



Constraints on Funding Systems for Small Scale Enterprises in Delta South Senatorial District, Nigeria

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Abstract

The study examined the constraints on funding systems for small scale enterprises in Delta Senatorial District of Nigeria. Two research questions guided the study and two null hypotheses were tested at 0.05 level of significance. The design used was descriptive survey. The study was carried out with 500 small scale entrepreneurs in Delta South Senatorial District of Nigeria. A 16 item questionnaire arranged in two clusters and structured on a 5-point response options constituted the instrument used for data collection. The instrument was validated by three experts in vocational education. The reliability of the instrument was determined using the Kuder-Richardson 21(KR-21) formula. The reliability coefficient of 0.81 was obtained and considered high for the instrument to be reliable. The authors personally administered a total of 100 copies of the questionnaire to 100 entrepreneurs who constituted the population for the study. The entire copies were collected and analyzed using mean, standard deviation and t-test. While mean values were used to provide answer to the research questions, t-test was used to test the hypotheses. Standard deviation provided clue on respondents' nearness in their expressed opinions. Based on the results of the analysis of data collected, it was found that poor cash flow, inadequate financial planning, unusual collateral, the rate of high mortality, high interest rate, poor record keeping served as constraints on funding systems for small scale enterprises in Delta South Senatorial District of Nigeria. It was recommended that proper financial planning, review of interest rate and infrastructural development should be encouraged for effective operations of small scale enterprise in Delta South Senatorial District of Nigeria.

Keywords: Funding Systems, Small Scale, Enterprises, Constraint, Equity Funding.

Reference to this paper should be made as follows:

Okoye, K. R. E., & Ogbotubo, E. (2018). Constraints on Funding Systems for Small Scale Enterprises in Delta South Senatorial District, Nigeria. *International Journal of Scientific Research in Education*, 11(5), 972-979. Retrieved [DATE] from <http://www.ij sre.com>.

INTRODUCTION

Small scale enterprise had been defined as a firm that is independently owned and operated, is not dominant in its field, and meets certain size standards for the income or number of employees. Small scale enterprise is the key sector of the economy of any developing nations. No economy survives without the presence of small scale enterprises. Effective and efficient small scale enterprise network plays a vital role in sustaining the economy of any nation. For instance, the establishment of small scale enterprise constitutes a life wire of the economy system of any country (Krigbode, 2006). It may not be over emphasized to state that about 60 percent of the bulk of business establishments in some nations particularly Nigeria is constituted by small-scale enterprises. A walk along the street of major towns and cities in any state of Nigeria shows that if there are ten (10) established businesses, at least six (6) of them would be of small scale enterprise. Beside the advantage claims in favour of small scale enterprise, their significance in the socio-economic status of any nation are numerous; It encourages entrepreneurship (Ayozie & Latinwo, 2010; Ayesha, 2007); the greater likelihood that small scale enterprises utilize labour intensive technologies (Salami, 2003); and thus an immediate impact on employment generation (Udechukwu, 2003).

According to Ogujiuba, Ohuche and Adenuga (2004), and Henrigues and Klock (1999), small scale enterprise can be established rapidly and put into operation to produce quick returns; and as well can encourage the process of both inter and intra-regional decentralization, and may as well become a counter veiling force against the economic power of the larger enterprises (Salami, 2003). The establishment of small scale enterprises can lead to innovation and invention, and could encourage and sustain self-reliance (Okey, 2005). More generally, the development of small scale enterprises is seen as encouragement of wider economics and socio-economic objective, including poverty alleviation (Ayozie & Latinwo, 2010; Udechukwu, 2003).

Small scale enterprises depend on a variety of systems of funding. In several perceptives, funding systems means the avenue of the provision of fund in maintaining the enterprise goals. Okeke (2005) defined funding as the service and art of managing fund especially available for the production of goods and services. Samuel, Ajiri, Onoriode and Humphrey (2012), enlisted systems of funding small scale enterprise as commercial loans; assets based lending; inventory financing; trade credit; savings; contribution from friends and family; leasing; equipment financing loans; insurance companies; credit unions and private placement. These systems of funding have not been effectively utilized to encourage growth and development in the small scale business environment. This, according to Fela (2006), Kpelai (2009), Enemuo (2010) and Oboro and Ighoroje (2011), attributed to poor cash flow, lack of business knowledge, high interest rate, quick result syndrome.

