



Indigeneous Financing; an Effective Strategy for Achieving the Entrepreneurial Objectives of SSEs

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Abstract

This paper examines the effectiveness of Esusu scheme as a strategy for achieving the entrepreneurial objectives of SSEs using selected entrepreneurs in Ado-Odo Otta, Ogun State, Nigeria as a case study. The paper adopted an exploratory method of research design and empirical analysis. It reviews extensively literature on the subject and the results of the data analysis help us to draw conclusions and make recommendation. Structured questionnaire was used to collect data from sampled Small Scale Entrepreneurs who have been beneficiaries of the Esusu Scheme. The results reviewed that although most of the SSEs under our study are unorganized and not formally registered with the Nigerian Corporate Affairs Commission (CAC), the Esusu scheme has helped many of them to achieve their personal and business objectives. The study also identifies that lack of government involvement in the regulation of the scheme is a major challenge that affect the effectiveness of the scheme in Nigeria. Among others, the paper recommends the need for SSEs operators to be more organized, which will help create a platform to attract government intervention in terms of funding and regulation of the Esusu scheme in Nigeria.

Keywords: Esusu Scheme, SSEs, Entrepreneurs and Financial Objectives

Introduction

The impact of small and medium enterprises (SSEs) to every nation has been documented to include job generation, poverty alleviation, wealth creation and economic vitality. As a result, SSEs has

recorded to be the engine of economic growth and development. They contribute more than 80% of the GDP, 60% of the total employment creation and 70% of the total raw materials of large cooperation of both developed and developing countries (Ogunleye , 2004). They also provide the

platform for technological and manpower development required by both private and public enterprises of a particular nation. This observation formed the major basis in the comments of Hoselitz, (1959); Staley and Morse, (1966); World Bank, (1978a, 1978b) who categorically emphasized that Small-scale enterprises (SSEs) generate more direct jobs of investment than large enterprises. They serve as a training ground for developing technical and entrepreneurial skills and by virtue of their greater use of indigenous technological capabilities, they promote local inter-sectoral linkages (particularly in agriculture) and contribute to the dynamism and competitiveness of the economy.

Small Scale Enterprises have attracted the attention of several researchers, NGOs and governments in formulating strategies on how best they can be assisted in the achievement of their entrepreneurial objectives. The significance of SSEs has been recognized by the government of most developing countries, and many have introduced special support programmes in an attempt to boost their activities and harness the benefits embedded in their existence. A large number of such programmes have concentrated on the provision of small industry credit, frequently associated with technical advice (Brunton, 1997), in Nigeria, both the federal and state governments have initiated policies and schemes to support the survival and substance of this sector. Emmanuel (2012), opined that the Nigerian governments had at one time or the other developed set of policies to enhance the development of SSEs after identifying its role in boosting the economy of the nation. The efforts of the Nigerian governments towards SSEs development can be traceable to 1946 when the government made the first attempt to be committed to industrial development whose functions among others include; (i) To promote and develop village crafts and industries hence develop Nigerian products (ii) To set up and operate an experimental undertaking for the testing of Nigerian industrial products; (iii) To engage in other suitable projects approved by the governor-in-council geared towards

development of the economy. Most of these policies and schemes centered on to finance the operations of SSEs, with several provisions made for how well business owners can raise their initial capital outlay through either the conventional banks or establishment of specialized loan schemes to ensure that adequate funds are available for them when needed. To meet up with this responsibility, the Nigerian government at one point or the other, had voted special fund allocation in its budget to ensure speedy development and effective operation of SSEs in Nigeria.

