Sources of Financing Small Scale Enterprises in Bida, Niger State, Nigeria

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ABSTRACT

Over the years the inability of small scale enterprises (SSEs) in Nigeria to serve as an engine growth has been attributed majorly to lack of finance. This study identifies the major sources of financing small scale enterprises in Bida, Niger State. Data were collected using the multistage random sampling technique from 60 Small Scale Enterprise owners. Data obtained from survey were analyzed using a regression Model. The results show that Loan from co-operative, Family, Friends and Savings significantly determine the sources of finance in the study area, whereas Microfinance Banks was found not statistically significant. The study recommends monitoring and creating more awareness to the public on the importance of entrepreneurial programmers' and establishing schemes that will enhance Small Scale Enterprise financing.

Keywords: Small Scale Enterprises, Source of Finance, Entrepreneurial Programmes' & Establishing Schemes.

INTRODUCTION

Given the great potential of Small scale enterprises to bring about social and economic development, it is of no surprise that the performance of small scale enterprises is of all huge concern to the government of different countries in the world. Small scale enterprises (SSEs) play important roles in the process of industrialization and economic growth (Alegieuno, 2008). In Nigeria, Small scale enterprises are seen as a key to Nigeria's growth, poverty reduction and employment generation; therefore, promotion of such enterprises in developing economies like Nigeria is of paramount importance. A World Bank Investment Climate Assessment (ICA) identifies the constraints for Nigeria's Small Scale Enterprises as the electricity shortage, low access to finance and the poor transportation network (World Bank, 2008). But the study covers sources of finance to small scale enterprises in Bida, Niger State.

STATEMENT OF THE PROBLEM

The major problems facing SSEs lack adequate capital and credit facilities for sustaining their growth and development. In order to fulfill their financing gaps, the government has launched several entrepreneurial programmed and funding schemes; these include Agricultural Credit Guarantee Scheme (ACGS), Agricultural Credit Support Scheme (ACSS), Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Bank of Industries (BOI), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Poverty Eradication Programmed (NAPEP). Despite these attempts, the small scale enterprises are yet to solve the problems of finance. In light of the foregoing discussion therefore the study intends to raise research question.

Research Question

i. What are the sources of the finance for small scale enterprises in Bida, Niger State?

Objective of the Study

i. To identify major sources of finance for Small scale enterprises in Bida, Niger State.

LITERATURE REVIEW

Concept of Small Scale Enterprises

Countries do not use the same definition for classifying their SMEs sector nor does a universal definition appear to be necessary; however, the definition of Small scale enterprises in Nigeria are as varied as there are various stakeholders. The Central Bank of Nigeria (CBN, 2004) defines small-scale business as an enterprise whose annual turnover ranges between N25, 000-N50, 000; while Chukwuemeke (2004) defines SMEs as one who has a minimum of 5 employees with minimum capital outlay of not less than N5, 000.00.

Sources of Financing Small Scale Enterprises

The sources of finance available to Small scale enterprises were enumerated by Alegieuno (2008) as follows:

i. Own fund
ii. Fund from friend
iii. Fund from family

Empirical Study

Ajagbe (2012), the study examines choice of credit by small-scale enterprises from credit markets in Nigeria. 350 respondents chosen through stratified sampling techniques and Multinomial Logit was employed. The results showed that a large number of variables determine whether respondents apply for credit from credit markets or not. Each respondent was able to choose one of the five credit institutions as his/her preferred source of credit. It is conclusive that the availability of different sources of credit has impact on demand for credit. To this end, policies to enhance the role of informal credit institutions to bring about closer linkages between formal and informal institutions should be formulated. Better linkages would enable bank to benefit from the outreach and local knowledge of informal agents, expanding financial savings mobilization and credit delivery and improving the overall efficiency and productivity of the financial system.

Mulaga (2013), the study analyzes whether firm characteristics determine SMEs' use of external financing or not and whether there are differences in the use of external financing between firms of different sizes and industries or not. Log it regression model was employed. The results indicate that firm size, availability of information and firm growth significantly determine the use of external financing, while firm age and industry are not important in determining the use of external financing. The results also indicate that there are significant differences in the use of external financing between small and medium firms, with small firms using less external financing compared to medium firms. The results suggest a need for interventions that take into account firm size example of such intervention is the special financing scheme that targets firms of different sizes. This may help those firms with difficulties to easily access external financing. The results also suggest a need for interventions that encourage SMEs to have proper financial information.

Gulani and Usman (2013), the paper evaluates the challenges Small and Medium Scale Enterprises (SMEs) face in financing new or existing businesses in Gombe State. However, the study adopted simple random sampling techniques and chi-square method. The result of the analysis revealed that: There is no significant difference in the difficulties SMEs face when accessing finance from various sources, there is a significant difference in the level of awareness of MFIs by SMEs.

THEORETICAL FRAMEWORK

In a study of this nature, there is need to have a theoretical foundation in which the research work is built up. In economic literature, the theories include: Financial Repression, financial Constraint and Structuralist school of thought. But, Financial Repression model becomes the most relevant.

The Financial Repression

The model originated from the work of McKinnon (1973) and Shaw (1973), who propounded that informal financial sector, came as a result of excessive regulation of the formal sector with the use of policies of direct controls such as interest rate ceilings, High quality collateral and prescribed credit allocation to preferred sectors. Reading through the various theories, this study is centered on the Financial Repression as the theoretical base of this research study.

