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FINANCING SMALL SCALE BUSINESSES IN NIGERIA: IMPACT EVALUATION

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ABSTRACT

In this paper, we empirically examine the relationship between two indicators of small business performance - government intervention and access to commercial credit. After carrying out a cross - sectional survey as the blue print for data collection and analysing the data so collected with the aid of the Pearson correlation and t-statistic, the study shows that there is a positive relationship between the performance of small businesses and the intervention of government in the small business place. It was also discovered that, there is no positive relationship between performance of small businesses and access to credit. This result suggests that, making government intervention in the small business place more effective rather than simply depending on sources of finance for small businesses may be beneficial to good performance of small businesses, which invariably will serve as the driving force of economic growth, job creation and poverty reduction in developing countries like Nigeria.

Keywords: *small business, evaluation, finance, performance, government intervention and commercial credit*

INTRODUCTION

Small businesses are generally regarded as the driving force of economic growth, job creation and poverty reduction in developing countries. According to Adaya (1998), they have been the means through which accelerated economic growth and rapid industrialization have been achieved. While the contributions of small businesses to development are generally acknowledged, entrepreneurs face many obstacles that limit their long-term survival and development (Sauser, 2005; Eeden, Viviers and Venter, 2004). Research on small-business development has shown that the rate of failure in developing countries is higher than in the developed World, (Arimaitive, 2006). Scholars have indicated that starting a business is a risky venture and warn that the chances of small-businesses survival are very slim (Kiggundu, 2002). Small businesses should develop both long-term and short-term strategies to guard against failure (Sauser, 2005). Given the importance of small business to the nation's economic

growths, and also the role that small business plays in poverty reduction, we postulate that an understanding of the problems negatively affecting small business in Nigeria is a vital first step in managing and avoiding the massive failure of these small businesses. These problems include the problem of infrastructural facilities, constrained access to money and capital markets, shortage of skill, poor implementation of policies, as well as overbearing regulatory and operational environment (Osim, 2010).

Recognizing the indispensable role of small businesses and private sector enterprises in general economic development, many countries have instituted enterprises network and structure to fuel the development of Small businesses, and. Nigeria is no exception (Okpara, 2006). At various times since the 1970s, the government has designed and introduced measure to promote small and medium enterprise development (Yusuf and Schindehutte, 2000); these measures have included fiscal, monetary and export incentive. In the light of financial support and incentive programmes, it would seem reasonable to expect that small businesses would grow and flourish in Nigeria. However, the effectiveness of these programmes remains unclear, and the rate of business failure continues to increase (Monk, 2000).

Specifically, successive governments in Nigeria have in the last three decades shown much interest in ensuring adequate financing for small businesses by establishing various schemes and specialized financial institution to provide appropriate financing to the sub sector. The failure of most of these schemes revealed that the problem is not only limited to lack of managerial skill, finance and entrepreneurial capacity but also to poor ex-post evaluation of government intervention in small businesses in Nigeria (Yusuf and Schindehutte, 2000). The need to address this problem comprehensively for survival of small businesses in the long-run necessitated this study.

Following from the above, the specific purpose of this study is to find out the impact of government intervention in financing small businesses. In achieving this objective, the remainder of the paper proceeds as follows. In Section 2, a review of literature on the role played by small businesses as catalyst for economic growth and government effort in financing and promoting small businesses in Nigeria. In Section 3, the data collection procedures as well as the measures used to capture impact of government intervention in the small business place was dealt with. Section 4 reports the primary results, while Section 5 concludes and considers some recommendations.

LITERATURE REVIEW

Government efforts in financing small business in Nigeria

Recognizing the indispensable role of small businesses and private sector enterprises in general economic development, many countries have instituted enterprises support networks and structures to fuel the development of these enterprises; Nigeria is no exception. At

various times since the 1970s, the government has designed and introduced measures to promote small and medium enterprise development (Yusuf & Schindehutte, 2000). These measures have included fiscal, financial/ monetary and export incentives. The fiscal incentives include tax holidays and tariff concessions. For instance, small businesses were given a tax holiday for the first six years of their operations. In terms of monetary support, the Central Bank of Nigeria (CBN) introduced credit guideline requiring commercial banks to allocate a portion of their loanable funds to small businesses (Adaya, 1998). According to Okpara (2006) several developmental financial institutions and scheme were also established to aid small businesses as follows:

(i) funding and setting up of industrial estates to reduce overhead costs;

(ii) establishing specialized financial institutions, including the Small Scale Industries Credit Schemes (SSICS), Nigeria Industrial Development Bank (NIDB), Nigeria Bank for Commerce and Industry (NBCI) to provide long term credits;

(iii) facilitating and guaranteeing external finance by the World Bank, African Development Bank (ADB) and other international financial institutions;

(iv) Facilitating the establishment of the National Directorate of Employment (NDE), this also initiated the setting up of new small business;

(v) establishment of the National Economic Reconstruction Fund (NERFUND) to provide medium to long term local and foreign loans for small scale businesses, particularly those located in rural areas; and

(vi) provision of technical training and advisory services through the industrial development centres.