Business organisations have diverse objectives, among which is the objective of profit maximization, survival, which will enable them to continue to contribute to the economic development of the nation (Obigbemi, 2010). However, it is sad to note that in spite of the efforts of the government to support this subsector, evidences have shown that majority of them do not survive their first five years of existence and if peradventure they survived, the issue of inadequate finance has been noted to be a 'thorn in their flesh'. It has been observed that although the intentions of the government is good, the implementation of some of these policies was saddled with serious administrative bottle necks that have frustrated their efforts towards achieving their objectives in providing support to SSEs. The poor performance of some of these credit programmes in various parts of the developing world is an ample testimony to the ineffectiveness of the administration aspect of the credit schemes. This has called for more research and investigation for an alternative and better way of meeting the entrepreneurial objectives of the SSEs operators. On this regards, several researchers have provided different suggestions and comments on how best to solve this challenge. These include; Osuntogun and Adeyemo (1981), Ojo (1982); Akanji, (1994); Akanji (1998), Aluko (1980), Chandanvaker (1985); Falegan (1987) and (Alabi, Alabi, Akrobo, (2007); Oloyede, (2008) but only few of these studies focused on the indigenous way of providing credit to the small scale enterprises towards helping them to achieve their entrepreneurial objectives.

This study, therefore is aimed at examining the effectiveness of Esusu scheme as a strategy for achieving the entrepreneurial objectives of SSEs in Nigeria using Ado-Odo Otta, Ogun State Nigeria, as case study. To achieve this objective, this paper is divided into five parts; introduction, literature review/conceptual framework, methodology, data analysis, conclusion and recommendations.

Literature Review/Conceptual Framework

The Concept of SSEs

The concept of SSEs is dynamic and relative (Olorunshola 2003; Ogunleye 2004). Several institutions and agencies defined SSEs differently with parameters such as employee's size, asset base, turnover, financial strength, working capital and size of the business. These definitions include; Nigerian Industrial Policy 1989 defined SSEs as enterprise whose investment in working capital is between N100,000 and N2m excluding cost of land. CBN Monetary Policy Circular No. 22 of 1998 defined SSEs as any enterprise whose investments include land and working capital is less than 300,000 and annual turnover is less than N5m. The Nigerian Industrial Development

Bank (NIDB) also defined small enterprise as an enterprise that has investment and working capital not exceeding N750,000 and medium enterprise as one with N750,000 to N3m. The Federal Ministry of Industry Guidelines to NBCI also defined as business with a total cost not exceeding N500,000 (excluding cost of land but including working capital). Centre for Industrial Research and Development (CIRD) of the Obafemi Awolowo University, Ile-Ife defined SSEs as an enterprise with capital base not exceeding N25,000 and employing capital base not exceeding N250,000 and employing on full time basis, 50 workers or less.

The National Council on Industry (NCI 2001) offered the following definitions for micro, small and large scale enterprises in Nigeria. Small or cottage industry is industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding cost of land, and /or, a workforce of not more than 10 workers. Small-Scale Industry An industry with a labour size of 11-100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land, and /or, a workforce of 11-100workers.

Table 1 Definition of SSEs in other Nations

Country	Investment Ceiling	Employment Ceiling
India	\$170,000 (N23.8m)	No Restriction
Indonesia	\$ 85, 000 (N11.9m)	< 100
Japan	\$800,000 (N112m)	300 employees
South Korea	\$730,000 (N102.2m)	300 employees
Malaysia	\$106,000 (N14m)	No Restriction
Philippines	\$45,000 (N6.3m)	99 employees
U.K	No Restriction	199 employees
USA	No Restriction	< 500
Tanzania	\$1,000 - \$50,000	No Restriction

Source: (i) Confederation of Asia Pacific Chamber of Commerce and Industry - Journal of Commerce and Industry, Vol. 11, 1994.

The above definitions show that there is no universal definition of SSEs however, for the purpose of this write up the definition of SSEs according to SMIES can be adopted which defined SSEs as establishment with less than N20m (exclude cost of land and

working and has more than 10 employees and less than 300 employees

Characteristics of SSEs

The peculiar characteristics of SSEs have helped in enhancing their entrepreneurial performance in the economy. By their nature, SSEs constitute the most viable and veritable vehicle for self-sustaining industrial development. They possess common capability to grow an indigenous enterprise culture more than any other strategy (Udechukwu 2003). Adeleja (2005) enumerated the following as the peculiar attributes of SSEs; creativity, provision of inputs and or material components for large enterprises, mainly found everywhere especially in the local communities and fasted tools for job creation. Olorunshola (2004) in his work identified simple management structure result from the fusion of ownership and management by one man as another characteristic of SSEs. According to (Udechukwu 2003) SSEs are characterized by labour intensive production processes, centralized management, have limited access to long term capital, use local resources, and closely attached to the products that launched them. The peculiarity of SSEs in enhancing economic development can be best described in this statement;

