FINANCING SMALL AND MEDIUM ENTERPRISES FOR ECONOMIC GROWTH.

A STUDY OF MICROFINANCE BANKS IN SOKOTO METROPOLIS

BY

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MARCH, 2015.
This project has been read and approved by the undersigned having met the requirement for the award of Masters in Business Administration.

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Date

Date

Date
DEDICATION

I dedicate this project to Almighty Allah, the Creator of Heavens and Earth, who gives Knowledge, Wisdom and Understanding.
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CHAPTER ONE: GENERAL INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Small and Medium Scale Enterprises (SMEs) are the backbone of every economy and are key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies. SMEs constitute the dominant form of business organization, accounting for over 95% and up to 99% of enterprises depending on the country (Osagie 2004:25). They are responsible for between 60-70% net job creations in less-developed or developing countries.

While not every small business turns into a multinational, they all face the same issue in their early days – finding the money to enable them to start and build up the business. It is harder for them to borrow money from banks or finding private investors than for larger firms.

Microfinance institutions are semi-formal organization and a subset of flexible structure and systems which provide a wide range of financial and saving needs of small scale enterprises in developing countries where top-town formal financial institutions have failed to address the credit need of the real sector of the economy.
Hence, the intention of this research is to undertake a survey of financing options for small and medium scale enterprises in Sokoto State.

1.2 STATEMENT OF THE RESEARCH PROBLEM

Small and Medium Scale Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria.

This situation has been of great concern to practitioners and the organized private sector groups as well as non-governmental organizations. For the purpose of this research work, the research questions are:

a. What extent does financing of SMEs affect economic growth of Sokoto State?

b. Does small and medium scale enterprises stimulate economic growth?

c. Does microfinance loan to small and medium scale enterprises actually leads to high effectiveness.

d. Does SMEs access capital loans from microfinance institutions.

1.3 OBJECTIVE OF THE STUDY

Every research work should have objective(s) upon which it is being undertaking. This study attempts to examine the financing of small and medium scale enterprises for economic growth. The objectives of the study are:
a. To determine whether SMEs stimulates economic growth

b. To investigate the extent to which financing of SMEs affects economic growth in Sokoto State.

c. To investigate whether microfinance loans to SMEs actually leads to high effectiveness.

d. To find out whether SMEs are able to access capital loans from micro institutions.

1.4 RESEARCH HYPOTHESES

These are tentative statements that test the validity of the research questions. For the purpose of the research work, the following hypothesis would be considered.

Ho: Small and Medium Scale Enterprises do not stimulate economic growth.

Ho: Financing of Small and Medium Enterprises do not affect economic growth in Sokoto State.

Ho: Microfinance loans to small and medium scale enterprises do not lead to effective performance.

Ho: Small and Medium Enterprises do not access capital loans from microfinance institutions.

1.5 SIGNIFICANCE OF THE STUDY
The significance of the research work is to add to the general body of knowledge. The research would serve as a reference literature for students of management especially students of business administration and banking and finance.

However the research also serves as a guide to the government in order to access how SMEs promotes economic growth. It also serves as a guide to SMEs operators on how they could access different sources of loans to finance their activities.

The research also serves as a guide to banks and other financial institutions of the various types of loans that could be given to SMEs practitioners.

1.6 SCOPE OF THE STUDY

The scope of the research is limited to Sokoto State metropolis. This is to enhance accurate and reliable data in order to achieve the objective of the study. Small and medium enterprises would be scontacted in Sokoto State metropolis.

1.7 CHAPTER SCHEME
The research work comprised five chapters. The chapter one is the general introduction of the research work. It discuss the background of the study, statement of the research problem, objective of the study, research hypothesis, significance of the study and scope and limitations of the study.

Chapter two of the research is the literature review. It discusses the various definitions given by different scholars on the subject matter, their sources of finance and the challenges faced by SMEs in accessing finance.

Chapter three is the research methodology. It explains the research design to be adopted, the population, the sample size and the sampling techniques, data collection method and the data analysis technique.

Chapter four is the data presentation and analysis. It explains how the data collected are presented and analyzed. It also explains the hypothesis testing.

Chapter five is the final and concluding chapter of the research work. summarized the entire research work, proffers recommendation and concludes the research work.
CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter intends to contribute to the array of literature written by different scholars on financing Small and Medium-scale Enterprises (SMEs). Like other countries of the world, SMEs in Nigeria have the tendency of reducing poverty, creating employment opportunities, generating income and contributing to
economic growth. Despite its increasing roles, access to finance by SMEs remains a major constraint in achieving those laudable goals of development.

This chapter reviews the various definitions of SMEs by scholars/authors, sources of finance, access to finance and the challenges of SMEs financing in Nigeria.

2.2 DEFINITIONS OF SMALL AND MEDIUM ENTERPRISES

According to the former Governor of the Central Bank of Nigeria Chief (Dr.) J. Sanusi (2004), he define a small and medium scale industry as any enterprise with a maximum assets base of ₦200million, excluding land and working capital, with the number of staff employed by the enterprise not less than ten (10) and not exceeding 300.