The review and appraisal of some of these government initiatives and incentives are spelt out as follows;

Industrial Development Centres (IDC's) - essentially, the IDC's were established to provide extension services to small business organisation in Nigeria in such area as project appraisal for loan application, training of entrepreneurs, managerial services, product development, production planning and control, as well as other extension services. The first IDC was established in Owerri in 1962 by the former Eastern Nigeria Government, Ministry of Trade and industry. The IDCs were poorly implemented as they were inadequately equipped and funded (Ariyo, 2006)

Small Scale Industries Credit Schemes (SSICS) - according to Akwani (2007) it is easy to take a look at the role the military government played in the development of small businesses in Nigeria in 1971. The federal military government set up the small industries development programme to provide technical and financial support for the small businesses; this led to the creation of the small industries credit fund (SICF) which was launched under the third national

development plan 1975 - 1980. The scheme which operated as a matching grant between the federal and state government was designed to make credit available on liberal terms to Small and Medium Scale Enterprises (SMEs) was managed by sates minister. The success of the scheme was constrained by the dearth of the executive manpower to supervise and monitor projects. Thus, many unviable projects were funded leading to massive repayment default.

The Nigeria Bank for Commerce and Industry - the Nigeria Bank for Commerce and Industry (NBCI) was set up in 1973 to provide among other things financial services to the indigenous business community, particularly the SMEs. Akwani (2007) submits that the NBCI operated as an apex financial institution for the SMEs and also administered the SMEs first World Bank loan schemes under which credit amounting to N241.8 million were approved between 1981 and 1988 , while actual disbursements were 36.5 percent lower than the approvals during the period (United Nations, 2004). The bank also financed a total of 1,269 projects under the World Bank loan schemes, some of which were however cancelled due to the failure of the project sponsors to contribute their counterpart funding. The NBCI suffered from operational problem, culminating in a state of insolvency in 1989 and absorption into the newly established Bank of Industry in 2002.

Nigeria Industrial Development Bank (NIDB) - the Nigeria Industrial Development Bank was established in 1962 with the primary mandate of providing medium-term loans for investment in industrial activities. Although its loan portfolio covers mainly large scale industries, the bank established special units to focus on small business. An attractive features of NIDBs financing programmes was its policy of equity participation in some of the projects it financed (Awoniyi, 1996). It disbursed a total of N174.6 million to the SMEs between 1980 and 1988 and was responsible for the bulk of credit delivery the sector under the World Bank SME loan scheme, accounting for more than 80 percent of the total amount constraints.

Central Bank of Nigeria (CBN) - has since its inception been instrumental to the promotion and development of small business enterprises (Akwani, 2007). The CBN credit guideline required that banks allocate a specified minimum percentage share of credit to important sector including the small businesses at preferential interest rates (Awoniyi, 1996). For instance, in 1979/80 the CBN directed that at least 10 percent of the loan advances granted to indigenous borrowers be allocated to the sector. This was subsequently raised to 16 and 20 percent in April 1988 and 1990 respectively. Loans and advances to the SMEs as a percentage of total loan rose from 1.8 percent in 1980 to 9.3, 22.9, 40.0, 26.8, 6.6 and 8.6 percent in 1989, 1990, 1992, 1996, 2001 and 2002 respectively. Recently, CBN has required all banks in Nigeria to set aside 10% of their profit before tax for equity investment in small and medium scale industries (Awoniyi, 1996). This brought about a remarkable improved performance in compliance with bank lending to small business in Nigeria.

In order to further expand credit allocation to the small businesses in Nigeria, the federal government negotiated a programme of financial assistance with the 'World Bank' to complement other sources of funding to small businesses in Nigeria (Ariyo, 2006). Although this facility involved a total of US$270 million for on lending to the small businesses through the participating banks, the credit component and other related activities of the World Bank loan were administered by the CBN, which in 1990 established an SMEs Apex Unit Office (AUO) for its efficient implementation (Akwani, 2007).

