FINANCING SMALL AND MEDIUM ENTERPRISES (SMES) IN GOMBE METROPOLIS: A STUDY OF RICE PROCESSING MILLS

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ABSTRACT

The paper assesses the financing of SMEs in Gombe metropolis with special reference to rice processing mills. The population of the study comprises all the rice processing mills operating within Gombe metropolis. The unlimited nature of the population compels the researcher to employ convenient sampling technique to select a sample of 60 respondents. Simple percentages and chi square techniques were used in analyzing the data and testing of hypothesis using SPSS. Structured questionnaire was used in sourcing the data. The study finds that the financing of SMEs in Gombe has not improved as most of the SMEs are not even aware of Government Interventions not to talk of benefiting from any. Also majority of the owners don’t have access to credit facilities, so they use the little they have for their businesses. The study therefore recommend thus: Government should embark on awareness programmes to further enlighten the owners and managers of SMEs in Gombe metropolis on the importance of its intervention programmes. This should be done through the media, organizing workshops, seminars and so on. This will be among the easiest ways of accessing government funding/support by the SMEs.

Key Words: SMEs, Financing, Gombe metropolis, Government Intervention, Rice processing mills

Introduction

Small and Medium Enterprises (SMEs) are among the major employers of labour in today’s economy, one of the economy’s most vibrant sectors. It is a place where creative motivational individuals use their talents and expertise to the fullest. It is also a known fact that every big business starts as a small enterprise, hence, it can be regarded as an agent of development. Although they have been regarded as such and also as the bulwark for technological development, the sector has had its own fair share of neglect with concomitant unsavoury impacts on the economy.

Governments in the developed and developing economies have been playing an appreciative role in promoting the survival of SMEs. For example in Nigeria, the government has established
some organizations both governmental and non-governmental and other programmes that help these SMEs, organizations like the micro finance banks, youth with innovations in Nigeria (YOUWIN), Subsidy Reinvestment and Empowerment Programme (SURE-P), small and medium enterprises development agency (SMEDAN), Bank of Industry (BOI) and so on. These organizations provide the necessary assistance in terms of funding and advice on how to go about a business.

Due to the important role SMEs play in the economy, various regimes of government since independence in the 1960s, have focused on various programmes and spent immense amount of money with the primary goal of developing this sector, these have however not yielded any significant results (Mambula and Sawyer, 2004) as evident in the present state of the SMEs in the country. SMEs are generally very susceptible and only a certain number of them manage to survive due to some certain factors (Oboh 2002; Okpara 2000; Wale-Awe, 2000) as cited in Lemuel, (2009).

Furthermore, most of the entrepreneurs managing the SMEs lack the appropriate management skills. This leads them to purchasing obsolete and inefficient equipment which in turn lower level of productivity and poor product quality with serious consequences on product output and market acceptability. As a natural outflow of these deficiencies, it is not a surprise that various attempts by the government to restructure the economy only worsened and wrecked further dislocation and hardship on many industries. The outcome, of course, was closure of some enterprises while many others drastically reduced their scale of operation at the expense of labour. The present unfolding scenario is more frightening in anticipation of the whirlwind that will accompany the implementation of the world trade organization agreements. It is obvious that in the face of uneven competition, many more industries face the grim possibility of closure unless the government applies urgent brake to the present full throttle liberalisation policy.

It is in view of the above that this study tries to see whether the financing of SMEs within Gombe metropolis has improved since the government is trying to improve the sector. Although many studies had been conducted on the subject matter in Nigeria, like the researches of Gunu (2004); Lemuel (2009); Gulani, (2012) and Gregory (2013) need to be looked into. Gunu (2004) writes on Small Scale Enterprises in Nigeria, their start up characteristics, sources of finance and importance. Lemuel (2009) researches on financing options for small and medium enterprises (SMEs): Exploring Non bank Financial Institutions as an Alternative means of Financing. Gregory (2013) examines the financing Small and Medium Enterprises-It’s about Demand as well as Supply and Gulani (2012) sees the financing of Small and Medium Scale Enterprises in Gombe State: A Challenge for Entrepreneurial Development. Gulani’s study is similar to this but was conducted not up to a year when a new government was sworn in, hence, not much can be said to be achieved by that administration. Also, the study was limited to challenges facing some SMEs in sourcing for finance and also awareness of only MFIs. The study did not include other governmental agencies, programmes and governmental interventions. This study in contrast to
Gulani’s has given special reference to rice processing mills which is one of the major sectors in northern Nigeria. This sector is chosen to allow for a wider coverage and ease of access to data.