According to extant literature the definition vary in different economies but the underlining concept is the same. Ayaggari et al (2003) and Buckley (1989:1) contends that the “definition of small and medium scale enterprises varies according to context, author and countries”. In countries such as USA, Britain, Canada, small and medium enterprises is defined in terms of annual turnover and number of paid employees (Ekpeyoug and Nyang, 1992: 4). In Britain for example SME is conceive as that industry with annual turnover of 2million pounds less or less with fewer than 200 paid employees (Ibid, 4). In the case of
Japan it is conceptualized as type of industry, paid up capital and number of employee.

Consequently, small and medium scale enterprises are defined as those manufacturing with 100 million Yen paid up capital and 300 employees. Those in wholesale trade with 300 million paid up capital with 100 employees while those in retail trade with 100 million paid up capital with 50 employees (Ibid; 4).

In case of Nigeria, hardly do you see a clear-cut definition that distinguishes between small and medium scale enterprises. However, the Central Bank of Nigeria in its Monetary Policy Circular No. 22 of 1988 view small scale industry as those enterprises which has annual turnover not exceeding ₦500,000 (CBN; 1988). Similarly in 1990, the Federal Government of Nigeria defined small scale enterprises for the purpose of commercial bank loans as those enterprises whose annual turnover does not exceed Five hundred thousand naira (₦500,00) and for merchant bank loan those enterprises with capital investment not exceeding two million naira (₦2, 000,000) excluding cost of land or a minimum of five million naira (₦5, 000,000). The CBN (1987) classified SMEs as those with annual turnover of not less than ₦500, 000 and not more than ₦3 million respectively.
According to the National Council of Industries, prior to 1996, small scale enterprises were defined as those with fixed assets above N1million but not exceeding N10million excluding land but including working capital of over N10million but not exceeding N40million. The definitions were revived in 1996 with small scale industry defined as those with total cost of land above N1million but not exceeding N40million with a labour size of between 36 and 100 workers (Akinboyo, 2007). For the purpose of Small and Medium Enterprises Equity Investment Scheme (SMEEIS), the Bankers’ Committee defined SME as any enterprise with a maximum asset base of N500million (excluding land and working capital) and with no lower or upper limit of staff.

Baumback (1983) showed in his publication on “basic small business management” that prior to 1992, there was no common definition of what constituted small and medium scale industries in Nigeria. However in 1996, the National Council on Industry (NCI) classified industrial enterprises in Nigeria into four groups as revised in their meeting held at Lokoja in 2003, thus:

2.2.1 COTTAGE INDUSTRY

Enterprises with total cost (including working capital but excluding cost of land) not more than N1.5million with a labor size of not more than ten workers.

a. SMALL SCALE INDUSTRY
Enterprise with total cost (including working capital but excluding cost of land) above ₦1.5million but not exceeding ₦50million with labor size of between eleven and one hundred workers.

b. MEDIUM SCALE INDUSTRY

Enterprise with total cost (including working capital but excluding cost of land) above ₦50million but not exceeding ₦200million, with a labor size of between 101 and 300 workers.

c. LARGE SCALE INDUSTRY

Enterprise with total cost (including working capital but excluding cost of land) above ₦200million and a labor size of over 300 workers.

2.3 SMALL AND MEDIUM ENTERPRISES AND ACCESS TO FINANCE

A major barrier to rapid development of the SME sector is shortage of both debt and equity financing. Accessing finance has been identified as a key element of SMEs to succeed in their drive to build productive capacity, to compete to create jobs and to contribute to poverty alleviation in developing countries. Small business especially Africa can rarely meet the conditions set
by financial institutions, which see SMEs as a risk because of poor guaranties and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in the global markets or even strike business linkage with larger firms (UNCTAD 2002).

Many factors are believed to be responsible for the refusal of the formal banks to loan to SMEs either as debt or equity finance.

According to Cark and Nixson (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals, whose personal life style may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guaranty returns in the long run. According to Kauffinann (2005), access to formal finance is poor because of high risk of default among SMEs and due to inadequate financial facilities.

2.4 SOURCES OF FINANCING SMEs IN NIGERIA

Although the banking sector is the largest and most important source of financing for SME, by and large, it is believed to be under-serving the needs of
this sector. SME alternatively draw financing from a variety of sources. According to OECD (2006), small firms rely proportionally more on non-bank sources of financing such as internal funds (Saving, Retained earnings and family network) and the informal sector (money lenders), as a result of their inability to produce the collateral requested by the commercial banks (Satta, 2003). Most countries such as the ASEAN countries emphasizes mostly on the informal sector as their main channel of credit for SMEs. According to RAM Consultancy Service (2005), informal sector channel provide up to 70-80% of SMEs need in Vietnam compare to 20-30% funded by formal channel.

In Nigeria, it is common practice for small business owners to organize themselves into cooperatives commonly called “Esusu”. Members of Esusu would generally contribute a fixed amount daily, weekly or monthly to be pulled and then collected in turns to fund their businesses or personal projects (Elumilade et al, 2006). The Federal Ministry of Industry (FMI) in June, 1992 organized the first national consultation on strategies on financing small and medium enterprises (SMEs). As one of its main recommendations, the forum advocated for a National Credit Guarantee Scheme for SMEs. The Federal Ministry of Industry set up a Technical Committee, with members drawn from relevant SME support agencies and private sector organizations to prepare a feasibility study for the establishment of the scheme, which never saw the light
of the day. According to Ogujiuba et al (2004), the predominant credit facility available to small and medium scale in Nigeria is short-term finances (asset based loans).