Azende (2012) and Sanusi (2013) maintained that in spite of the increased awareness, recent and current local, national and international news coverage on current economic climate of interest rate and available money supply, still indicate that inadequate access to capital continues to be the most difficult constraint for small scale enterprise owners. According to Ogbomudia (2006), constraints on funding refer to the challenges and problems that hinder effective and efficient application of fund available to the operational needs of an organization. This hinders effective operation of small scale enterprises in terms of growth and development. Also, banks by the very nature of their commitments, are resistant to the high risk loans required by the small scale enterprises to enhance the development of small scale enterprises (Mambula, 2002). Thus, it leads to inadequate acquisition and application of fund in the small scale business environment which in turn hinders the growth and development of small scale enterprises.

Small scale enterprises often operate at such a low scale that it looks unattractive to banks. Besides, small scale enterprises are family business and they are therefore reluctant to open up their business, especially to the banks that they regard as intruders. In Nigeria context, the crucial source of finance from banks to small scale enterprises is apparently non-functional. This is evident in the ratio of loans to small scale enterprise by commercial banks' total credits, which shows that a meager 0.13% was granted to small scale enterprises in the last quarter of 2012 (Central Bank of Nigeria, 2012) and 0.12 % in the last quarter of 2013 (Central Bank of Nigeria, 2013). More worrisome is the fact that this ratio has been falling over the years and has continued unabated in the post consolidation era.

Thus, the researcher sought to ascertain the constraints on small scale enterprises in relation to the acquisition and application of trade credit, equipment funding, asset-based lending, and equity funding, leasing, hire purchasing by small scale enterprises in the Delta State South Senatorial District.

Statement of the Problem

The state of poor funding of small scale enterprises in Delta state particularly Delta South Senatorial District is a threatening signal to the survival of small scale enterprises in the state. Despite the efforts put in place by government and other financial institutions to overcome the prevailed constraints for effective funding of small scale enterprises in the state, yet small scale enterprises still witness inadequate supply of fund. Azende (2012) maintained that over the years, government has enacted various policies and introduced schemes aimed at funding small scale enterprise; yet small scale enterprises still face the problem of inadequate funding. Salami (2003) recalled that in the past, a number of schemes have been put in place to provide special credit lines for SMES, but this achieved very limited impact. Asaolu, Oladoyin and Oladele (2005) have deduced that the financial challenges mar the development role of small scale enterprises. Krigbode (2006) also stated that lack of finance has not only contributed to the failure of small scale enterprises but also has been identified as an obstacle to the expansion of existing business. As a result of this poor state of funding of small scale enterprises in the state, it hinders efficient and effective operations of small scale enterprises in the state.

The inadequate acquisition and application of fund to small scale enterprises has become worrisome to the authors. Does it mean that entrepreneurs of small scale enterprises in the state particularly Delta South Senatorial District still face some problems in the area of acquisition and application of fund in the small scale enterprise environment .Based on this concern, the authors examined to know why small scale enterprises up till date are starved of funds and funding problem keep reoccurring in the state, and identify strategies to aid effective funding to small scale enterprises in the state.

Purpose of the Study

The purpose of this paper was to identify the constraints on funding systems for small scale enterprises in Delta South Senatorial District. Specifically, the study determined the constraints on:

- Adequate equity funding for effective operations of small scale enterprise in Delta South Senatorial District of Nigeria.

- Effective equipment funding for efficient small scale enterprise operation in Delta South Senatorial District of Nigeria.

Research Questions

The following research questions were posed. What are the constraints on:

- Adequate equity funding for effective operation of small scale enterprises in Delta South Senatorial District of Nigeria?
- Effective equipment funding for efficient small scale operations in Delta South Senatorial District of Nigeria?