SSEs constitute the most dynamic segment of many transition and developing economies. They are more innovative, faster growing, family/individual ownership and subjective in decision making and possibly more

profitable as compared to larger sized enterprises (World Bank 2001; Ogunleye, 2004).

Contributions of SSEs to Economic Development

The contributions of SSEs to economic development of both developed and less developed countries have been obvious in these nations' GDP, industrial output, employment, poverty alleviation and export promotion. Statistically, the Nigerian GDP by sector shows that agriculture contributes about 32%, industry 41% and 27% (Weller et al 1999). In most cases, of the industry figure, SSEs usually dominate all other sub-sectors. For instance, in Japan, 80% of the total industrial labour force belongs to SSEs sector, 50% in Germany and 46% in USA are employed in SSEs. In USA, SSEs contribute nearly 39% to their national Income (Udechukwu, 2003). Also in less developed countries such as Nigeria, India, Indonesia, Mali etc., SSEs have been identified to constitute more than 95% of establishments in the organized manufacturing sector and have become a vibrant core sub-sector making substantial contribution in terms of employment generation and industrial output and export (Udechukwu, 2003). This means that SSEs play important role in the economies of both developing and developed countries.

The table below shows the contributions of SSEs in some countries including Nigeria.

Table 2: Contributions of SSEs to Overall Economy And on Employment Generation (in Percentages)

Economy	% SSEs	Year	% Employed by SSEs	Year
Australia	95%	1991/92	50.6%	1991/92
Philippines	98.7%	1988	50.77%	1993
Canada	99.8%	1992	59.24%	1991
Hong Kong	97.95%	1993	63%	1993
Japan	99.1%	1991	79.2%	1991
Mexico	98.17%	1993	50.77%	1993
USA	99.72%	1990	53.67%	1990
South Korea	99.8%	1992	78.5%	1991
Nigeria	94%	1998	60%	1998

Source: Oyekanmi (2004) Concepts of Equity Financing and its implication for SMEIS

The above performance of SSEs in developed and less developed economies was identified as a result of the following reasons; well-defined and complementary roles of the private and public sectors in SSEs promotion, Structure of credit/capital provided to the SSEs, nature of the incentives directed at SSEs, and Identification and implementation of factors driving such programs (Oyekanmi, 2004).

Financing of SSEs

Funding has been identified as a very important factor to the survival of SSEs (Jimoh, 2004). Every business operation is financed through (i) owner's equity, (ii) debt. It is the sole responsibility of the entrepreneur to consider the features of the various sources of funds before taking the decision on the source or the mix of finance to be used for his or her business. Oyekanmi (2004) identified the following as the different features of sources of funds; Owner's Equity- commitment to the business, capital for promoting growth and expansion, while debt features include- lower cost of capital, leverage on the equity return, enforced fiscal discipline, and preoccupation with collateral security. Critical analysis of the features of equity and debt sources of finance will enable SSEs operators to take appropriate decision on the best mix of finance. This is to say that all the sources of finance for SSEs fall within owner's equity, debt and government funding schemes and institutions. Sources of financing SSEs include; plough back, bank loan, overdraft, banker's acceptance, accrual accounts and some government schemes which include; Central Bank of Nigeria's Support And Schemes For SSEs Financing, the National Economic Reconstruction Fund (NERFUND), Agricultural Credit Guarantee Scheme Fund, Refinancing and Rediscounting Facility, The Small and Medium Industries Equity Investment Scheme (SMIEIS), Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB), Bank of Industry (BOI) etc. (Ogunleye, 2004).

