

An Assessment of Small and Medium Scale Enterprises Sources of Financing in Gombe Central Senatorial District

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Abstract

This study titled an assessment of small and medium scale enterprises sources of finance in Gombe central senatorial district. The main objective of this study was to assess the SMEs sources of finance in Gombe Central Senatorial District. Population of the study comprises 34 SMEs in the senatorial district in which 18 were selected to serve as sample size of the study. Data was generated from both primary and secondary sources. The data generated was analyzed using descriptive statistics and chi-square respectively. The study recommended that the Small and Medium Enterprises should improve their financial records keeping through engaging individuals with book keeping and account skills for proper record keeping. Also, the Government should encourage the establishment of co-operative societies in the State because it constitutes the major source of financing Small and Medium Enterprises.

Key words: Small Scale Enterprises, Medium Scale Enterprises, Source and Financing

Introduction

The economic activity in most nations is based upon the existence of small and medium scale enterprises (SMEs). Their existences are so unique to the nation and that is why sometimes, they are described as engine of growth of most economics of the world. Small and Medium Enterprises (SMEs) play a significant role in the development of both developed and developing countries in the world. Their accelerative effect in achieving macro objectives such as full employment, income distribution, development of local technology as well as diffusion of management skill and simulation of indigenous entrepreneurs have been documented in economic literatures (Nnanna, 2011).

Similarly, small and medium enterprises in Nigeria play a significant role in the country's economic activities. Even though, it represents only 10 per cent of the total manufacturing output, it has the capability of providing high job opportunities to about 40 per cent of total workforce in the country (Aina, 2007). The Federal government became very interested in promoting the growth and development of SMEs. Since independence in 1960, programmes of assistance, especially in the areas of finance, extension and advisory services, training and infrastructural facilities have been designed by governments in Nigeria for the development of this sector (Nnanna, 2011). In particular, financing programmes have attracted more attention than others, because every enterprise requires funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new

investments. In the same vein, in a developing economy like Nigeria, where there is poor saving leading to low capital investment and technological development is still in its infancy, it become pertinent that special attention is geared toward the provision of finance to SMEs for sound industrial base.

The concept of SMEs is relative and dynamic as there is hardly any unique or universally accepted definition of SMEs all over the world. This is because; the classification of business into micro, small, medium or large scale is a subjective and qualitative judgment (Ukeje, 2003). However, Essien, (2001) opined that the definition of SMEs within the fixed coordinates of national boundaries might be relatively easier as each country tends to drive its own definition based on the role SMEs are expected to play in the economic development of that country and/or the programme of assistance designed to achieve. Furthermore, Nnanna, (2011) asserts that in 1993 the CBN Monetary and Credit Policy reviewed that for enterprise to be categorize as small scale enterprise, it must have a total cost, excluding cost of land, but including working capital, of above one million naira but not exceeding ten million naira and this review continue up to the present time. However, Ukeje, (2003) viewed that there are three common indicators in most definitions of SMEs all over the world viz: size of capital investment, value of annual turnover and number of paid employees. The popularity of these three indicators derives largely from their ease of measurement.

According to Ariyo, (2008), in countries such as United States of America (U.S.A) Britain and Canada, small scale business is defined in terms of annual turnover and number of paid employees. In Britain, for example, a small scale is defined as “that enterprise with an annual turnover of two million pounds or less with fewer than 200 paid employees”. As the definition is looked within the fixed coordinates of national boundaries, the current definition of SMEs in Nigeria as adopted at the 13th meeting of the National Council on Industry in 2001 which was later reviewed in 2005 follows that “an enterprise is qualified to be small if it has a labour size of between 11-100 workers or total cost (including working capital but excluding cost of land) of not more than 50 million naira. A medium scale industry enterprise on the other hand is defined by the council as an enterprise with a labour size of 101-300 workers or total cost (including working capital but excluding cost of land) of over 50 million naira, but not more than 200 million naira (Ayozie, 2008).

Similarly, Muhammad, (2005) as cited in Abdullahi, (2011) defines SMEs for the purpose of SMIEIS as any enterprise with a maximum asset base of ₦200 million (excluding land and working capital) with a number of staff employed not less than 10 and not more than 300. For the purpose of his study on Medium Enterprises in Gombe, Abdullahi, (2011) adopts a working definition of Medium Enterprises as all those enterprises whose capital base is between ₦2 million and ₦30 million, and whose minimum and maximum number of employees is 5 and 50 respectively. In addition, the SMEs existing capital structure is yet another important factor to be considered. No matter how confident the owner/manager might appear about the future that he or she attempt to employ average beyond reasonable limits for his or her industry. Lenders may be reluctant to accept any further debt increase or may accept only at a prohibited price.

