SMALL SCALE FINANCING AND THE GROWTH OF SMEs IN DELTA STATE

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Abstract
This research investigated the role of small scale financing in enhancing the growth of small and medium scale enterprises in Delta State. The specific objectives are, to establish the importance of loan to business enterprises, to determine the effect of overdraft facilities in promoting business activities, to examine the prospects of provision of assets (hire purchase) to business operators and to establish whether increase in number of sources of finance has improved the business growth. The researcher employed the use of questionnaire as the instrument for data collection which was administered on 384 entrepreneurs in Delta State. Simple random sampling technique was adopted in selecting the above sample from a population of 2,000,000. Only 350 valid copies of the questionnaire were returned by the respondents. Data analyses were made using simple percentage and the hypotheses formulated were tested using Pearson’s product moment correlation co-efficient technique. The findings revealed that small scale financing truly enhances the fortunes of the people significantly, 98% of the respondents agreed that loan facilities improves business, 95% of the respondents agreed that overdraft facilities boosts business, 93% indicated that provision of assets (hire purchase) promotes socio-economic life and 75% were of the view that multiple sources of finance gave business owners the opportunity to enhance their businesses. It was recommended that Government at all levels should provide subsidies and credits to the grassroots in form of loans so that they can utilize the facilities. The microfinance institutions should be encouraged by government by way of policy to extend overdraft facilities with little interest rates to the entrepreneurs. Government ministries and agencies should provide assets and materials to the people at affordable rates and finally create opportunities for multiple sources of fund such as microfinance, co-operative societies, savings and loan groups and other microcredit agencies to support the entrepreneurs.

Keywords: Micro financing, Self-Employment, Economic Growth, Business Enterprise and Entrepreneurs.

Introduction
Industrial and productive activities that utilize various resources for economic outputs require huge sums of money which is not readily available to the rural dwellers and the urban poor. Consequent upon this, in 2005, the Central Bank of Nigerian (CBN) formulated a new policy framework to enhance the access of financial services to micro entrepreneurs and low income households who requires soft loans for economic activities to improve their lives and to contribute also to economic growth and development (Apere 2016).

Small scale financing one of the fastest strategies adopted in recent times through formal and informal means to stimulate economic growth, reduce poverty, encourage future growth through financial inclusion (Mutengazan wa, Fungai, Njanike and Charinkinya, 2011).
Small scale financing is the fulcrum upon which the small and medium enterprise revolves, and it provides the necessary fund that forms the bulk of business activities in a growing economy like Nigeria. The overall testimony from these activities are: generation of employment; rural development, economic growth and industrialization and better and greater utilization of local resources (Ashamu, 2014). Microfinance improves the life of poor people in developing countries (Tiberus, Natalia and Bundala, 2014).

It refers to the concept where micro-credits are granted to poor and low income individuals who needs fund for self-employment projects that generates income to satisfy the basic needs of life like food, rent, health, clothing, education, etc to improve the quality of life (Dosumu and Ogunniyi, 2015) from the report of (Maheswaranathan and Kennedy, 2010).

**Statement of the Problem**
Economic hardship and poverty (due to lack of formal employment and self-employment projects experience by rural people and the urban poor) calls for financial attention in form of low-interest credits, to improve their social-economic life.

It is obvious that most people from both rural and urban poor areas in Nigeria and with particular reference to Delta State have innovative ideas and invaluable creative abilities that can turn around business opportunities, but lack the necessary financial resources to implement these ideas. This of course is responsible for the low and poor result in the economic activities by SMEs operators.

One of the means of getting finances is through commercial banks or other major financial institutions. This also must be with collaterals. Most entrepreneurs and small scale business owners may not have the necessary collaterals demanded by financial institutions and as such may never have access to such micro credit or soft loans as the case may be. The issue of collateral requirements is being taken care of by the Micro finance banks and emerging cooperative societies which do not demand for collaterals. However, they lack the capacity to fully take care of the financial needs of SMEs in the country and Delta State in particular, even though they serve as bailout to some financial needs of SMEs.

**Objectives of the Study**
The general objective of this study is to examine the role of small scale financing in improving the socio-economic status of Nigerians. However, the Specific objectives are to:
(i) Establish the importance of loan to business growth of enterprises;
(ii) Determine the effect of overdraft facilities on business growth of SMEs;

**Hypotheses**
(i) Granting of loans has no significant positive effect on growth of SMEs
(ii) Granting of overdraft facilities has no significant positive effect on business growth of SMEs.