Esusu Scheme Operation in Nigeria

ESusu is one of the African most ancient traditional banking systems which has over the years been the mode of fund mobilization for initiation, sustenance and in some cases development of SSEs (Alabi, Alabi, Tei Akrobo, 2007). The concept of Esusu has different names from different tribes of Nigeria. For instance, in Igbo land it is called 'Itu,utu', in Yoruba tribe it is called 'Esusu or Ajo' while in Hausa land it is called 'Adache', in Ghana is called "Susu" or 'Esu' in Bahamas, 'Susu' in Tobago or Sou in Trinidad (Okafor, 2008). *The Esusu system is so popular that among the Yorubas and Igbos in Nigeria today, it has been noted that there is hardly a single adult who is not a member of one or even several Esusu schemes (Seibel and Damachi, 1982; Alabi, Alabi, Tei Akrobo, 2007).* The system is virtually in all the tribes in West Africa as well as in many other parts of the world. Its importance has made it to be integrated in the credit system for the financing of micro, small and medium businesses especially in the rural areas. Due to the problems the entrepreneurs are encountering with the formal financial institutions, the Esusu system has now been extended to the urban areas. Some of them now operate like microfinance Bank. This was the observation of Barclays (2005) cited in Norwood (2005); Alabi, Alabi, Tei Akrobo (2007) when he emphasized that with the expansion of the money economy, these informal financial institutions (IFIs) have not lost their vigor. Quite to the contrary, they have multiplied, both in numbers and diversity. Its simple structure and modus operandi has earned it wide recognition and it seems to have proven to be a dependable and cost effective mechanism of emphasizing state participation and encouragement of the domestic indigenous sector(Alabi , Alabi, Tei Akrobo, 2007). In the IMF working paper, the Esusu system is classified into three categories based on the classification according to Basu et al.(2004). These include Esusu Clubs and Esusu Associations, Mobile collectors and Cooperatives societies Alabi, Alabi, Ahiawodzi, 2006).

Entrepreneurial Objectives of SSEs and Esusu System

The entrepreneurial requirements of any enterprise, whether small, medium or large, can be categorised under four broad headings; marketing, financial, production and human resource. The entrepreneurial objectives of the SSEs focus on the ability of the SSEs operators to identify the needs in their immediate environment bring together the resources towards meeting the needs so to attain their set objectives. The marketing function emphasizes on meeting objectives that have to do with branding, advertising, promotion etc, financial objectives refer to the economic lives of the SSEs which extend for the medium to long term, production objectives focus on ensuring that raw materials are processed into finished goods, the human resources objectives ensure that the right employees are being recruited and appropriately remunerated. All these entrepreneurial objectives require both fixed and working capital. Fixed capital is concerned with investment in assets such as land, buildings and equipment, working capital on the other hand, consists mainly of cash, inventories of raw materials, work-in progress and finished goods, and accounts receivable. Implicit in this definition is the notion that the working capital of the financial objectives of SSEs are 'self-liquidating' over the short-term - a period approximating the enterprise's production cycle - while their funds invested in fixed capital are only recovered from cash-flow surpluses over the medium to long term (Brunton, 1997; Alabi, Alabi, Ahiawodzi, 2006; Oloyede, 2007). This shows that adequate funding is required to operate the enterprise over the production period. Thus the financial objectives constitute more than 60% of the total entrepreneurial objectives of SSEs as majority of their operators see lack of finance as the main challenge their enterprises (Norwood, 2005; Oloyede, 2007).

The study of Kihiko (2012) revealed this clearly. This study showed that among all the small business entrepreneurs basic needs, financial needs constitute about 119(70%) of the businesses needs and the

findings also showed that 145(86%) of all the small-scale businesses depend on credit for business capital (Kihiko, 2012). The findings showed that most entrepreneurs, 131 (90%) with credit get it from informal financial institutions such as rotating credit and savings associations. The relative importance of these financial requirements of SSEs depends on a number of factors, the most important being the size of the enterprise, the industry group in which it operates and the nature of the technology employed (Brunton, 1997). While there are significant differences between countries, regions and sectors, in general, small scale enterprises tend to have lower relative financial requirements for both fixed and working capital because of the high degree of labour intensity exhibited (Brunton, 1997).