Lastly, market conditions especially in a situation of severe “credit squeeze” make the raising of additional or supplement capital in the money or capital market a rather excruciating task to accomplish. A “credit squeeze” often brings in it a rise in the interest rate

charge by banks and in extreme case lead to some business being preferable created in the granting of loans.

Statement of the Problem

Economy of scale is a theory which is predicted on the notion that 'big is better', while 'small is bad'. Thus, the view that large firms were the cornerstone of the modern economy prevailed for the better part of the 20th century [ADCG (2000) in Nnanna (2001)]. In this context, Small-Scale Industries (SSIs) were seen as belonging to the past, out-model and sign of technological backwardness. Indeed, their rapid decline became an index of industrial progress (Owualah (2001) in Anyanwu (2001)). The critical importance of adequate credit delivery to SSIs derives from the fact that their development is what is required to enable the country's industrial sector meet the contemporary challenges of globalization, economic reconstruction and poverty eradication (Essien 2001).

Furthermore, it has been observed that, the mortality rate of small and medium scale industries (SMEs) in Nigeria is very high despite of their immense contribution. Some of the problems attributed to that are lack of adequate capital base, financial management etc. the problem of capital base is largely due to unwillingness of some financial institution to grant them enough loans. The banks consider lending to SMEs a high risk due to their inability to provide adequate collateral for loans.

Another problem is financial mismanagement; this is evidence from the luxurious and flamboyant life style of some of the entrepreneurs who think they have enough to spend heavily on clothes, parties, wedding and other ceremonies. The enthusiasm to protect the SMEs and float their expansion to the benefit of not only the investors, but also, future generations' remains a task that must be done. The questions that arise are: how SMEs enterprises failed in the sources of finance? What are the efforts made by government and other financial institutions towards the development of SMEs? Although, studies were conducted on small and medium scale enterprises in Gombe, but none of the study was conducted in the Central senatorial district. The recognition of the existence and importance of this gap prompt the researchers to conduct this study titled an assessment of sources of SMEs financing in Gombe Central Senatorial District.

Purpose of the Study

1. Determine adequate sources of finance available to SMEs in Gombe Central Senatorial District.
2. examine problems associated with the SMEs sources of finance in Gombe Central Senatorial

Research Questions

This study attempts to answer the following research questions

1. What are the sources of finance available to SMEs in Gombe Central Senatorial District.
2. What are the problems associated with the SMEs sources of finance in Gombe Central Senatorial.

Null Hypotheses

1. There is no significant different in the mean responses of Managers and Accounts staff of small and medium Scale Business Operators on adequate sources of finance available to SMEs in Gombe central senatorial district.
2. There is no significant different in the mean responses of Managers and Accounts staff of small and medium Scale Business Operators on the problems associated with the SMEs sources of finance in Gombe central senatorial.

This study is significant to all stakeholders participating in the growth and development of Small and Medium Enterprises in Nigeria. It is specifically significant to the government, owners, managers and employees of Small and Medium Enterprises in Gombe Central Senatorial District in particular and Nigeria in general. The study is significant to both States and Federal governments to come up with good policies and programmes with a view to improving the activities and effective operations of internal controls in Small and Medium Enterprises in the country. The research is also significant to the creditors to know the liquidity position of the SMEs so as to decide whether to give them credit or not. Furthermore, the study will also be significant to the entrepreneurs, as they would know the various sources of finance and the judicious use of any credit given to them in a profitable way.

Finally, the study is also of significance to both students and researchers in this field as reference point, because it will not only enrich the existing literature, but would also assist researchers who may wish to carry out further researches on the same or similar topic.

The scope of this study covers only the eighteen (18) Small and Medium Enterprises engaged in manufacturing activities in Gombe Central Senatorial District of Gombe State that were listed on the list of the registered SMEs as at 31st December, 2017 obtained from the SMEs Directorate of Gombe State Ministry of Commerce and Industry.

The limitation to this study is that, the results or findings of the study can only be generalized to the population of the study (i.e. the listed Small and Medium Enterprises in Gombe Central Senatorial Districts).