The sources of financing small and medium Enterprises are explained below.

2.4.1 BANK OVERDRAFT

Commercial banks sometime allow their customers to overdraw their account up to a certain limit, overdraft interest is charged on the day to day overdraw position. There is scarcely a firm in the world that does not use overdraft facilities to manage their way through business cycle (CGAP, 2006). Firms always rely on overdraft to finance even long-time investments and they have to be fully collaterized. Banks prefer overdraft for simple reasons that;

i. They are easily rolled over

ii. They attract almost market interest rates and

iii. They are fully collaterized.

2.4.2 TRADE CREDIT

Trade credit is another source of external finance for most Nigerian SMEs. This is a short term credit extended to companies by their suppliers and by companies to their customers. However, this practice is not as widespread as it
could be with trade credit being extended to only the most valued and trusted customers due to lack of confident in the legal system of enforce contracts. Berger and Udell (2004), argued that trade credit are suitable for funding informational opaque SMEs and or in countries with weak lending infrastructure. Trade credit as a profitable lending technology, with an annual interest rate of about 12-24%, still, one major fear why suppliers and companies do not give trade credit to their client is the distrust for legal and judiciary system. Trade credit is used almost by all firms as a method of short-term financing because suppliers are generally more liberal in the extension of credit than are financial institutions. Trade credit is an important source of funds for small and medium companies in particular.

There are three types of trade credit arrangement that are employed by firms: Open Accounts, Notes Payable and Trade Acceptances.

a. In an open account arrangement, the seller ship goods to the buyer along with an invoice that specifies the goods shipped, the total amount due and the terms of the sale. Generally in an open account, the seller extends credit base on credit investigation of the buyer, because the buyer does not sign a formal test instrument evidencing the amount he owes the seller.
b. In the case of notes payable arrangements, promissory notes are employed instead of open account credit. In this case the buyer is asked to sign a note that evidences what he owes to the seller.

c. In the case of trade acceptance arrangement, the seller draws a draft on the buyers ordering him to pay the draft at some date in the future. The seller will not release the goods until the buyer accepts the time draft.

2.4.3 LEASING

Globally, leasing is another widely used service for SMEs, although the lack of leasing law is constraining development of this sector in Nigeria (Isern, 2009). Leasing is a loan on fixed asset (Desai et al 2007) and it is also known as “ijarah” under the Islamic Bank arrangement (Khan, 2008). According to Ahmed (2009), there are two kinds of ijarah contract used by the financial institutions.

The first is the ijarah or true lease, which represent an exchange transaction in which a known benefit arising from a specified asset is made available in return for payment, but where the ownership of the asset itself is not transferred. While the second type is ijarah wa iqtima (hire purchase or lease and ownership). This is a lease whereby the ‘lessee’ derived economic use and
ultimate ownership on the nature of the hire purchase. Although leasing has a tremendous potential to address effectively the shortage of medium to long-term finance, in particular. SME in Nigeria, it is however under developed (RPED/World Bank, 2002).

Although leasing can reduce risk effectively for credit institutions, but their growth are majorly, hampered by various factors, including the lack of a coherent legal framework for leasing transactions, widespread problems of contract enforcement, difficulties in reprocessing lease equipment from defaulters, and a lack of domestic long-term fund to finance leasing (Isern, 2009 and RPED/World Bank, 2002).

2.4.4 VENTURE CAPITAL OR RISK CAPITAL

Venture capital or risk capital is the name given to equity investment in businesses by outsiders who are not the main owners. Venture capital investments participate in the risk of success and failure of a business and because they face such risk, it is expected that they look for high returns.

In all, venture capital fosters growth in companies through hands-on involvement in financing, management, and technical support. In Africa, there is little experience of venture capital although there has been a start in some other countries like Nigeria.
Dagogo and Oller (2009) examined the use of venture capital (VC) financing for small and medium scale enterprise (SME) development in Nigeria by comparing the economic value added (EVA) of venture capital-backed SMEs and those of non-ventured capital-backed SMEs. They found that venture capital financed SMEs clearly outperformed non-venture capital SMEs and that the distinctive performance is the effect of management support by venture capitalists in their portfolio SMEs.

Venture capital funds are usually obtained from institutional investors, especially pension funds, financial intermediaries and the corporate sector as well as official sector. Most venture capitalist can provide large sum of equity finance and also bring a wealth of expertise to a business, and it is easier to secure further funding from other sources if venture capitalist is successfully attracted. However, venture capitals also face a problem of capital gain tax (OECD, 2006).

2.4.5 BUSINESS ANGELS

Business Angels (BAs) are wealthy individuals who invest in high growth businesses in return for equity (i.e. share of ownership). They are different from venture capitalist in that they tend to invest more and more on an “intuitive feeling” rather than based on the precise valuation of the term sheet of the company. Business Angels often play key role in the early stages of the
life of firms. They are individuals with experience, who have capital to invest and seek opportunities to all kinds among newer enterprises. They also play active roles in the development of the products and management of the company in its early stage (OECD, 2006).