Methodology

The sample design of this paper was based on a simple sampling approach. To carry out this study, one hundred (100) entrepreneurs were randomly selected from Ado-Odo Ota Local Government Area in Ogun State which is the population of the study was purposively selected (Singleton, Straits, and Straits, 1993), while snowball sampling techniques were used to select members of the Esusu scheme (Neuman, 2003). All participants are dwellers of Ota village in Ado-Ota Local Government Area in Ogun State. The activities of the small scale entrepreneurs were captured using some demographic items such as age, sex, nature of their business, year they started the business structure and other variables. The instrument of structured questionnaire was used to obtain the necessary data required for this study. The use of questionnaire was necessitated so as to enable the respondents to be objective and precise in responding to the research questions. The questionnaire was sectionalized into three parts with more than twenty five (25) items which include information on the profile of the entrepreneurs. A five-point Likert-scale that ranges from strongly agree to strongly disagree of point scale of (5 to 1) was used to capture the activities of the Esusu scheme with the respondents. A statistical model of single regression was used to test the

hypothesis of this study. The use of regression is important so as to test the relationship between the independent and dependent variable.

Survey Results

To analyze the data of this study, SPSS 12 (SPSS, Inc., 2003) statistical program was used. Descriptive statistics which include percentage distributions, mean and standard deviation were calculated based on the respondent's responses for each item on the demographic information of the respondents and this includes their age, sex,

the nature of business, year they stated business and their the Esusu scheme. Table 3 depicted that out of the 100 questionnaires distributed, 82 or 82.00% of the questionnaire were retrieved from the respondents and this forms the sample size of this study. Table 3 showed that majority of the businesses owned by the entrepreneurs are in the distribution as 64(78%) in trade and 18(22%) in service sector. Considering the respondents' year of starting the business, majority of them, about 70(87.8%) of them started the business between 2000 and 2013.

Table 3: Descriptive Statistics of Entrepreneurs by Age, Nature of Business n=82,

State of Residence	Freq.	Per. (%)	Sectors	Freq.	Per. (%)
Ogun	82	82	Nature of Business		
Age			Trade	64	78
24-29	14	17.1	Service	18	22
30-35	14	17.1			
36 and above	54	36.7	Sex		
Year of Starting the Business			Male	16	19.5
1990-1994	6	7.3	Female	66	80.5
1995-1999	4	4.9			
2000-2004	20	24.4			
2005-2009	22	26.8			
2010-2013	30	36.6			

Source: Field Study (2013)

The entrepreneurs under this study were asked questions like whether Esusu scheme has helped them to "achieve personal financial objective", majority of them 68(82%) were in affirmation with the question. Other questions that rated high point include; if Esusu has helped to increase their capital for business

expansion, the impact of Esusu in reducing unemployment and poverty among the beneficiaries, whether Esusu makes entrepreneurial financing and marketing easy. The frequency and percentage of these items scored 72(87.8%), 70(85.5%) and 66(80.5%).

Table 4: Descriptive Statistics

Items	N	Frequency	Percent	Mean	Std. Deviation
Achievement of personal financial Objectives	82	68	82.9	4.8293	.37859
Esusu contribution to personal project	82	68	82.9	4.8293	.37859
Esusu borrowing attract small interest charges	82	66	80.5	4.8049	.39873
Low risk in Esusu	82	68	82.9	4.8293	.37859
More comfortable with Esusu loan than bank	82	48	58.5	3.6098	1.40331
Esusu group promotes economic development	82	64	78.0	4.7317	.58897
Esusu enhances savings culture	82	64	78.0	4.7805	.41646
Started capital from Esusu	82	66	80.5	4.8049	.39873
Esusu fund boost working capital	82	66	80.5	4.8049	.39873
Esusu to increase in capital for expansion	82	72	87.8	4.8780	.32924
Entrepreneurial financial objectives through Esusu	82	66	80.5	4.7805	.47204
Esusu fund better financing means	82	58	60.7	3.9268	1.30318
Nigerian Entrepreneurs optimism about Esusu	82	66	80.5	4.8049	.39873
Esusu reducing unemployment and poverty	82	70	85.4	4.8537	.35562
Esusu fund makes entrepreneurial financing easy	82	66	80.5	4.8049	.39873
Marketing of product easy with Esusu	82	66	80.5	4.8049	.39873
Valid N (listwise)	82				