Hypotheses

The following null hypotheses were tested at 0.05 alpha level of significance:

- There is no significant difference between the mean ratings of production/manufacturing and service/merchandise entrepreneurs of small scale enterprises on the constraints on equity funding that hinder effective operations of small scale enterprises in Delta South Senatorial District of Nigeria.
- Production/manufacturing and service/merchandise entrepreneurs of small scale enterprise do not differ significantly in their mean ratings on the constraint on effective equipment funding to small scale enterprises in Delta South Senatorial District of Nigeria.

METHODS

The study utilized descriptive survey to determine the constraints on funding systems for small scale enterprises in Delta State South Senatorial District of Nigeria. The population of the study comprised five hundred (500) entrepreneurs of small scale enterprises in Delta State South Senatorial District of Nigeria. Out of it, 300 are merchandise entrepreneurs, while 200 were production entrepreneurs. A sample of 100 entrepreneurs was chosen for the study. The sample was selected using proportionate stratified random sampling technique. For the purpose of the data collection, the authors developed a questionnaire instrument which was used. The instrument was composed of 16 items and has the form of a five-point rating scale. The instrument was face validated using three experts in the Faculty of Education, Nnamdi Azikiwe University. The reliability of the instrument was determined using Kuder-Richardson formula which yielded a coefficient of 0.82. The administration of the instrument was done by the researchers themselves who administered the instrument to the sample directly by hand. The analysis of the data was done using mean and standard deviation to answer the research questions while t-test statistics was used to test the null hypotheses at 0.05 significant level.

RESULTS

Research Question 1: What are the constraints on adequate equity funding for effective operation of small scale enterprises in Delta South Senatorial District of Nigeria?

Table 1: Constraints on equity funding for effective operation of small scale enterprises

S/N	Factors hindering equity for effective operation	Mean	SD	Remarks
1	Small scale enterprise entrepreneurs' personality could deprive entrepreneurs of friends and family support.	3.85	1.18	Agreed
2	Fraud due to diversions of fund into private use hinders effective equity funding.	3.82	1.37	Agreed
3	Lack of entrepreneurial training and development usually subjects equity to ineffective application.	3.65	1.23	Agreed
4	Lack of business experience subjects equity to ineffective application.	3.47	1.36	Agreed
5	Poor accounting system usually characteristics ineffective application of equity in small scale enterprise environment.	3.93	1.17	Agreed
6	The high rate of taxation in the country usually affects effective equity financing of small scale enterprise.	3.75	1.36	Agreed
7	Small scale enterprise hardly benefit from government financial schemes.	3.43	1.39	Agreed
8	Lack of professional guidelines and advice usually affect effective equity funding.	3.88	1.30	Agreed
9	Quick result syndrome is a major setback to effective funding of business organization.	3.71	1.33	Agreed

The data in an answer to research question have shown that entrepreneurs rated positive items 8-10, 12-13 and 15-16 as factors hinder effective equity funding for effective operation of small scale enterprises in Delta South Senatorial District of Nigeria. While items 11 and 14 rated as factors that do not hinder equity funding of small scale enterprise by entrepreneurs in Delta South Senatorial District.

Research Question 2: What are the constraints on effective equipment funding for efficient small scale operation in Delta South Senatorial District of Nigeria?

Table 2: Constraints on effective equipment funding for efficient small scale operation

S/N	Constraints on Equipment funding	Mean	SD	Remarks
10	Poor record keeping usually deprive small scale entrepreneurs of getting access to equipment funding.	3.61	1.50	Agreed
11	Equipment supply loans usually attract high interest rates.	3.59	1.42	Agreed
12	High mortality rate of small scale enterprises usually threaten the confidence of suppliers from supplying their equipment to small scale enterprise	3.74	1.44	Agreed
13	Poor cash flow business operations usually prevent entrepreneurs from effective equipment funding.	3.70	1.21	Agreed
14	The rate of tax imposed on small scale enterprises usually prevents them from obtaining equipment loans.	3.89	1.31	Agreed
15	Management style of small scale enterprise usually affects effective funding.	3.72	1.28	Agreed
16	Equipment supply loans are very scarce to obtain by entrepreneurs of small business.	3.90	1.24	Agreed

From Table 2, it revealed that production/manufacturing and services/merchandise entrepreneurs of small scale enterprises in Delta South Senatorial District of Nigeria were of the opinion that 10-16 are the problems against adequate equipment funding.