Findings also show that firms financed by business angels were likely to be trying to finance fixed assets (62 percent) than working capital (44 percent). This proves that business angels are more likely to be for expansion purposes rather than addressing cash fall. Also, firms financed by business angels received debt financing on relatively better terms than other businesses (Riding, 2006). According to other researchers, business angels are associated with successful entrepreneurial firms that achieve relatively high rates of return (Riding 2006). Although business angels have enormous impact on SMEs funding, they do not make investment regularly and may not be actively looking for opportunity, so they may be difficult to find. They tend to place emphasis on their relationship and how well they can work with an entrepreneur, so tracking down one may take longer than expected.

2.4.6 ROTATING SAVINGS AND CREDIT ASSOCIATION (ROSCA)

This is one of the informal sources of finance to Small and Medium Scale Enterprise. Small and Medium Scale Enterprise in most developing countries like Nigeria, have found relief in the traditional Rotation Savings and Credit
Association (ROSCA). This mechanism has survived in many societies where it is nothing less than an institution known under different names depending on the ethnic group in Nigeria. ‘Esusu’ (Yoruba), ‘Oja’ (Igala), ‘Adashe’ (Hausa) etc. Effective examples have been reported in Benin, Tanzania, Cameroon and other African countries.

This source of micro finance i.e ROSCA is a simple and flexible source of financial intermediation. According to Aruwa (2003:58) “A group of people with common interest forms co-operative with each member depositing a given amount in the kitty at a regular interval for a specified time. The total amount is given in turn to one of the group member. The first round lucky winner will continue to contribute faithfully until the end”. Apart from the ordinary ROSCA that brings together depositors in need of money for a social purpose, the rapidly evolving business (ROSCA) is designed for SMEs with a more substantial need for capital. Gelines (1998:11) grouped this type of ROSCA under three headings:

1. The Investment ROSCA, in which the participants are SMEs who have to submit a private or co-operative investment project; the deposits are relatively high.

2. The modern commercial ROSCA, which is periodically auctioned off to participants; the bidder offering the highest interest rate on the deposits
win priority access to the kitty and so on down the line; each interest payment is distributed among the other members.

3. The market place (or mobile banker) ROSCAS, organized by a professional ROSCA promote who collects contributions in the market place; he then auctions off the kitty, reserving a commission for his services before redistributing the proceeds from the sale among the participants.

The lesson derived from micro-finance experiences is that through user ownership and rigorous savings mobilization, unsustainable credit programmes can be transferred into networks of viable local financial intermediaries. While the informal micro finance is advisable to be exploited, SMEs can avail themselves with government development banks and funding institutions for credit facilities with minimum guarantees e.g. the Central Bank of Nigeria and World Bank small and medium enterprises development project loan scheme.

2.4.7 SMALL AND MEDIUM ENTERPRISE EQUITY INVESTMENT SCHEME (SMEEIS).

SMEEIS is acronym for “Small and Medium Enterprises Equity Investment Scheme”. SMEEIS is a voluntary initiative of the Bankers’ Committee approved at its 246th meeting held on 21st December, 1999 with the objective to
facilitate the flow of funds for the establishment of new Small and Medium Enterprises Projects, reactivation, expansion and modernization or restructuring of ongoing projects and also to stimulate growth, development of local technology and generation of employment.

The SMEEIS was established not only to bridge the dearth in long-term finance, but also to deal with other bottlenecks limiting the development of small and medium scale enterprises in Nigeria. The previous arrangements concentrated more on debt financing on short term basis which was not enough to address the medium to long-term financial needs of operators which were critical to the growth and sustainable development of the sub-sector.

The Nigerian government requires all licensed banks in Nigeria to set aside 10 per cent of their pre-tax profit for equity investment and promotion of small and medium scale enterprises. It has a goal to reduce interest rate burden and other financial service charges imposed under normal bank lending. However, SMEEIS’s fund has been reported to have attained 20 billion naira but only 8 billion naira was disbursed. The reason for the inability of SMEs to avail themselves of this fund is yet unconfirmed. The apparent lack of investment in the micro-enterprises sub-sector could be informed by the absence of approved guideline which is still being finalized (Osagie 2004: 25).
According to Sanusi (2004: 25), a breakdown of the SMEEIS fund investment by sectorial distribution, 68.82 per cent went to the real sector while service related investment accounted for only 31.18 per cent. This he noted was a sharp reversal from the initial trend recorded under the scheme. The Bankers Committee has allocated the investment of banks with respect to the fund as 60, 30 and 10 per cent of their fund in core real sector, service related and micro-enterprises respectively. Analyzing the geographical spread of the SMEEIS fund Sanusi (2004: 25) reports that Lagos-based investments are gulped 56.63 percent of the fund and Abuja and 18 states received the balance of 43.47 percent.