METHODOLOGY

Method of Data Collection

In this study, primary sources of data are employed. The primary data would be collected using the structured questionnaire in order to capture Small scale finance in the study area.

Population of the Study

The study covered all the small scale enterprises in Bida town in Niger state.

Sample Size of the Study

A multi-stage cluster sampling technique would be use, to select the Small scale enterprises in Bida. In the first stage, the SSEs were clustered in to three based on Agriculture and Agro-based, Skills/ technical and commerce/ services. Twenty SSEs would be selected from each clustered at random at this stage. The procedures yielded a sample of 20 from each SSE which give a total of 60 were drawn.

DATA ANALYSIS

The study intended to use quantitative techniques in analysing the collected responses.

Quantitative Method

The study employs the use of Logit Model; where response variables are dichotomous taking 0 – 1 value. Logit model is used in this study because of its comparative mathematical simplicity.

The Logit model would be used to estimate the parameters of small scale finance. StataMP 11 would be used to estimate the parameters.

Model Specification

The study adopts the model employed by Mulaga (2013), in examining the Analysis of External Financing Use: A Study of Small and Medium Enterprises in Malawi. This research adopts the Logit model as adopted by Mulaga (2013), but used different independent variables in this study. In this case the dependent variable is small scale finance, a binary variable which takes the value (1) one is informal finance, and zero if otherwise; while source of finance considered as independent variables.The Logistic Cumulative Distribution Model can be specified as:

$(\ = 1) = \frac{1}{1+}$-z_i ……………………………… (1)

Taking the logarithm is:

Z_i= In $\left(\frac{}{1+}\right) = \propto\ +_1X_1 + B_2X_2 + \ldots + B_kX_k$………….. (2)

If the error term (e) is taken into account, the logit model becomes:
$Z_i = α + \sum_{=1}^{} {}_i X_i + e_i$……………………………….. … (3)
Where: Z = Small scale finance (1= informal finance & 0= otherwise)
X_i represents the i^{th} explanatory variable

α& βi are parameters to be estimated and
*e*denotes the base of natural logarithms

However, the modified version of the model is defined as follows:
$Z = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$
Where: Z = Small scale finance (1= informal finance & 0= others)
α = Constant
β_1-β_6 = Regression Coefficients.
X_1 =Loan from co-operative.
X_2 = Fund from family.
X_3 = Microfinance Banks.
X_4 = Fund from friend.
X_5 = Savings.

DATA PRESENTATION AND ANALYSIS

Table 4.1 Results of the Logit Model Function

The dependent variable is Small Scale Finance

Variables	Coefficients	Standard Error	Z statistics(p>/z/)
Constant	4.57876	5.246328	0.383
Loan from Cop.	2.21181	1.267794	0.081***
Fund from family	3.06730	1.202925	0.011 **
MFBs	0.10610	0.79728	0.894
Fund from friend	2.13091	1.196466	0.075***
Savings	4.77752	1.531907	0.002*

* Statistically significant at 1% Chi-squared (LR statistic) 174.56
** Statistically significant at 5% Degree of freedom 5
*** Statistically significant at 10% Log likelihood - 16.040166
Pseudo R^2 = 0.8447
Source: *Authors' Computation using StataMP 11*

The chi -square (LR-statistics) shows that the overall goodness of fit of the model was statistically significant. The Pseudo R squared indicates that 84.47% of the variance was explained by the independent variables.
However, in line with researcher's expectation, the variable loan from co-operative has a positive coefficient of (2.21181). This implies that, a unit increase in loan from co-operative on average tends to increase the probability of SSEs access to finance by221.18 %.

The Fund from Family has a positive coefficient of (3.06730). This implies that, a unit increase in Fund from Family on average tends to increase the probability of SSEs access to finance by 306.73%. On the other hand, the coefficient of Microfinance Banks is found statistically insignificant. However, the positive sign (0.10610) of the variable implies that a unit increase in MFBs on average tends to increase the probability of access to finance by 10.61%. From the above table, the result with regards to Fund from friend in the study area is also found statistically significant at 10%. The positive sign of the coefficient (2.13091) implies that a unit increase in the Fund from friend on average tends to increase the probability of access to finance by213.09%. Furthermore, the coefficient of Savings was found to be statistically significant at 1%. This is because Savings coefficient stood at (4.77752) and this implies that a unit increase in Savings on average tends to increase the probability of access to finance by 477.75 %.

CONCLUSIONS

Based on the evidences obtained from the regression results, the study concludes that four (4) variables; Loan from co-operative, Loan from Family, Loan from Friends and Savings fitted in the model and were found to be the major sources of the financing Small scale enterprises in the study area. This is because they were found to be statistically significant in probability of access to finance in the model; while Microfinance Banks was found to be statistically insignificant.

In conclusion, the Goodness of fit is 84.47% of the variation of probability of access to finance was explained by the independents variables used in the study, while 15.53 % may turned up by other sources not mentioned in the study.

RECOMMENDATIONS

Based on the findings of this study the following recommendations are made:

i. Government should create more awareness to public on the important of entrepreneurial programmed and funding schemes.
ii. Government should put more effort in monitoring entrepreneurial programmed and funding schemes.

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