This study is divided into five sections. Section one, which is this, introduces the research, section two is the literature review, three gives the methodology, four deals with data presentation and analysis and five concludes the study.

**Literature review**

**Concept of SMEs**

Although there is no unique universally accepted definition of SMEs, many researchers gave various reasons for that. A scholar in 1992 states that like a proverbial elephant, the small firm is one of those things that are recognized when seen but difficult to define. Basil, (2005) asserts that the major contributing factor towards this lack of clarity is that few of these studies have used an informed definition of the “SMEs”. Within the current debate over SMEs four questions were suggested which are of fundamental significance and should encourage the development community to discuss and determine what the definition of SMEs should be. Once there is a clearer focus on the definition, then the appropriate policy towards SMEs in developing markets will also become clearer. The four key questions are: Where do large firms come from? How does a country best diversify its economy? Which group of business, by size and degree of development, has the greatest incentive to insist on policy reforms and accountable, transparent government? What, in its essence, is an SME? (Gibson & Van Der Vaart, 2008).

Nonetheless, many researchers, Agencies and Organisations have tried their very best in describing what and how an SME is. Organisations like the Central Bank, the International Finance Corporation, and the National Council of Industry and so on. Some defined SME as:

1. Small business enterprise as comprising those enterprises with total cost inclusive of working capital but excluding cost of land, of above N1m but not exceeding N40m and having man power strength (labour size) of 11 and 35 workers.
2. Medium Scale enterprises as comprising those enterprises with total cost inclusive of working capital but excluding land of above N40m.

The Small and Medium Industries and Equity Investment Scheme (SMIEIS), Joseph (2001) and Onyeyinka (2007) define SMEs as any enterprise with a minimum asset base of N200m excluding land and working capital and with the number of staff employed not less than 10 or more than 300. SMEs have also been defined along a broad continuum of size and type. In terms of size, measures used to classify SMEs include employment, assets base and revenue.
Based on the above definitions, the study therefore defines SMEs as any enterprise with minimum asset base of less than N10,000 including land and a number of employee of less 10. This will be the working definition considering the nature of business being researched. By their very nature, SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development. From varied experiences especially in developing countries, SMEs indeed possess enormous capability to grow an indigenous enterprise culture more than any other strategy. It is therefore not unusual that SMEs are generally synonymous with indigenous businesses wherever they exist. From all account, SMEs in most developing economies represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and reversing rural-urban migration.

Characteristics of Small and Medium Enterprises

SMEs may be conducted in the following forms: As a proprietorship – single ownership, as a partnership – where between 2 and 20 people pooled their resources together and as a legally incorporated entity, having the characteristics of a legal person and this could be a private limited liability company. However, in Nigeria, more than 83% of the SMEs are operated under the first two business types, while the third one operated mainly as family businesses (Adelaja, 2007). In any economy where SMEs are encouraged, certain characteristics are common to the enterprises. They include: Personal commitment of the proprietors whose life savings usually form the start-up capital; Low initial capital requirement; Ease of entry and exit; Availability of business advisory services; Availability of less complex technology; High content of local inputs in the production process; and High potential for employment opportunities.

Financing as a major problem of SMEs

Many studies have been conducted both internationally and locally on the financing of SMEs. Most of these researches show in one way or the other (directly or indirectly) that finance is the main obstacle bedeviling SMEs, especially in emerging countries. A study by Basil (2005), shows that most SMEs in Nigeria die within the first five years of existence. It also reveals that smaller percentage goes into extinction between the sixth to tenth year while only about five to ten percent of young companies survive, thrive and grow to maturity. Among the problems outlined by Olorunshola, (2003); Udechukwu, (2003); Basil, (2005); Oluboba and Aremu & Adeyemi, (2011) which are however not insurmountable are: low level of entrepreneurial skills, poor management practices, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortages of skilled manpower, multiplicity of regulatory agencies and overbearing operating environment, societal and attitudinal problems, integrity and
transparency problems, restricted market access, lack of skill in international trade, bureaucracy, lack of access to information given that it is costly, time consuming and complicated at times.