Since the banks have demonstrated their inability to assume and manage the interest of Small and Medium scale Enterprises (SMEs); the informal savings, not only do they fill the vacuum created by the official financing system’s failure to adapt to the SMEs needs but they also prepare for new forms of capital accumulation based on solidarity and co-operation.

2.4.8. THE CENTRAL BANK OF NIGERIA AGRICULTURAL CREDIT GUARANTEE SCHEME.
The first formal credit guarantee scheme to be introduced in Nigeria through a Decree was the Agricultural Credit Guarantee Scheme Fund (ACGSF). The scheme was established by Decree No. 20 of 1977 that provides for a fund of N100 million and subscribed to by the Federal Government and the Central Bank of Nigeria in the ratio of 60:40. The fund was later enhanced to N1 billion in 1999 and later to the present level of N3 billion.

The fund provides guarantee in respect of loans granted by banks for approved agricultural purposes with the aim of increasing the level of bank credit to agricultural sector. The minimum amount that could be guaranteed for individuals under the scheme was initially N100,000 while upper limit for limited liability companies and cooperative societies was N1 million. The upper limits was generally enhanced to the present limits of N1 million and N10 million naira for individuals and cooperate bodies respectively.

The funds liability is limited to 75% of the amount in default net of any amount it realized by the lending bank from the sale of the security pledged by the borrower.

Available date showed that a total number of 757,075 loans valued at over N53.180 billion naira was guaranteed from the inception of the scheme in 1978 to March, 2012. The scheme is under the management of the Central Bank of Nigeria with a separate Board of Directors responsible for policy making.
Other sources of fund for Small and Medium scale Enterprises are Micro start program by United Nations Development Project (UNDP) with City Express Bank, the African Enterprise Fund (AEF- IFE), special funds for oil and gas contractors (an initiative of the International Finance Corporation using some banks for delivery) and many Foreign Development Institution (DFIs) especially in Europe e.g. Commonwealth are focused on Nigerian Small-scale Enterprises, trade credits and equipment leasing.

2.5 CHALLENGES OF SMEs FINANCING

Flexibility as well as low start-up and operating cost have enabled SMEs to spring up; to reposition and adjust themselves quickly in response to market and economic changes. Moreover, they easily expand or contract in a short time.

SMEs have not only survived the impact of big enterprises and the law of economics of scale but have carried out riches for themselves, which enable them to co-exist with big enterprises.

The difficulties that SMEs encounter when trying to access financing are:

i. **Lack of Access to Market Information before Entering the Market:**
   Since they lack information before of the market, it becomes difficult for them to operate. Also, lack of technical know-how equally affects the
SMEs. Most of what are done is now computerized. Lack of adequate knowledge of technology will hinder the financial system of the SMEs.

ii. **Low Quality Human Resource:** Human resource is the most crucial aspect of every organization. The quality of employees in an organization will determine the success or failure of the organization. As such, if the quality of the organization is high, the organization’s objectives are achieved and vice versa. The quality of personnel is also a major factor that affects the funding of SMEs. The use of qualified experts on finance should be encouraged so that organizational finance structure could be successful.

iii. **Lack of Access to Capital:** Most SMEs do not have access to capital especially start up and very young firms that typically lack sufficient collateral or firms whose activities offer the possibilities of high returns but at a substantial risk of loss.

iv. **Regulatory Rigidities or Gaps:** This in the legal framework is also hindering financing of SMEs. Most government regulations do not favour SMEs in the country. Thus meeting the lowest capital of SMEs becomes a problem.
v. Difficulty for Potential Creditors or Investors to Distinguish the Financial Situation of the Company from that of Others: The entrepreneur may have re-mortgaged his or her own house to acquire the start-up funds for the company.

vi. The SME may have several stakeholders but again unlike a large company they are likely to be friends and family of the SME owner: What happens if one of them decides to take his or her money else way? Will the other stakeholders be able to make good on the investment, will they look for a new investor in their own circle or will they ask the bank for more money.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research design, population of the study, sample and sampling method, sources of data collection and method of data analysis.

3.2 RESEARCH DESIGN
For the purpose of this research work, the survey research design was adopted which concerns with the collection of data for the purpose of describing and interpreting the existing condition.

With this method of research design, questionnaires, personal interview and close observation were used to collect data whole both descriptive and inferential statistics served as method of data analysis.

3.3 POPULATION

The population of this study includes both the management and other staff of the Guarantee Trust Bank Plc.

3.4 SAMPLE AND SAMPLING TECHNIQUES

3.4.1 SAMPLE

Since not all the staff can be contacted, a sample is needed. The sample of this research work includes 30 management staffs and 10 other staffs.

3.4.2 SAMPLING TECHNIQUES

There are various method of sampling which include Simple Random Sampling, systematic sampling, cluster sampling, quota sampling and stratified sampling. For the purpose of this research work, the sample random sampling was used.
First and foremost, ten (10) senior staffs were randomly picked and twenty (20) junior staffs were also picked randomly. That is a total of thirty (30) management staffs and ten (10) other staff was also picked.

3.5 DATA COLLECTION METHOD

Basically there are two source of data collection. That is the primary and secondary sources. Primary data are sourced from interview, observation, questionnaire and experiments. While secondary data are sourced from reading materials such as publications, journals, bulletins etc.