Methodology

This study assesses the sources of funds of SMEs in Gombe Central Senatorial District in Gombe State. The population of the study consists of all the existing twenty four (24) SMEs from Akko LGA and ten (10) SMEs from Yamaltu Deba LGA totaled thirty four (34) Small and Medium Enterprises listed on the list of registered SMEs with the SMEs Directorate of Gombe State Ministry of Commerce and Industry as at 31st Dec, 2017 that engage in manufacturing/production activities only. This is because; these enterprises are the ones that usually keep records of their financial transactions and contribute significantly to national development (Ayozie, 2008). The population is divided into six different groups. Each group (stratum) represents the type of business activity it engages in. These groups are: Food and Beverages, Non Metallic Products, Printing/Paper Product, Metal and Aluminum Products, Wood and Wood Products and finally Farm Products. Also, in an effort to get an appropriate sample size, and in considering the nature of the population, Osuala's (2005) and Asika's (2006) as cited by Hamid (2008) observed that a sample that is either too large or too small may lead to getting results that lack validity, the researcher believed that a sample size of 53 per cent of the population (i.e. 18 SMEs) is adequate to obtain a valid result. The sample size is generated using simple random sampling with aid of raffle draw in selecting the fifty three percent of the samples from each stratum proportionate to its number in the

entire population. This is done in order to give fair representation and equal chance of being selected. The Table 2 below shows the sample size of the study:

A survey technique was therefore used to obtain relevant data for the study. Also, eighteen (18) copies of questionnaires were directly administered by the researcher to the staff (Managers/Accounts staff) of the sampled SMEs. It is believed by the researcher that these categories of staff are the ones that have good understanding of the sources and application of finance in their respective organizations. The questionnaire was administered with the aid of a research assistant. To facilitate quick response, five (5) structured questions using a 4 point rating scale ranging 4 (strongly agree) to 1 (strongly disagree) were developed with a mean score of 2.5. Any mean score below the minimum mean score implies negative response. The use of questionnaire (primary source) is justified because of its quick and simple manner to administer and analyze. The data collected were analysed using Descriptive statistics, Mean scores and percentage and chi-square respectively.

The chi-square test can be expressed as:

$$\chi^2 = \frac{(N - e)^2}{e}$$

$$\chi^2 = \text{Chi-square}$$

e = Total respondent / 2

Where:

X^2 = chi-square

N = Total respondents

e = expected frequency

The decision rule is to accept H_0 where calculated Chi-square is less than critical or tabulated Chi-square at 5% level of significance and reject H_0 where the calculated Chi-square is greater than the critical or tabulated Chi-square at 5% level of significance. The degree of freedom (df) is given by $(r-1)(c-1)$.

Results and Discussion

This section presents and discusses the results of the data. The data for the research was collected by means of questionnaire administered on the respondents, who are the selected sampled SMEs. The analysis of questionnaire distribution and response is presented in table 3 below:

Analysis of Responses to the Questionnaire

A total number of eighteen (18) questionnaires were administered to the respondents of the sampled SMEs in Gombe Central Senatorial District of Gombe State. Out of these eighteen (18) copies of questionnaires administered, fifteen (15) copies representing 83% were filled and returned respectively,

Considering this percentage of completion and return from the various industries and in aggregate, it is regarded adequate to allow for valid analysis and interpretation and consequently to generalize conclusion there from.

Research Question1: Determine adequate sources of finance available to SMEs in Gombe Central Senatorial District.

Table 1: Descriptive Statistics on the sources of finance of SMEs in Gombe Central Senatorial District.

S/N	ISSUES	AGGREGATE SAMPLE		Food & Beverages		Metal & Aluminum		Non metallic products		Wood products		Printing & paper		Farm products	
		% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean
1.	Borrowing from family and friends	61	2.44	80	3.20	10	0.40	60	2.4	50	2.00	75	3.00	90	3.60
2.	Bank overdraft	54	2.16	90	3.60	62	2.56	50	2.00	25	1.00	50	2.00	47	1.88
3.	Borrowing from co-operative society	90	3.60	100	4.00	77	3.08	83	3.32	80	3.20	100	4.00	100	4.00
4.	Bank loan	25	1.00	30	1.20	0	0	25	1.00	20	1.80	25	1.00	50	2.00
5.	Debenture	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

Source: Computed by the Researcher, 2018.

Table 1 above shows that both in percentage and mean scores, borrowing from co-operative society constitute the major sources of financing SMEs in Gombe central senatorial district which 90% and mean score of 3.60, followed by borrowing from family and friends which 61% and mean score 2.44. Also, bank overdraft source constitute 54% which a mean score of 2.16 respectively. Most of the SMEs have not consider bank loan as a source of financing the business which only 25% and 1.00 mean score which is below the average mean score of 2.00. All the SMEs under study have strongly disagreed that debenture source is among the source of financing their business which 0% and 0.00 mean score.