Ayyagari, (2011) states that Governments around the world want to help SMEs with 10 to 250 members of staff (employees) get better access to finance so that they can grow and create jobs. The G20 estimates that SMEs contribute 49% of formal GDP in high income countries and 29% in Low Countries. In some countries, SMEs account for an average of 66% of employment. Since many researchers attest to the fact that SMEs provide income, savings and employment generation, hence the desired employment generation can be achieved through development of SMEs (Awosika, 1997; Gunu, 2004 & Aremu, 2010).

In some countries like India, with the introduction of reform measures since 1991, the Govt. has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs. The sector has undergone several changes regarding definition. The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006 (Lahiri, nd).

Gregory, (2013) opines that SMEs demand for finance is limited because majority of SMEs don’t use external finance. The findings of the study suggest that if Governments aim to increase the use of external finance by SMEs, it will not even be enough to increase supply to the firms who want external finance but could not access it. Gregory finally states that the Government need to look at the reasons why so many SMEs particularly those with potentials to grow through external financing do not seek external finance and address the barriers to their demand for finance. The study further attributes low demand for finance to many reasons which include: lack of tangible equity to leverage by borrowing, lack of collateral, unwillingness or inability to provide information (weaker accounting and management reporting) and unwillingness to incur insolvency risk.

In a similar study, Anyawu, (2003) states that the role of capital in enterprise growth and development has been recognized over the years and well documented in literature. Capital is needed for the establishment of new businesses as well as the expansion, modernization and diversification of existing ones. Although, there is evidence that there are many bottlenecks in the growth and development of enterprises in Nigeria such as difficulties in local sourcing of raw materials, capital inadequacy, poor managerial and technical knowhow, as well as infrastructure deficiencies, the problem of long-term funds and working capital has pre-eminence. In recognition of this and in order to address the problem, various efforts and policies have been put in place. Salami, (2003) also states that SMEs play a vital role in employment generation, utilization of local resources, output expansion, transformation of indigenous technology,
production of intermediate goods, promotion of even development and reduction of income disparities and increase in revenue base of Government.

Most of these researchers identified lack of funding as one of the major hindrances to the progress and growth of an SME. Finance, as it is known, is one of the critical needs of even an individual. For without finance one cannot survive for long which is also same for a business organization. As seen from most of the studies above, Government is trying to finance this particular sector in order to aid in the development of the country at large. But the question is, does each individual/sector of the SME benefit or has access or is aware of these governmental aids? Despite the numerous factors that challenge the survival and growth of SMEs in both developing and developed countries, finance has been identified as one of the most important factor (UNCTAD, 1995, 2001; SBA, 2000) as cited in Lemuel, (2009). Having access to finance gives SMES the chance to develop their businesses and to acquire better technologies for production, therefore ensuring their competiveness, however, there is a huge challenge for SMEs globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks.

This indicates that finance is the key to everything and the governments in the developing nations are trying to build the sector in order to generate employment and alleviate poverty.

**Empirical Review**

A lot of studies were conducted on financing SMIs both in the developed and the emerging economies. Some of the studies conducted in an emerging nation like Nigeria were reviewed and also a study that uses the World Bank, that is, a developed nation. Gunu, (2004) tries to examine the start up, characteristics, financing and importance of SSEs. Questionnaires were used in sourcing for the data. Simple percentages and frequency distribution were used in analyzing the data. The study finds that the main sources of finance for SSEs are personal savings, cooperative societies, bank, family and friends, money lenders e.t.c. Lemuel, (2009) writes on the financing options for SMEs: exploring non bank financial institutions as an alternative means of financing, the case of Nigeria. Both primary and secondary data sources were utilized. Ordinary frequency and deductive approach were used in analyzing the data and reaching conclusion. The findings reveal that most SMEs are unaware of the policies in place to promote an d support their growth. With such ignorance, SMEs are stuck to themselves and can barely grow.