For the purpose of this research work, only the primary source of data collection was used. That is questionnaire was sent to respondents while interview was adopted to compliment the questionnaire.

3.6 DATA ANALYSIS TECHNIQUE

After the collection of the copies of the questionnaire from the respondents, they were edited and properly scrutinized. The method of data analysis was descriptive which involve the use of table and simple frequency percentages.
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter attempts to present and analyze the data collected through the questionnaire. The analysis will be based on forty (40) respondents who completed and returned the questionnaire.

4.2 DATA PRESENTATION AND ANALYSIS

The data collected through the questionnaire will be presented and analyzed in a tabular form for easy and clear understanding.

TABLE 4.1

Distribution of Respondents by Sex
Table 4.1 shows that 75% of the respondents are male and 25% are female.

This indicates that majority of the staffs are male and could work harder in order to create awareness about microfinance institutions.

**TABLE 4.2**

**Distribution of Respondents by Qualification**

<table>
<thead>
<tr>
<th>QUALIFICATION</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Certificate</td>
<td>5</td>
<td>12.5%</td>
</tr>
<tr>
<td>Masters</td>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td>BSc</td>
<td>16</td>
<td>40%</td>
</tr>
<tr>
<td>HND</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Diploma</td>
<td>5</td>
<td>12.5%</td>
</tr>
</tbody>
</table>
Table 4.2 shows that 12.5% of the respondents are professionals, 10% are Masters Holders, 40% are BSc holders, 25% are HND holders while 12.5% are Diploma holders.

This indicates that, some of the respondents are professionals and have the professional knowledge and skills about Small and Medium Scale Enterprises. Some have the masters’ qualification which indicates that the respondents are well familiar and have a wide knowledge with the subject matter. However, some respondents are also BSc holders who are the most populated respondents sampled. Some the respondents also are HND and Diploma holders who could be used as supporting staffs in the organization. The above analysis indicates that, with the kind of respondents sampled, accurate and reliable response would be derived from them which will enable the research objective to be achieved.
### TABLE 4.3

**Years of Experience in the Industry**

<table>
<thead>
<tr>
<th>NUMBER OF YEARS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td>1 – 5 years</td>
<td>29</td>
<td>73%</td>
</tr>
<tr>
<td>6 – 10 years</td>
<td>5</td>
<td>12%</td>
</tr>
<tr>
<td>11 years and above</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>40</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Questionnaire Administered (2012)*

Table 4.3 shows that 10% of the respondents were in the industry for less than 1 year, 75% were in the industry between 1 to 5 years, while 12% between 6 to 10 years and 5% from 11 years and above.

The above table indicates that, majority of the respondents ie 90% were in the industry for than 1 year. With this experience they have in the industry, their responses could be relied upon to achieve the said objectives.

### TABLE 4.4
Does financing of SMEs affect economic growth?

<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>57.5%</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>42.5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Questionnaire Administered (2012)*

Table 4.4 shows that 57.5% of the respondents indicate that, financing of SME’s affect economic growth and 42.5% states that, it does not.

This indicates that, financing of Small and Medium Scale Enterprises affect economic growth and this analysis would assist us in achieving one of the research objectives.

**TABLE 4.5**

**What is the major source of financing?**
<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Trade Credit</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Leasing</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Venture or Risk capital</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Business Angels</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Rotating savings and Credit Association</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>SME’s Equity Investment Scheme</td>
<td>5</td>
<td>12.5%</td>
</tr>
<tr>
<td>The CBN Agriculture Credit Guarantee</td>
<td>25</td>
<td>62.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>40</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Questionnaire Administered (2012)

Table 4.5 above shows that 25% of the respondents states that rotating savings and credit is their major source of finance, 12.5% states that it is SME’s Equity Investment and 62.5% states that it is the CBN Agriculture Credit Guarantee.

The interpretation of the table above indicates that, three sources of finance dominate other sources but the major source of finance is the Central Bank of
Nigeria Agriculture Credit Guarantee Scheme. This source of finance is a joint finance between the Federal Government and the CBN in the ratio 60:40.

**TABLE 4.6**

**Does SMEs stimulate economic growth?**

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38</td>
<td>95%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Questionnaire Administered (2012)*

Table 4.6 shows that 95% of the respondent’s states SME’s stimulate economic growth while 5% states that, they do not stimulate economic growth.

The implication of the above shows that majority of the respondents i.e. 95% stresses that, Small and Medium Scale Enterprises stimulates economic growth. This is with the support of the Federal Government and the Central Bank of Nigeria analyzed at table 4.5 above. This enables us to achieve the second objective of the research work.

**TABLE 4.7**
Do microfinance loans to Small and Medium Scale Enterprises actually lead to high effectiveness?

<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>20%</td>
</tr>
<tr>
<td>No</td>
<td>32</td>
<td>80%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Questionnaire Administered (2012)

Table 4.7 shows that 20% of the respondents states that microfinance loans to SME’s actually lead to high effectiveness while 80% states that it does not lead to high effectiveness.