Source: Field Study (2013)

Data Analysis

To achieve the objective of this study a research hypothesis was formulated and the model of simple regression was employed to test the hypothesis. However, a descriptive analysis on the demographic and nature of the business of the respondents was first conducted before

statistical inference is drawn as to ascertain the relationship between the independent and dependent variables.

Hypothesis

H₀: Esusu is not an effective strategy for achieving the entrepreneurial objectives of SSEs

Table 5 :(a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853 ^a	.727	.721	.24955

a. Predictors: (Constant), Esusu fund boost working capital, Started capital from Esusu

Table 5:(b) ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.129	2	6.564	105.406	.000 ^a
	Residual	4.920	79	.062		
	Total	18.049	81			

**b. Dependent Variable: Entrepreneurial objectives through Esusu
Source: Field Study (2013)**

In Table 5(a) and (b) above, we observed that the explanatory variable (involvement of SSEs in Esusu scheme for financing entrepreneurial venture) has a significant effect on the achievement of the entrepreneurial objectives. The P-value is significant at 0.000. This means that the research hypothesis (H_i) is statistically significant and the null hypothesis which states that Esusu is not an effective strategy for achieving the entrepreneurial objectives of SSEs is rejected. The result of the analysis of this study implies that the involvement of entrepreneurs in SSEs in Esusu scheme significantly explained only 72.7% of the achievement of their entrepreneurial objective. This means that about 72.7% achievement of their entrepreneurial objectives resulted from their involvement in Esusu scheme. This result shows that R² (independent variables) of 72.7% is strong in explaining the change in the dependent variable. This reveals that the independent variable (Esusu scheme) has a positive effect on the dependent variable (achievement of the entrepreneurial objectives) of the SSEs under our study.

Conclusion

This study has examined the role of the indigenious contribution scheme known as Esusu in Nigeria in helping Small Scale Enterprises in the achievement of their entrepreneurial objectives. From the result of the analyses conducted, this study concludes that there is a positive relationship between the Esusu scheme and the achievement of the SSEs entrepreneurial objectives. This shows that Esusu scheme can be used as a medium for financing SSEs towards the economic development of the nation Nigeria.

Recommendations

Based on the results of the analysis, the paper made the following recommendations (i) The Nigerian government should consider the issue of regulating the informal financing system (Esusu scheme) by enacting appropriate legislations, laws, and regulations just like what is obtainable in existing banks such as Agricultural Credit Guarantee Scheme Fund (ACGSF) and Microfinance banks. This will help to control the operation of the Esusu scheme and check mate their activities. (ii) There is

need to organize training and workshop programmes for the Esusu scheme operators so as to educate them on different strategies to achieve their entrepreneurial objectives and best practices as regard SSEs. This will help to equip them with the knowledge and skills required for the operation of their business. (iii) The SSEs operators should also be given attention in terms of funds raising and management. This will help to mitigate the obstacles of mismanagement of funds, irregular repayments and loan delinquency by SSEs beneficiaries. (iv) Esusu scheme collectors must be insured to regulate their operations. Here lessons can be learnt from the Credit Union Scheme and Credit Unions Association (CUA) system in Ghana. This will help to weed out fraudulent individuals who may want to defraud the vulnerable, such as the illiterates and less educated members of the scheme. There is need for NGOs and Social Interest groups to be involved in integrating capacity building programmes into the activities of the Esusu scheme. Organizing training and short courses such as entrepreneurial marketing,, people management, book keeping, basic business management and accounting principles should become a pre-requisite for accepting SSEs into the Esusu scheme and other type of rotation credit associations. This will help to improve and build the capacity of both Esusu operators and small scale entrepreneurs.

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