On the problem of financing for establishing a small business, Joseph (2009) looks at some bakeries in enugu. The study used the primary source of data collection by administering questionnaires to sixty seven bakeries within the state. Taro yamani, as a statistical sampling technique, was used to select the sample from a population of eighty firms. Tables, simple percentages and chi square were used for presenting, analyzing and testing the formulated hypothesis respectively. The study recommends that to achieve economic growth and development, government should increase the availability of credit by raising interest rate ceiling
and permitting a “spread” that makes it worthwhile for banks to lend to SMEs. This, the researcher suggests, will make the problem of financing SMEs a thing of the past.

Gulani, (2012) studies financing SMEs in Gombe metropolis. Primary source of data was utilized in the study. 65 questionnaires were retrieved and analysed using simple percentages and chi square method of analysis. The study finds that there is no significant difference in the difficulties SMEs face when accessing finance from various sources but a significant difference in the level of awareness of MFIs by SMEs. Gregory, (2013) carries out a study on financing SMEs- it’s about demand as well as supply. The study uses the World Bank survey of 2012 on demand for finance to draw different charts and graphs which were used to draw the study’s conclusion. The findings suggest that if government aims to increase use of external finance by SMEs, it is not enough to increase supply to the firms who want external finance but cannot get or access it.

Udechukwu, (2003) whose study was purely a content analysis states that SMEs are very essential to a nations development as they have been fully recognised by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of SME is therefore an essential element in the growth strategy of most economies and holds particular significance for Nigeria. SMEs not only contribute significantly to improved living standards, they also bring about substantial local capital formation and achieve high levels of productivity and capability. From a planning stand point, SMEs are increasingly recognised as the principal means for achieving equitable and sustainable industrial diversification and dispersal; and in most countries SMEs account for well over half of the total share of employment, sales, and value added.

Research Methodology

In this study, a survey research design was employed. The population of the study comprises all the Rice processing mills operating within Gombe metropolis. The unlimited nature of the population compels the researcher to employ convenient sampling technique to select a sample of 60 respondents which is a non probability technique. Structured questionnaires were administered to the selected sample which was the source of data generation. Tables and simple percentages and also chi square were used in analysing the elicited data and testing of hypothesis using Statistical Package for Social Sciences SPSS version 16.

Discussion of Results

This section deals with the presentation and analysis of data gathered via questionnaire from rice processing sector of the SMEs operating within Gombe metropolis. All questionnaires distributed were retrieved as the researcher administered and collected them without engaging any research assistant. The first part deals with the bio data of the respondents while the second part deals with the research objective.
Section A

The responses of the respondents on bio data show majority of the businesses run a one man’s business and the remaining 20% run partnership businesses. On the time of commencement of business, respondents representing 20% of the total respondents have been in the business for a period between 6 and 10 years. The remaining 80% of the respondents have been in business for a period between 11 and 15 years. On the issue of employees, 36 out of the 60 sampled respondents representing 20% each engage 1 – 5, 6 – 10 and above 20 people in their businesses respectively. 40% of the respondents engage between 11 and 15 people. This shows that the employment generation capabilities of the businesses are low.

Section B

Findings on the initial capital of the sampled respondents indicate that all the respondents (i.e. 100%) started with a capital of between ₦10,000 and ₦1,000,000. This shows that most of the SMEs do not have enough capital to take care of the business since majority of the respondents fall between N10,000 to N500,000. Among the identified sources of capital to the businesses, only 2 were utilised by the sampled respondents. 80% of the respondents raised their initial capital through personal savings and the remaining 20% raised their initial capital through friends. This shows that the respondents source their money from personal savings as majority of the respondents have testified.

Findings on whether or not the respondents have access to credit or loan facilities indicated that none of the respondents according to the result has access to credit or loan facilities. On whether the respondents are aware of the existence of BOI, 60% (i.e. the majority) of the respondents’ affirm that they are aware of the existence of BOI. The remaining 40% (i.e. the majority) confirm that they are not aware of the existence of the bank. Although majority of the respondents are aware of the existence of BOI, none of the respondents has benefitted from its credit facilities. This shows that majority of the respondents are aware of the BOI but have not benefitted from it as accessing credit is very strict due to the procedure, collateral and so on. Only twenty four respondents responded to the question of government intervention programmes. The result suggested that the 24 respondents are aware of the existence of Government intervention.

