewed. He argues that the absence of feasible assignment in addition assurance prevents majority of the SMEs originating at gaining loans beginning at monetary organization.

As indicated by Mensah (2004), "absence of funds is considered as the absolute most basic factor foiling the formative development of the SME division". Mensah (2004) claims that "the unavailability of funds in Nigeria is due to various conditions". They include:

- i. A moderately cash that is not developed with little levels of mediation;
- ii. The nonappearance of lawful and other institutional constitution that facilitate the administration of small enterprises;
- iii. The enormous danger of loaning to small businesses; and

Mensah (2004), in light of the continuous challenge in financing, action have been propelled by the government to empower the stream of financing to SMEs far beyond that which is accessible from existing private area budgetary establishments. Mensah states the present SME financing interventions can be gathered through the following:

- i. Developed project
- ii. Funding from money related partnerships

Mensah (2004) stated the following schemes:

1. Business Assistance Fund: During the 1990s, it helped permit control government crediting.
2. Nigeria Investment Fund: The Nigeria venture Fund (Act 616) was established in 2002 to set up a store for the arrangement of loan offices to assign money related establishments to organizations. On the other hand, the plan failed to be executed.
3. Export Development and Investment Fund (EDIF): Here, organizations send out projects that could acquire up to \$500,000 during a period time of five years term at a financed loan fee at 15%. Regardless of ways at which the plan is regulated through budgetary organizations, the board of EDIF keeps up unbending control, favoring all the loan proposals and taking an interest money related foundations.

IV. Small And Medium Scale Enterprise And Sources Of Financing

Mukhtar (2009) defined "finance as a precondition to the development of endeavors". The loans accessible to SMEs was accessed by Ewiwile, S. Azu, B. and Owa, F. (2011) as follows:

- i. The proprietor reserve funds partners including family and friends who could possibly be investors in the venture.
- ii. Investors of a business.
- iii. Establishments of bank loans.
- iv. The private venture organization and money related help program.
- v. Private venture Administration authorized independent company speculation organizations.

In an examination led by Aggarwa, S. Klapper, L. and Singer, D (2012) on financing organizations in Africa; the part of Microfinance, respondents were requested to state their opinion on the most imperative explanation behind what reason individuals have on savings, 29 percent gave a preparatory rationale behind their most essential motivation to save, expressing putting something aside for either "a stormy day" or "on the off chance that we become ill". The second most essential reason that individuals save is "starting up a business". These numbers propose that the general population studied are really utilizing investment funds for reason that loan was either expected to, or is charged to, serve. Different wellsprings of fund accessible to SMEs for instance budgetary foundations credits are for all intents and purposes not open.

Banerjee and Duflo (2007) archived that "a tremendous extent of the poor still need access to formal managing an account administrations". Gaul (2011), ascertains "the supreme distinction between the populace living beneath the neediness line and the populace with access to budgetary administrations, and finds that the numbers are as high as 80 million for Nigeria and 48 million for Congo". It is a to some degree unrefined and loose approach to quantify money related incorporation, it underlines the way that a greater part of the extremely poor keep on being circumvented by monetary foundations. Besley (1995) stated that "cash loan specialists in Western Africa have been effectively charging noteworthy withdrawal expenses on stores".

Oni, Paiko and Ormin(2012), stated "Micro Finance Institutions (MFIs) in the country Nigeria have likewise settled with the point of helping SMEs in giving cash-flow to development, though poor resources base and interest for guarantee by banks, denies most SMEs access to capital".It is ascribed partially to the disappointment of credit markets. The incapacity of the less privileged to get to acknowledgment for SMEs loans make them unfit to attempt productive ventures and subsequently stay poor. In the event that this could be checked in any case, the best test of SMEs will be moved forward. The examination explores how funding SMEs can be moved forward.

V. SMEDAN – Nigeria’s Equivalent Of America’s SBA

With a specific end goal to improve the small and medium scale undertakings, the SMEDAN Act of 2003 built up the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). It shares a likeness to America's Small Business Administration (SBA), which is relied upon to offer life saver to private companies that have been viewed as the starting point of most industrialized economies. Among different obligations of the SBA, it mostly ensures credits to private companies. At the point when a private company applies to a loaning establishment for an advance, the bank surveys the application and chooses on the off chance that it justifies a credit individually or in the event that it requires extra help as a SBA ensure. In ensuring the advance, the SBA guarantees the moneylender that, in the occasion the borrower does not reimburse the advance, the administration will repay the loaning foundation for a part of its misfortune. By giving this certification, the SBA can help a large number of independent companies each year get financing they would not generally acquire. According to Wikipedia (2010), the SBA has straightforwardly or in a roundabout way helped almost 20 million organizations in 2008, had an advance arrangement of generally \$84 billion making it the biggest single monetary supporter of organizations in the United States.

Among the administrations SMEDAN, the following is required:-

1. Assemble, survey then refresh all current financial arrangements, directions, motivations, and enactment influencing MSME operations.
2. Data should be made accessible on universal market, items guidelines/details and directions.
3. Advise on administrative and institutionalization systems and order all significant business data which is valuable to SMEs.
4. Put together investment and trade presentations and intuitive fora.
5. Administer and engage guidelines and control measures for advances and results of SMEs.

In connection amongst MSMEs and the sources of funds, SMEDAN has been relied upon to play out the accompanying capacities:-

1. Work with financial organizations with the aim of tackling and pooling assets for usage
2. Improve and actualize methodology for the viable and convenient payment of SMIEIS fund.
3. Support consistent counsels with global contributor organizations, exchange gatherings, applicable services, inquire about foundations, in order to actualizing programs for the improvement of MSMEs.
4. Engage outside speculations and assets to enable the advancement of the MSMEs sub-segment.