The interpretation of the above table states that, Small and Medium Scale Enterprises do not lead to high effective. This could as a result that, most SME’s practitioners operate base on effectiveness than efficiency. That is the achievement of aims irrespective of the cost. However, the analysis made above would help to achieve an objective to the research work.

**TABLE 4.8**

What is the major challenges faced by SMEs?
<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of access to market information</td>
<td>6</td>
<td>15%</td>
</tr>
<tr>
<td>Lack of quality human resource</td>
<td>8</td>
<td>20%</td>
</tr>
<tr>
<td>Lack of access to capital</td>
<td>22</td>
<td>55%</td>
</tr>
<tr>
<td>Regular Rigidity or Gaps</td>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>40</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Questionnaire Administered (2012)*

Table 4.8 shows that 15% of the respondents states that, the major challenge faced by SME’s is lack of access to market information, 20% states is lack of quality human resource, 55% states is lack of capital and 10% states is regular rigidity or gaps.

The interpreted table shows that, various challenges are faced by Small and Medium Scale Enterprises. But the major challenge is the lack of capital.

**Table 4.9**

*Does SMEs access capital loans from microfinance institutions?*
<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>12</td>
<td>30%</td>
</tr>
<tr>
<td>No</td>
<td>28</td>
<td>70%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Questionnaire Administered (2012)*

Table 4.9 shows that 30% of the respondents state that SME’S access capital loans from microfinance institutions and 70% states that, they do not access capital loans from microfinance institutions.

The above interpretation shows that Small and Medium Scale Enterprises do not access capital loans from microfinance institution but depend on other sources to for capital loans.

**4.3 HYPOTHESES TESTING**

Hypothesis are tested in order to access the validity or otherwise of the research hypothesis. Various methods could be adopted. But for the purpose of this research, the chi-square distribution method is employed in testing the validity or otherwise of the research hypothesis.

The chi-square formula is given as

\[ X^2 = \frac{(O - E)^2}{E} \]
The hypotheses to be tested are analyzed in tables 4.4, 4.6, 4.7 and 4.9.

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>TABLE 4.4</th>
<th>TABLE 4.6</th>
<th>TABLE 4.7</th>
<th>TABLE 4.9</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>27</td>
<td>8</td>
<td>12</td>
<td>70</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>13</td>
<td>32</td>
<td>28</td>
<td>90</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>160</td>
</tr>
</tbody>
</table>

The values in the table are the observed values.

Calculation of expected values

\[
\begin{align*}
23 \times 70 & = 10.06 \\
17 \times 90 & = 9.56 \\
160 & = 160 \\
27 \times 70 & = 11.81 \\
13 \times 90 & = 7.31
\end{align*}
\]
\[
\begin{align*}
160 & & 160 \\
8 \times 70 &= 3.5 & 32 \times 90 &= 18 \\
160 & & 160 \\
12 \times 70 &= 5.25 & 28 \times 90 &= 15.75 \\
160 & & 16 \\
\end{align*}
\]

**Calculation of chi-square (X^2)**

<table>
<thead>
<tr>
<th>O</th>
<th>E</th>
<th>(O – E)</th>
<th>(O – E)^2</th>
<th>(O – E)^2</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>10.06</td>
<td>12.94</td>
<td>167.44</td>
<td>16.64</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>11.81</td>
<td>15.19</td>
<td>230.74</td>
<td>19.54</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>3.50</td>
<td>4.50</td>
<td>20.25</td>
<td>5.79</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>5.25</td>
<td>6.75</td>
<td>45.56</td>
<td>8.68</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>9.56</td>
<td>7.44</td>
<td>55.35</td>
<td>5.79</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>7.31</td>
<td>5.69</td>
<td>32.38</td>
<td>4.43</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>18.00</td>
<td>14.00</td>
<td>196.00</td>
<td>10.89</td>
<td></td>
</tr>
</tbody>
</table>
Calculation of Degree of Freedom

\[(c - 1)(r - 1)\]

Where

\[C = \text{Number of Columns}\]
\[r = \text{Number of Rows}\]
\[c = 4\]
\[r = 2\]

DF \[= (4 - 1)(2 - 1)\]

DF \[= 3\]

From the above computation, the calculated chi-square \((X^2)\) value is 81.29% while the critical value from the chi-square table at 3 degree of freedom and 5% (0.05) level of significance is 0.4673 that is 46.73%.

4.4 DECISION RULE

Since the calculated chi-square value is greater than the critical value from the chi-square table, we reject the entire null hypothesis which states that;
a. Small and Medium Scale Enterprises do not stimulate economic growth

b. Financing Small and Medium Scale Enterprises do not affect economic growth in Sokoto State

c. Microfinance loans to Small and Medium Scale Enterprises do not lead to effectiveness performance.

d. Small and Medium Scale Enterprises do not access capital loans from microfinance institutions.
CHAPTER FIVE

SUMMARY, FINDINGS AND CONCLUSION, AND RECOMMENDATION

5.1 INTRODUCTION

This is the last and concluding chapter of the research project. The chapter entails the summary, findings made, conclusions drawn on the findings and the possible recommendations.