**Scope of the Study**
The study covers the various sources of small scale financing, the prospects of loan and overdraft facilities, provision of assets to business men and women by these providers, the importance of having or patronizing so many sources, and whether these variables has been able to enhance their lives through economic fortunes in their businesses. The study dealt with entrepreneurs in the areas of Computer centers, fish farming, poultry, transportation, welding and fabrication, fashion design, hair dressing, barbing salon, nylon business and
merchandising. The study selected small scale enterprises in 25 Local Government Areas in Delta State.

**Review of Related Literatures**

**Conceptual Framework**

**Small Scale Financing**

Another name for small scale financing is micro-credits which includes funds from microfinance banks, co-operative societies, thrift savings, Osusu, staff welfare fund, etc. The term micro-credits refers to providing very small loans to the very poor families of the rural areas and the urban poor to help them in productive activities and grow their small businesses for economic satisfaction (Dosunmu and Ogunniyi 2015).

Microfinance is the provision of small or little financial credits to businesses to stimulate economic activities and it is governed by micro-economic theory to improve the economy by providing the factors of production. Makorore (2014).

Oshiobugie and Okoh, (2015) described microfinance as fund provided to business enterprises in form of loans, overdraft facilities and other financial assistants with little interest and affordable conditions.

Osunde and Agbola (2012) in their work on microfinance and entrepreneurial development views microfinance as an invaluable source of micro and small financial resources to boost the economy and that is the major reason Central Bank of Nigeria (CBN) adopted it as a policy to drive the economy.

Central Bank of Nigeria (CBN) described microfinance in their brief of 2005b as a development tool or instrument used to create access and provide funds for the economically poor to finance their businesses at affordable prices.

**Business Growth**

The amount of work done or resources committed to increase the level of activities in business operations in order to expand the existing business, increase the existing production capacity to achieve greater results for more earning is what is referred to as business growth. It may also involve diversifying into other business areas as a result of opportunity recognition to gain advantage of the economic prospect identified in the economic environment if the financial resources are available.

Business growth can be achieved by acquiring more resources in terms of new machine, new and more quality human resources with improved inputs (raw materials) and extra financial resources to enhance production.

Apere (2016) states that the Central Bank of Nigeria (CBN) in line with the above statements formulated a new policy framework to enhance the access of financial services to the microfinance institutions and low income households (micro entrepreneurs) who need soft loans and investable funds to expand and modernize their operations and their contribution to economic growth and development in Nigeria.
Theoretical Framework
Human Capital Theory
This study was anchored on Human Capital Theory. The theory was proposed by Schultz (1961) and developed by Becker (1964). The theory argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate investment. This implies an investment in people through education and training. The theory compares the acquisition of knowledge and skills to acquiring the means of production; noting that the difference in earnings between people relates to the differences in access to education and health, and that investment in human capital leads to an increase in productivity, which in turn leads to a positive rate of return. Human capital in this regards includes skills, knowledge, competencies, attitudes, abilities, experiences and talents that are used by individuals towards sourcing for finance to provide value to an organization, achieve organizational goals and support the success of organizational goals and objectives.

The human capital theory posits that the education and experience of owner-manager influence firms’ access to external financing (Abdesamed and Abduwahab, 2014). Thus, the more educationally disposed an individual becomes, the better the chances of sourcing for finances externally for the growth of firm and related business ventures. Human capital development brings about having knowledge of various sources of finance for the organization and exploiting the various avenues for adequate financing of such firm.

The choice of this theory was informed by the need for financial management skills which are acquired through human capital development, and fundamental to any form of investment, hence the use of this theory in the present study.

Empirical Review
Several studies have been conducted in the areas of small scale financing and the growth of SMEs in Nigeria and globally. Some of such studies are reviewed:

Babagana (2010) in the study of Garu Microfinance bank in Bauchi as to whether or not microfinance banks contributes to the promotion and growth of micro small and medium enterprises in Nigeria, developed a questionnaire which was distributed to 15 middle management staff as respondents. The result revealed that loans and overdraft facilities yield significant and positive results because of adequate supervision and monitoring of the entrepreneurs to ensure judicious use of the funds.

Chandra and Govinda (2016) in their study of the contribution of microfinance on socio-economic development of rural community collected their data from 8 microfinance banks using Likerts scale. Branch manager, executive officer and program managers were selected as respondents. The result revealed that 75% strongly agreed while 25% agreed that microfinance uplifts the income status and general wellbeing of beneficiaries.