Bangura (1991) points out that, following the adoption of the Structural Adjustment Programme (SAP) in 1986 and the subsequent tightening of monetary policy, many SMEs found it difficult to secure finance for their working capital and investment purposes. In order to bridge the observed widening resources gap for small businesses, the federal government set up the National Economic Reconstruction Fund (NERFUND) in 1990, with the CBN as one of the facilitating instructors. It was aimed at providing medium to long term loans (5 - 10 years) to small businesses in Nigeria at concessionary rate of interest (Awoniyi, 1996). NERFUND lending activities were seriously constrained by the impact if naira devaluation which worsened the burden of debt servicing under the programme. This generates the first hypothesis in this study.

H1: Government intervention in financing small businesses has impacted positively on the performance of small businesses.

Constraints of Funding Small Business Operation in Nigeria

Since her independence, the Nigerian government has been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programmes, which have generally yielded poor results (Mambula, 2002). Given the large domestic market and plethora of raw materials in Nigeria, there is little progress in terms of manufacturing value - added products, either for import substitution, export or employment creation.

Prior research has shown that a number of factors constrain the growth of small-businesses, especially a lack of capital or financial resources. However, the degree to which limited financial resources alone are a major obstacle is still debatable. Studies by Dia (1996), Godsell (1991), Eckhadt (2003) and Harris and Gibson (2006) found that additional capital is often not required and can be overcome through creativity and initiative. Riley (1996) found that the amount of capital needed to start a business is significantly negative when related to the rate of growth for the business. He also found that access to commercial credit did not contribute to entrepreneurial success in any significant way and, if it did, the relationship would have been negative.

On the other hand, some researchers have argued that small businesses are under-capitalized. Business owners in Africa tend to depend upon their own or family savings and

access to capital remains a challenge. Most of them cannot meet the requirement for commercial loans, and those who do find such loan expensive (Kiggundu, 1988; and Kazooba, 2006). Sauser (2005) found that in Zambia, a lack of starting capital was a common problem for entrepreneurs, as only 24% received a loan to start their business,. Another study by Koop, de Reu, and Frese (2000) found that the access to adequate starting capital was positively related to business success, in short, research on role of capital in determining the success or failure of small businesses in Africa is contradictory. This generates the second hypothesis in this study.

H2: Access to commercial credit is positively associated with the growth and development of small businesses.

A study by Kazooba (2006) revealed that poor record keeping and lack of basic business management experience and skills were major contributors. Researchers also identified inexperience in the field of business particularly a lack of technical knowledge, plus inadequate managerial kills, lack of planning, and lack of market research (Dollinger, 2003; and Murphy, 1996). However, these researchers have not identified which management problem or group of problems contributes most to the failure of small business in Africa in general and Nigeria in particular.

Other negative factors that have been identified include corruption, poor infrastructure, poor location, failure to conduct market research, and the economy (Kazooba, 2006, Mambula, 2002; and Eeden *et al,* 2004). For example, Kiggundu (1988) identified "Kalabule" (Ghana) and "magneto" (Uganda) as two practises that challenge African entrepreneurship. Each refers to illicit, improper, or illegal business conduct that is tied to criminalized entrepreneurial activities; so those in positions of control and influence can make faster and illegal money. In addition to undermining the legal framework, national integrity, and regulatory system, corruption also undermines the trust and confidence of business owners (Drame, 1996; and Antonie, 2001). Practically every African country has its own version of corruption at a great cost to entrepreneurs, the economy, public administration and society. An understanding of the specific impact of corruption on small business development is crucial in terms of developing strategies to address the issue. However, these researchers have not identified which management problem or group of problems contributes most to the failure of small businesses in Africa in general and Nigeria in particular. Financial support is a major problem in managing a small business in Nigeria. Some of the owners stated that of these small businesses, it is difficult to borrow money from banks because they lack collateral. On the other hand, the locus provided by micro-finance institution is small, with short repayment periods and high interest rates. Small business operators also complained that government funds designated for small business entrepreneurial development are allocated to other projects, when funds are given; they are not based on any formula or merit, but rather on nepotism and favouritism (Mambula, 2002). This is consistent with previous studies (Murphy, 1996; Eeden *et al,* 2004).