Null Hypothesis 1: There is no significant different in the mean responses of Managers and Accounts staff of small and medium Scale Business Operators on adequate sources of finance available to SMEs in Gombe Central Senatorial District ‘

Table 2 Adequate Source of Finance for SMEs

S/No	Response	N	E	n - e	(n - e) ²	(n - e) ² /e
1.	Strongly agree / Agree	2	7.5	-5.5	30.25	4.033
2.	Strongly disagree / Disagree	13	7.5	5.5	30.25	4.033
Total		15	15		²	8.066

$$Expected = 15/2 = 7.5 \text{ i.e } x/2, \text{ hence, } \chi^2(\text{tabulated figure}) = 21.03$$

The Table 2 shows that the value of chi-square (χ^2) which is calculated as 8.066 is greater than the tabulated χ^2 (chi-square) value which is 3.841. This means that Null hypothesis (H_0) was rejected. Therefore, SMEs in Gombe central senatorial district have adequate sources of finance.

Research Question 2: What are the problems associated with the SMEs sources of finance in Gombe Central Senatorial

Table 3: Descriptive Statistics on the problems associated with the SMEs sources of finance in Gombe Central Senatorial District.

S/N	ISSUES	AGGREGATE SAMPLE		Food & Beverages		Metal & Aluminum		Non metallic products		Wood products		Printing & paper		Farm products	
		% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean	% SA/A	Mean
1.	Inadequate management skills	88	3.53	95	3.80	100	4.00	80	3.20	80	3.20	75	3.00	100	4.00
2.	Lack of technical expertise	71	2.84	92	3.68	87	3.48	50	2.00	65	2.60	70	2.80	63	2.52
3.	Poor financial records keeping	98	3.92	100	4.00	95	3.80	93	3.72	100	4.00	100	4.00	100	4.00
4.	Lack of financial consultant	94	3.64	100	4.00	100	4.00	75	3.00	90	3.60	100	4.00	100	4.00
5.	Inadequate Govt financial support	86	3.44	90	3.60	79	3.16	100	4.00	97	3.88	80	3.20	67	2.68

Source: field survey, 2018.

Table 3 above shows that both in percentage and mean scores, poor financial records keeping and lack of financial consultant constitute the major problems of financing SMEs in Gombe central senatorial district which 98% (3.92) and 94% (3.64). The study reveals that all the problems associated with the sources and application of finances of SMEs have a more than 50% and mean more than average score of 2.00, implies that SMEs in the senatorial district are faced with the problems identified in the table.

Null Hypothesis 2: There is no significant different in the mean responses of Managers and Accounts staff of small and medium Scale Business Operators on the problems associated with the SMEs sources of finance in Gombe Central Senatorial District.

Table 4:Problems associated with the sources of finance of SMEs

S/No	Response	N	E	n - e	(n - e) ²	(n - e) ² /e
1.	Strongly agree / Agree	0	7.5	-7.5	56.25	7.5
2.	Strongly disagree / Disagre	15	7.5	7.5	56.25	7.5
	Total	15	15	2		15

Expected = $15/2 = 7.5$ i.e $\chi^2/2$ Hence, χ^2 (tabulated figure) = 25.00

The Table 4 shows that the value of chi-square (χ^2) which is calculated as 15 is greater than the tabulated χ^2 (chi-square) value which is 3.841. This means that we should accept the Alternative hypothesis (H_1) and reject Null hypothesis (H_0). Therefore, There is a problems associated with the sources of finance of SMEs in Gombe central senatorial district

Discussion of Findings

Small Scale Enterpriser in Nigeria have faced with myriads of problems that hindered their growth and development. These includes high mortality rate (Abeh, 2017); lack of adequate capital base and financial management (Agwu & Emeti, 2014); inability to provide adequate collateral for loans and financial mismanagement (Olowe, Moradeyo & Babalola, 2013). In addition, this study found that SMEs have been faced which a lot of problems such as inadequate management skills, lack of technical expertise, poor financial records keeping. inadequate financial support and lack of financial consultants.

Conclusion

In conclusion Small and Medium Enterprises play a major role in the growths and development of any state in Nigeria and the country at large. This is because its provide employment opportunities to many individuals in both rural and urban centers in the country, thereby reducing unemployment and improve the gross domestic product of a nation resulting to improvement in the per capita income and standard of living of the people in the country. Therefore, Government at whatever level be it Federal, State and Local should consider SMEs vital in growth and development.

Recommendations

1. The Government of Gombe State should give financial support to Small and Medium Enterprises in order to encourage local entrepreneurs to engage in various SMEs for nation development and growth of Gross domestic product towards increase in per capita income.
2. Small and Medium Enterprises should improve their financial records keeping through engaging individuals with book keeping and account skills for proper record keeping.
3. Government of Gombe State should encourage the establishment of co-operative societies in the State because it constitutes the major source of financing Small and Medium Enterprises.

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