Kasali and Sowunmi (2013) in the study of the effect of National Poverty Eradication Programme (NAPEP) loan on socio-economic development of Ogun State used 198 respondents from two local governments (Abeokuta South and Abeokuta North). Probit analysis was used and the result showed that dependant’s consumption expenditure improved from the loan beneficiaries.

Makorere (2014) in his work on the role of micro finance in promoting small and medium enterprises in Tanzania used 51 respondents who received microfinance from Tanzania Commercial banks. The respondents were selected through simple random and snow ball
sampling techniques. The result of the study reveals that increase in profits, labour employment, outlets and sales volume were positively significant through the access of the micro finance.

Ashanu (2014) in his study on the impact of Micro-finance on small scale business in Nigeria with Lagos State as case study employed the simple random technique is selecting 110 (SMEs) using structured questionnaire as instrument for data collection. The study also employed simple percentages and Chi-Square in the analysis. The findings of the study show that microfinance institutions have grown incredibly and driven largely by expanding informal sector.

Apere (2016) in his study on the impact of micro-finance banks on economic growth in Nigeria made use of quantitative secondary data from Central Bank of Nigeria (CBN) Statistical Bulletin (2013) carry the study. The empirical perspective of this study employed the Cointegration Test, Augumented Dicky-Fuller Unit Root Test, the parsimonious test and error correction model (ECM). The result indicates that micro-finance banks loans and domestic investments significantly and positively affect the growth of Nigerian Economy.

**Methodology**
**Research Design**
Descriptive survey design was adopted in this study. The researchers collected the relevant data for this research from the field.

**Population of the Study**
The population of the study covered enterprises own by youths in Delta State. Ten different professions (business outfits) were selected for this study. The population of youth entrepreneurs in Delta State is estimated to be 2,000,000.

**Sample Size and Sampling Techniques**
The technique adopted in this study was the simple random sampling technique. The simple random sample was used in this study since the natures of businesses in the state are almost the same everywhere. The random sampling technique also reduces bias and errors in research of this nature. It is also useful in generalization of finding to population of study especially when sample is used.

**Sample size:** a sample size of three hundred and eighty four (384) businesses was estimated using the sample size formula in Daniel (1999). The sample size formula is given as:

\[
n = \frac{NX}{(X + N - 1)}
\]

\[
n = \frac{2,000,000 \times 384.16}{(384.16 + 2,000,000 - 1)} = 384.086 = 384
\]

Where,

\[X = Z_{a/2}^2 \times p \times (1-p) / MOE^2,\]

\[Z_{a/2} \text{ is the critical value of the Normal distribution at } a/2 \text{ (e.g. for a confidence level of 95%, } \alpha \text{ is 0.05 and the critical value is 1.96).}\]

\[MOE \text{ is the margin of error, } p \text{ is the sample proportion, and } N \text{ is the population size.}\]
The estimated sample size from the above formula was distributed among the selected entrepreneurship business.

**Validity of the Instrument**
The instrument was carefully scrutinized by the supervisor, and it was also presented to other professionals in this field for their input. The content adequacy, construct validity and correctness were verified.

**Reliability of the Instrument**
The test and re-test method was adopted to determine the reliability of the instrument. The consistency of the results was tested using Pearson correlation and a correlation value of 95% was arrived at. This shows high reliability in the study.

**Method of Data Analysis**
In this exercise, tables were used in the data analysis, while the hypotheses were tested with Pearson product moment correlation co-efficient.

\[
r = \frac{N \Sigma xy - \Sigma x \Sigma y}{\sqrt{(N \Sigma x^2 - (\Sigma x)^2)(N \Sigma y^2 - (\Sigma y)^2)}}
\]

where \(x\) = subjects score on \(x\) variables
and \(y\) = subjects score on \(y\) variables.

**Presentation and Analysis of Data**

**Presentation of Data**
In this segment of the report, data and information collected from the field was summarized, presented, analysed and the hypothesis tested.

**Hypothesis 1**
HO: There is no significant benefit in granting of loans to business enterprises.
Hi: There is significant benefit in granting of loans to business enterprises.