5.2 SUMMARY

This section summarizes all the research work that the research has done from chapter one to five. Chapter one which is the general introduction entails the background to the study, statement of research questions, objectives of the study, research hypothesis, significance of the study, scope of the study and chapter scheme. Chapter two of the research work is the literature review. It also entails the introduction of the chapter, definition of small and medium enterprises, small and medium enterprises and access to finance, sources of financing small and medium enterprises in Nigeria and challenges of Small and Medium Scale Enterprises Financing.

Chapter three of the research work is the research methodology. It entails the introduction of the chapter, the research design, the population of the
research, sample and sampling techniques adopted, sources of data, and method of the data analysis. Chapter four of the research work is the data presentation and analysis. This is where all the information and data collected in the course of the research are carefully presented and analyzed. It also entails the responses of the questionnaire given by respondents and also went further to test the research hypothesis. Chapter five which is the final chapter entails the summary of the research work, finding and conclusions made and the possible recommendations.

5.3 FINDINGS AND CONCLUSION

Various sources of finance could be adopted by Small and medium scale enterprises either by debt or equity finance. Although the banking sector is the largest and most important source of financing for Small and Medium Enterprises, it is believed that, it is under serving the need of the sector. For the purpose of this research work, the followings findings were made.

a. The research work found out that, financing Small and Medium Enterprises affect economic growth of the economy.

b. The research work also found out that, there are various sources of financing small and medium enterprises but the major source of financing is the Central Bank of Nigeria Agriculture Credit Guarantee.
That is a joint finance contribution between the CBN and the Federal Government.

The following conclusions are also drawn from the research findings;

a. The research findings also concludes that, majority of the staffs are BSc holders which shows that most of the staffs are knowledgeable about the subject matter.

b. From the research findings it is also concluded that, majority of the staffs were in the industry within 1 year to 5 years.

c. The research findings also conclude that, micro finance loans given to Small and Medium Enterprises do not lead to high effectiveness. That is, most Small and Medium Enterprises practitioners operate base on effectiveness than efficiency. That is achieving organization aims and objective irrespective of the cost implication.

d. The research findings also conclude that, Small and Medium Enterprises faces various challenges. But the major challenges faced are the lack of access to capital.

e. The research finding also concludes that, most Small and Medium Enterprises do not access capital loans from microfinance institutions.
5.4 RECOMMENDATIONS

Accessing finance has been identified as a key element of Small and Medium Enterprises to succeed in their drive to build productive capacity, to complete and create jobs and to contribute to poverty alleviation in developing countries. For the purpose of this research work, the following recommendations are made.

a. The federal government should assist in financing the Small and Medium Enterprises as it stimulate economic growth.

b. Small and Medium Scale enterprises practitioners should not only depend on the government for the rising of capital. Other sources could be adopted which are interest free. These sources include Rotating Savings and Credit Association, Business Angels etc.

c. Small and Medium Scale enterprises should also adopt the access of capital loans so as to strengthen the capital structure of their enterprises.

d. For every employee to perform well especially supervisors and managers there is need for constant training and development. The right employee training, development and education provides big pay offs for the employer in increased productivity, knowledge, loyalty and contribution to general growth of the firm.
e. Government should give much consideration to Small and Medium Enterprises. This because it create job opportunity and also increase or improve economic stability.

REFERENCE

Arriyo D 1999 Small firm are the Backbone of Nigeria economy. Africa Economic Analysis, Africa Business Information Service, Bridgnorth United Kingdom.


liv
DEPARTMENT OF BUSINESS ADMINISTRATION,

FACULTY OF MANAGEMENT SCIENCES,

USMANU DANFODIYO UNIVERSITY SOKOTO.

QUESTIONNAIRE FOR STAFF

Dear Respondent,
I am Umar, Hauwa (Mrs) a post graduate student of the above mentioned institution and currently undertaking a research project titled: Financing small and medium scale enterprises for economic growth. A study of micro finance banks in Sokoto state metropolis. The research is purely academic exercise and all information provided will be strictly kept confidential and secret.

1. Name:

2. Sex: Male ( )

Female ( )

3. What is your level of education?
   a. Professional Certificate ( )
   
   b. Masters ( )
   
   c. BSc ( )

   d. HND ( )

   e. Diploma ( )

4. How many years have you spent in the industry?
   a. Less than 1 year ( )
   
   b. 1 – 5 years ( )
c. 6 – 11 years

d. 11 years and above

5. Does financing of SME’s affect economic growth?
   Yes
   No

6. What is the major source of financing?
   a. Bank overdraft
   b. Trade Credit
   c. Leasing
   d. Venture or Risk capital
   e. Business Angels
   f. Rotating savings and Credit Association
   g. SME’s Equity Investment Scheme
   h. The CBN Agriculture Credit Guarantee

7. Does SME’s stimulate economic growth?
   Yes
8. Do microfinance loans to Small and Medium Scale Enterprises actually lead to high effectiveness?

Yes (  )

No (  )

9. What is the major challenge faced by Small and Medium Scale Enterprises?

a. Lack of access of market information (  )

b. Lack of quality Human Resource (  )

c. Lack of access to Capital (  )

d. Regular Rigidity or Gaps (  )

10. Does Small and Medium Scale Enterprises access capital loans from microfinance institutions?

Yes (  )

No (  )