On support from the state Government, the results suggest that none of the respondents has enjoyed support from the government of Gombe State. This shows that the government is not doing enough in terms of supporting the SMEs in the state. This also can be evidenced from the responses on benefitting from intervention from the government, BOI or other non governmental agencies. Only twenty four responded to these questions. 55% of the respondents suggested that the factors have serious negative effect on the operations of the businesses. 5% of the responses indicated mild effect on their operations and the remaining 40% showed that the factors do not have any negative effect on their performance. Inadequate working capital, Non-Availability of
raw materials, Availability of spare parts and Lack of skilled manpower are according to the results the factors that have negative effect on both the respondents. Non-Availability of credit, Poor accessible roads do not have any negative effect on the operations of the businesses. High interest rate and Poor communication have serious negative effect and no effect on the operations of the respondents as shown in the table. Lack of machinery has serious negative and mild effects on the operations of the businesses of the respondents respectively.

All the respondents market their products through the local markets. None of the respondents markets his products in his business premises or exports them to foreign markets. According to the results, the form of support needed most by the majority of the respondents (60%) from the government of Gombe State is the provision of additional capital. 40% of the respondents needs support in form of helping them in marketing their products.

Test of Hypothesis: The hypothesis states that Financing has not improved rice processing sector of the SMEs. The result shows thus:

**Table 1: Chi-Square Tests**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>2.500</td>
<td>2</td>
<td>.287</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>2.594</td>
<td>2</td>
<td>.273</td>
</tr>
<tr>
<td>Linear-by-Linear</td>
<td>2.458</td>
<td>1</td>
<td>.117</td>
</tr>
<tr>
<td>Association</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td></td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

The decision rule states that: accept Ho if the Chi Square test is more than 5% and reject if less than 5%. The result of the Chi square test above shows 0.287 level of significance which is above 0.05 value set for alpha. Therefore, the hypothesis which says that Financing has not improved in rice processing sector of the SMEs is accepted. This means that the rice processing sector is facing a serious challenge in accessing funds as personal savings and loan from family and friends are the only sources of finance they have. This is also in line with most of the findings of the studies reviewed in this research which corroborate with the studies of Lemuel, (2009); Ayyagari, (2011) and Gregory (2013).

**Conclusions and Recommendations**

The study assesses the financing of SMEs in Gombe metropolis with particular reference to rice processing mills. From the analysis of data and test of hypothesis, the study finds that the rice processing sector raise its capital through personal savings. It further reveals that the business owners do not have access to credit facilities and they do not enjoy any government interventions, which most of them are not even aware of. The study finally finds that financing has not improved in the rice processing sector of the metropolis, even though the government is
trying its best possible, not all the sectors of the SMEs are benefiting from it or know about the existence of such agencies and organisations. The study thus recommends: Since the initial capital outlay demand of these businesses is not much, the government of Gombe State, Family members, Friends and Business angels should take it as their responsibility to provide the proposed owners with the initial capital. The SMEs should be encouraged through bank loans etc at affordable rates since these businesses have the potentials to provide employment to a sizeable number of people. Also, the owners of the businesses should be enlightened on how they will access the credit facilities meant for supporting the spread of SMEs and also the government should embark on an enlightenment campaign to educate the SMEs on the existence and importance of such agencies and organisations like SURE-P, YOUWIN, BOI and so on. With the interest demonstrated by the owners through raising their initial capital from their personal savings, the government of Gombe State should render them all the support they need for the betterment of the businesses and the state in at large.

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**Appendix**

**Data used for computing chi square**

<table>
<thead>
<tr>
<th>Source of Finance * Gombe Metropolis Crosstabulation</th>
<th>Gombe Metropolis</th>
<th>Gombe North</th>
<th>Gombe South</th>
<th>Gombe Central</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Savings</td>
<td>Count</td>
<td>18</td>
<td>16</td>
<td>14</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>% within Source of Finance</td>
<td>37.5%</td>
<td>33.3%</td>
<td>29.2%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Family and Friends</td>
<td>Count</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>% within Source of Finance</td>
<td>16.7%</td>
<td>33.3%</td>
<td>50.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>Count</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>% within Source of Finance</td>
<td>33.3%</td>
<td>33.3%</td>
<td>33.3%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>