**Table 4.1 Summary Scores Of Granting Of Loan And Business Growth.**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Enterprises</th>
<th>Granting of Loans</th>
<th>Business Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Computer Centres</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>Fish Farming</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>Poultry Farming</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>Transportation</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>Welding &amp; Fabrication</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Fashion Design</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Hair Dressing Saloon</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Barbing Saloon</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>9</td>
<td>Nylon Business</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>Merchandising</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>132</strong></td>
<td><strong>112</strong></td>
</tr>
</tbody>
</table>

**Source:** Field Survey 2018
Decision
The result of the test when Pearson product moment correlation co-efficient from the data gathered, with \( r \) critical of 0.64 from 8 degrees of freedom at 5% level of significance shows that \( r \) calculated is 0.99. Thus, since \( r \) critical is lesser than \( r \) calculated, \( H_0 \) is rejected and \( H_i \) is accepted. Therefore, we conclude that there is significant benefit in granting loans to business enterprises.

Hypothesis 2:
\( H_0: \) There is no significant effect in overdraft facilities to business growth.
\( H_i: \) There is significant effect in overdraft facilities to business growth.

Table 4.2 Summary Scores of the Effect of Overdraft Facilities and Business Growth

<table>
<thead>
<tr>
<th>S/N</th>
<th>Enterprises</th>
<th>Overdraft Facilities</th>
<th>Business Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Computer Centres</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Fish Farming</td>
<td>7</td>
<td>6</td>
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<td>11</td>
</tr>
<tr>
<td>10</td>
<td>Merchandising</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>86</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey 2018
The result of the test with Pearson product correlation coefficient from the data generated as shown in Table 4.2 with \( r \) critical of 0.64 from 8 degrees of freedom at 5% level of significance, the calculated \( r \) is 0.86 which is higher than \( r \) critical. Thus, Ho is rejected while Hi is accepted and we therefore conclude that there is significant effect in overdraft facilities in business growth.

**Discussion of Findings**

The results from the four various tests conducted clearly revealed that small scale financing truly enhances the business fortunes and significantly improves the business growth and socio-economic life of the people.

98% of the respondents indicated that granting of loan facilities improves business and life of the people. The above is in agreement with the views of Oshiobugio and Okoh (2015) who submitted that provision of loans boosts the business growth.

95% of the respondents confirm the position of Umaru (2013) who stated that overdraft facilities boost the activities of small scale enterprises.

93% of the respondents indicated that provision of assets (hire purchase) especially those with subsidies from government and microfinance banks promotes the business and socio-economic status of the people and it is in agreement with the views of Babagana (2010).
75% of the respondents confirmed the opinion of Taiwo, Onasanya, Agwu and Benson (2016) who indicated that having varieties of sources of fund increase the opportunities of funding business enterprises and enhances their growth significantly.

Summary of Findings
The study revealed that small scale financing significantly enhances the socio-economic status. This was confirmed by the results of the tests and the opinion of the respondents.

Thus, the following were the major findings of the study.
1. There is significant benefit in granting of loans to business enterprises.
2. Overdraft facilities have significant effect in business growth.
3. Provision of assets can promote the activities of business operators significantly.
4. There is significant improvement in business growth with increase in the number of sources of finance.

Conclusion
The study which investigated the role of small scale financing in enhancing the business growth from the support of various financial services from many sources like; microfinance bank, co-operative societies, staff welfare funds, Osusu, etc clearly revealed that loans, overdraft facilities, provision of assets (hire purchase) and varieties of number of sources of these funds promotes the business growth and the life of the people significantly.

Recommendations
1. The government at all levels (federal, state and local government) should adopt the approach of subsidies and credit disbursements at the grassroot level in form of loans and put control measures to avoid diversions by the political class or corrupt career civil servants.
2. The microfinance banks should be encouraged by way of policy to extend reasonable amount of overdraft with little interest rates to augment the financial needs of business enterprises.
3. The federal, state and local governments through the ministry of economic planning and commerce and industry provide essential machineries, equipments, tractors, specialized seeds, fertilizers, vehicles in form of hire purchase to the poor which they cannot afford with little interest and repayment periods spread for reasonable affordable years say 10years.
4. The federal government should encourage the microfinance banks to lend more money to potential business men and existing rural enterprises through its policies to reduce interest rates and encourage the establishment of more varieties of sources of fund, co-operative societies, staff welfare fund to adequately serve the need of the people.

Contribution to Knowledge
The study showed that small scale financing institutions (microfinance) can adequately finance entrepreneurial activities by granting micro loans and overdraft facilities to credit worthy entrepreneurs, train and support management ventures that can grow the economy.

Furthermore, it showed that non-performance loans and other challenges faced by the institutions can be controlled using government policies. Researchers, scholars, investors, etc can tap from this knowledge.
References