Hypothesis 1: There is no significant difference between the mean ratings of production/manufacturing and service/merchandise entrepreneurs of small scale enterprises on the constraints on equity funding that hinder effective operation of small scale enterprises in Delta South Senatorial District of Nigeria.

The data for the test of this hypothesis are presented in Table 3. Data collected in this respect were in the cluster of items 1-9.

Table 3: t-test analysis of the means response of production and merchandise entrepreneurs on the constraints on equity funding of small scale enterprise

Entrepreneurs	Mean	SD	N	t-cal	t-crit	Decision
Production	32.25	12.09	40	-4.889	1.960	Accepted
Services	49.02	22.06	60			

Result obtained from the test of hypothesis 1 showed that the hypothesis was accepted at 0.05 level of significance. This result revealed that there was no significant difference between mean ratings of production and merchandise entrepreneurs of small scale enterprise on the constraints on adequate equity funding of small scale enterprise in Delta State South Senatorial District.

Hypothesis 2: Production/manufacturing and service/merchandise entrepreneurs of small scale enterprise do not differ significantly in their mean ratings on the constraint on effective equipment funding to small scale enterprises in Delta South Senatorial District of Nigeria.

The data obtained to test this hypothesis are presented in Table 4 which were supplied in reference to items 10-16.

Table 4: t-test analysis of the means response of production and merchandise entrepreneurs on the constraints on effective equipment funding of small scale enterprise

Entrepreneurs	Mean	SD	N	t-cal	t-crit	Decision
Production	61.75	26.05	40	0.780	1.960	Accepted
Services	26.42	3.40	60			

The result obtained from the test of hypothesis 2 showed that the hypothesis was accepted at 0.05 level of significance. This result revealed that Production/manufacturing and service/merchandise entrepreneurs of small scale enterprise do not differ significantly in their mean ratings on the constraint on effective equipment funding to small scale enterprises in Delta South Senatorial District of Nigeria.

DISCUSSION

Based on the findings of the study, it is obvious that effective equity funding of small scale enterprises in Delta State South Senatorial has been constrained by personality variable of the entrepreneurs, diversion of fund into private use, lack of training and development, poor accounting system, lack of professional guidelines and quick result syndrome. This is in line with Enemuo (2010) who held that many entrepreneurs fail to understand the difference between self and business; hence could not separate self from business. Kpelai (2009) supported that small business entrepreneur's unfamiliarity with the operations of financial institutions in general and lack of specific knowledge of the availability of finance sources that offer international gap on source of finance.

Findings also emerged from the study proved that effective equipment funding is affected by poor recording keeping, high interest rate, high mortality rate and poor cash flow of small scale enterprise. This is in line with Oboro and Ighoroje (2011) who stated in recent years; most financiers in Nigerian money market have raised the cost of their finance with the sole intention of scaring away not-too-stable borrowers. Fela (2006) also confirmed that poor cash flow usually presents entrepreneurs from external funding towards effective operations of business organization.

CONCLUSION

From the findings of the study it can be noted that funding of small scale enterprises in Delta South Senatorial District of Nigeria is characterized by constraints such as high interest rate, poor record keeping, high mortality rate, lack of professional guidelines, training and development, poor cash flow, lack of bargaining skills, personality variable.

Recommendations

Based on the findings, the following recommendations were made:

- Interest rate of commercial banks to small scale enterprises should be reviewed by commercial banks, affordable to small scale entrepreneurs.
- Upward review of government small scale enterprises' financial based schemes should be encouraged and the outcome thereof implemented accordingly by government.
- Entrepreneurs of small scale enterprises should embrace proper financial planning and record keeping in the operations of small scale enterprises.

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