METHODOLOGY

The cross-sectional survey researcher design was used in this study. This blue print for data collection was adopted because the data for this study were collected at a particular point in time. The population of study is made up of the 35 small businesses registered with the corporate affairs commission and operating in Nkwani local government area of Delta state. The primary source of data was used in this study through the administration of questionnaires to the sampled small businesses. The sample size is 18, and the simple random sampling technique (ballot method) was adopted in the study. In arriving at this sample size, Nkwuani local government area was divided into three (3) zones (North, West and East) for representativeness in data collection. Thereafter, the names of small businesses in each of these zones were written on equal sized pieces of paper one at a time; these pieces of papers were then kept in a basket, and by way of simple random sampling technique (ballot method) a blind folded assistant was asked to pick six (6) pieces of papers one at a time from each basket, thereby resulting in eighteen (18) small businesses sampled. The data collected were analysed using the Pearson correlation (r) and t-statistics. This method of data analysis was used because this is a test of association and the sample size is less than 30.

RESULT AND DISCUSSION

The hypotheses stated earlier were subjected to test using t - statistic with the aim of either accepting or rejecting them.

Hypothesis 1

H_0: *Government intervention in financing small businesses has not impacted positi-vely on the perfor-mance of small busi-nesses.*

H_1: *Government intervention in financing small businesses has impacted positively on the performance of small businesses.*

t-test: paired Two Sample for means

	Variable 1	*Variable 2*
Mean	59	26
Variance	94	94
Observations	5	5
Pearson correlation	-1	
Hypothesized mean difference	0	
df	4	
t Start	3.805441233	
P(T<=t) one tail	0.009507239	
t critical one-tail	2.131846782	
P(T<=t) two-tail	0.019014478	
t Critical two-tail	2.776445105	

t – test = 0.002 $\alpha = 0.05$ degree of freedom (df) = 4
t – critical one tail = 2.131846782 t – statistic = 3.805441233

Since t statistics > t critical, reject H_o and accept H_1. That is, government intervention in financing small businesses has impacted positively on the performance of small businesses. Also, the Pearson correlation (r) coefficient of -1, shows that there is a strong association between government intervention in financing small businesses and performance of small businesses in Nigeria. This finding is not in agreement with the position in extant literature that, government expenditure on small businesses has always yielded poor results (see Mambula, 2002; and Bangura, 1991).

Hypothesis 2

H_0: *Access to commercial credit is not positively associated with the growth and development of small businesses.*

H_1: *Access to commercial credit is positively associated with the growth and development of small businesses.*

t-test: paired Two Sample for means

	Variable 1	*Variable 2*
Mean	51.6	33.4
Variance	629.8	629.8
Observations	5	5
Pearson correlation	-1	
Hypothesized mean difference	0	
df	4	
t Start	0.810821146	
P(T<=t) one tail	0.023147662	
t critical one-tail	2.131846782	
P(T<=t) two-tail	0.046295324	
t Critical two-tail	2.776445105	

t = test 0.002 $\alpha = 0.5$ degree of freedom (df) = 4
t – critical one-tail = 2.131846782 t – statistics = 0.810821146

Since t - statistic < t - critical, reject H_1 and accept H_o. Also, the pearson correlation (r) coefficient of -1, shows that there is a strong association between access to commercial credit and growth of small businesses; however, this association is not positive; which means that access to commercial credit is not positively associated with the growth and development of small businesses. This finding is in agreement with the position of prior research that, the degree to which limited financial resources alone are a major obstacle is still debatable. Studies by Dia (1996), and Godsell (1991), found that additional capital is often not required and can be overcome through creativity and initiative.

Riley (1996) found that the amount of capital needed to start a small business is significantly negative when related to the rate of growth for the business. He also found that access to commercial credit did not contribute to entrepreneurial success in any significant way and, if it did, the relationship would have been negative. This finding is also in agreement with the submission of some writers (Dollinger, 2003; and Murphy, 1996) who opine that other factors like management experience and not necessarily absence of starting capital are responsible for small business failure.

CONCLUSION

This paper (1) documents a positive relationship between government intervention in financing small businesses and their performance and (2) provides evidence that access to commercial credit is not positively associated with the growth and development of small businesses. However, the good news is that, Nigeria has a high latent entrepreneurial spirit, but small businesses cannot tap it if they are handicapped in access to basic infrastructure and institutional financial frameworks e.g. effective Bank for commerce and small business financing.

Since government intervention impacts positively on performance of small businesses, it is recommended that, institutional frameworks already in place ($SSIC_S$, IDC_S, NIDB, NBCI, ADB, and NERFUND) should be encouraged and made more effective by putting in place machinery for ex-post evaluation of their intervention in the small business place. Besides providing effective financial machinery, the government should also put in place infrastructures like good roads, stable power supply and adequate security in the small business market place.