Using dynamic joint effort alongside SMEDAN in building up the MSME division in Nigeria includethe Bank of Industry. Keeping in mind the end goal to line up with whatever is left in becoming the SME area, the recent government in Nigeria, using money related foundations, the Bank of Industry (BOI) as of late made an intense stride in restoring this senseless division. The Guardian daily paper of June 18, 2010, reported the financial institution has additionally prepared just about 10,000 little and medium business people inside the most recent three years on the best way to build up and run bankable private ventures

VI. Research Methodology

This is an exploratory paper which contains of both primary and secondary sources of data. The use of questionnaires was distributed for the primary source of data, while the secondary source of data includes books that have been published, websites, periodicals, daily and paper reports. The population of the study comprises of every small scale businesses working in Lagos state. Furthermore, the independent companies or ventures were arbitrarily drawn from three (3) nearby government regions; to be specific Surulere, Ikeja and Lagos Island. These neighborhood governments were picked on the grounds that they constitute the primary business center point of the examination zone subsequently have more prominent number of independent companies. A sum of 250 surveys were conveyed to administrators of SMEs in the examination zone through questionnaires. However, 200 of the questionnaires were returned for investigation. This states that 65 small businesses were used during investigation. The use of Pearson correlation method of analysis using Statistical Package for Social Sciences (SPSS) was used for the study data.

Presentation of Data and Analysis

Table 1. There Is A Relationship Between Financing And Small Business Growth And Development In Nigeria

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	100	50.0	50.0	50.0
	agree	19	9.5	9.5	59.5
	undecided	41	20.5	20.5	80.0
	disagree	20	10.0	10.0	90.0
	disagree	20	10.0	10.0	100.0
	Total	200	100.0	100.0	

Source: field survey, November, 2017.

In the above table, it shows there is a relationship between financing and small business growth and development in Nigeria.

It shows 100 respondents strongly agree, 19 respondents agree, 41 respondents were undecided, 20 respondents disagree, while the remaining 20 of the respondents strongly disagree that there is a relationship between financing and small business growth and development in Nigeria.

Table 12. Small Businesses In Nigeria Need Finances To Survive

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	100	50.0	50.0	50.0
	agree	60	30.0	30.0	80.0
	undecided	5	2.5	2.5	82.5
	disagree	20	10.0	10.0	92.5
	strongly agree	15	7.5	7.5	100.0
	Total	200	100.0	100.0	

Source: field survey, November, 2017.

This table shows the responses of respondents that small businesses in Nigeria need finances to grow. This shows that 100 respondents strongly agree that small businesses in Nigeria need finances to grow. 60 respondents agree that small businesses in Nigeria need finances to grow. 5 respondents are undecided. 20 respondents disagree that small businesses in Nigeria need finances to grow while the remaining 15 of the respondents strongly disagree that small businesses in Nigeria need finances to grow.

VII. Research Hypotheses

H₀: There is no relationship between finance and small business growth and development in Nigeria.

H₁: There is a relationship between finance and small business growth and development in Nigeria.

Decision rule: Reject the null hypothesis where p-value is less than the level of significance, then accept the null hypotheses when the p-value is more.

Correlations			
		There is a relationship between finance and small business growth and development in Nigeria	Small business in Nigeria need finances to grow
There is a relationship between finance and small business growth and development in Nigeria	Pearson Correlation	1	.853**
	Sig. (2-tailed)		.000
	N	200	200
Small business in Nigeria need finances to grow	Pearson Correlation	.853**	1
	Sig. (2-tailed)	.000	
	N	200	200
**. Correlation is significant at the 0.05 level (2-tailed)			

Conclusion on the Above Correlation Table

The correlation coefficient R= 0.853. It means there is a positive relationship between finance and small business growth and development in Nigeria.

VIII. Conclusion

This paper has assessed evidence from the writing of different investigators keeping in mind the end goal to build up a superior educated point of view on the advantages and disadvantages of the difficulties looked in funding a new business or an existing one. This survey demonstrates that funds are unavoidable in regards to business development and advancement. In the aspect of funding private companies it faces a few difficulties in the area of getting cash-flow for the establishment of new or extending a current business. This issue has surprisingly mutilated the advancement of enterprises in the state. Private companies in the state ought to be sharpened on the operations of small scale back organizations. This can be achieved by creating awareness in regards to the activities of micro finance institutions.

IX. Recommendation

In perspective of the findings, various suggestions have been made in order to assist SME Financing

1. It is a necessity of SMEs to perceive the likely support regarding fairness in the area of financing from corporate sources. Corporate venture capitalists can in this manner turn out to be vital resources for SMEs both fiscally and deliberately as they give substantial and immaterial esteem included assets which can assume a significant part in SME development.
2. Businesses with the essential goal of raising their value back will normally require just restricted contact with corporate venture capitalists and ought to subsequently approach free investment reserves which have raised funds from corporate sources.
3. Appropriate partners might include organizations with whom past connections in business are involved.
4. SMEs require trainings and helped to set up fundamental arranging and frameworks for keeping records, and to compose financing recommendations.

Government and Policy makers

Policy makers should endeavor to:

1. Enable credit facilities for financing large companies to help Small and Medium Enterprises
2. Make sure money is provided to help different exercises like projects for the advancement of entrepreneurial financing
3. Engage in empowering investment procedure.
4. Provide arrangements to make funding speculations. Tax cuts are a vital strategy for first animating enthusiasm for an action that numerous corporate officials are perhaps not at present considering. Strategy producers ought to consider offering vast organizations comparative motivating forces.
5. Organize workshops and make sure it is being reported to business owners by following requirements and rules for gaining achievement by the firm.

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