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APPENDIX

QUESTIONNAIRE

Data Presentation

Percentage Analysis

1. The respondents were asked whether there were any ways the government has provided assistance to improve the financial needs of small businesses (question 1), and the response were as follows.

Option	Frequency	%
Yes	64	75.3
No	21	24.7
Total	85	100

From the table above, 75.3% of the total respondents believe that the government has provided assistance to improve the financial needs of their small businesses while the remaining 24.7% respondents does not believe that the government has provided any assistance to improve the financial needs of small businesses. This shows that government engage in provision of financial assistance to improving the financial needs of small businesses.

2. Respondents were asked whether they had benefited from any of these assistance provided by the government and the responses were as follows:

Options	Frequency	%
Yes	72	84.7
No	13	15.3
Total	85	100

From the table above, 84.7% of the total respondent agreed that they have benefited from the financial assistance put in place by the government to improving the financial needs of small businesses while 15.3% of the respondents do not agree that they have benefited from such financial assistance from government. This implies that quite a number of small business operators have benefited from government's financial assistance.

3. Respondents were asked whether they are satisfied with the present level of government intervention in financing small business and the responses were as follows

Options	Frequency	%
Yes	50	58.8
No	35	41.2
Total	85	100

From the table above, 58.8% of the total respondents believe that they were satisfied with present level of government intervention in financing small business while the remaining 41.2% were not satisfied with the percent level of government intervention in finding small businesses. This implies that comparatively a great number of the respondent were satisfied with the present level of government intervention in financial small business.

4. Respondents were asked whether their financial performance increase through the establishment of credit schemes/incentive put in place by government while the remaining 42.41% respondents believes that increase in their financial performance is not through governments credit schemes. This showed that government credits incentive/schemes increases small business financial performance.

5. Respondents were asked whether they have the prospect of expanding their business beyond its present level as result of government's schemes and the response as follows

Options	Frequency	%
Yes	60	70.6
No	25	29.4
Total	85	100

From the above table, 70.6 of the total respondents decided to expand their business beyond the present level as a result of government intervention in financing small business while the remaining 29.4% of the respondents does not have the prospect of expanding their small business despite the present level of government's intervention in financing small business. This shows that governments intervention increases their prospect of business expansion.

6. Respondents were further asked whether they have access to commercial credit and the responses were as follows:

Options	Frequency	%
Yes	75	85.2
No	10	11.8
Total	85	100

From the table above, we will observe that despite government intervention of funding small businesses 88.2% of the total respondents still depends on commercial credit for their survival while the remaining 11.8% does not have access to commercial credit This shows that a high number of small businesses have access to commercial credit as their source of finance.

7. Respondents were further asked whether they had applied for a bank loan before and the responses were as follows.

Options	Frequency	%
Yes	59	69.4
No	26	30.6
Total	85	100

From the table above, 69.4% of the total respondent agreed that they had applied for bank loan before while the remaining 30.6 had never applied for a bank loan at all. This implies that small business often applies for a bank loan as their alternative sources of finance.

8. Respondents were further asked whether the collateral securities required by the banks were too high and the responses where as follows

Options	Frequency	%
Yes	25	29.4
No	60	70.6
Total	85	100

From the above table, 29.4% of the total respondents disclosed that the collateral securities required of them were not too high while the remaining 70.6% respondents disclosed that the collateral securities required by the commercial banks were too high. This implies that the commercial banks grants loans with flexible collateral securities thereby complying with the C. B.N directive for all the commercial banks to set aside 10% profit before tax (PBT) for investment in small business.

9. Respondents were asked whether the banks loans obtained from these commercial banks actually helps to developed their small business and the responses were as follows:

Option	Frequency	%
Yes	74	87.1
No	11	12.9
Total	85	100

From the above data, 87.1% of the total respondents revealed that the loans obtained from commercial and micro finance banks has assisted them in developing their small business while the remaining 12.9% revealed that the loans obtained from the above banks has not yielded any significant development in their small business. This revealed that commercial and micro finance banks through granting of loans have increased the development of small businesses in Nigeria.

10. Respondents were asked whether the interest rate charged on the loans by these banks were too high and the responses were as follows:

Option	Frequency	%
Yes	25	29.4
No	60	70.6
Total	85	100

From the table above, 29.4% of the total respondents revealed that the interest rates charged by these banks are too high while the remaining 70.6% of the respondents believe that the interest rate charged by these banks are not too high.

This implied that the interest rate charged by these banks are actually not too high following the directive by the Central Bank of.Nigeria to grant loans to small and medium scale enterprise with soft interest rate.