PROBLEMS OF SMALL-SCALE FINANCING IN NIGERIA:

A CASE STUDY OF COMRADE CYCLE, ZARIA.

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION (M.B.A) DEGREE. DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF ADMINISTRATION AHMADU BELLO UNIVERSITY, ZARIA.

1997

DECLARATION

I hereby declare that all sources of materials in this research work have been duly acknowledged by means of references. Therefore, any mistake found therein in this project is entirely my responsibility.

CERTIFICATION

This research work titled: PROBLEM OF SMALL-SCALE FINANCING IN NIGERIA: A CASE STUDY OF COMRADE CYCLE, ZARIA, written by MURNAI UMAR SAULAWA, meets the regulation governing the award of Masters of Business Administration (MBA) and is approved for its contribution to literary presentation.

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DEDICATION

This research work is dedicated to my parents, Malam Abubakar Muhammed Umar (Murnai) Sa'adatu Yakubu Abubakar, and my wife Maimunat Sani Umar Murnai for her understanding and encouragement through out the period of the studies.

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ABSTRACT

The development and growth of small firms is very vital to any economy, whether developed or developing. It is generally accepted that small firms play a very vital role int he economic and industrial development of the nation. Yet the financing of these firms especially in a developing country like Nigeria has always been difficult.

In this study, the importance of small scale firms has been discussed as the provider of inexpensive consumer goods, create wide range of job opportunities, thirdly it mobilize and utilize local resources etc.

The financial requirement of the firm have been highlighted as follows:-

1) the firm require finance to purchase the steel in wagon loads.
2) Secondly the firm require finance to acquire modern machineries and technology. Thirdly the financing of power supply.

The problem of finance in the firm endures in acquiring the right type of raw materials, inadequate payment of workers salary etc.

The entrepreneur of the firm confronts undue difficulties in obtaining funds to carry out their plans, they suspect that the banking and financial machinery of their economy are only designed and established to meet the capital and credit needs of large established firms. Finally the following recommendations are made which is hoped that it will ease some of the problems. They are as follows:-

1) The small firms should form industrial co-operative societies which would arrange for import of raw materials from abroad and for bulk purchases on behalf of their members.
2) Power capacity should be raised and timings of supply regularized in such a way that the firm is not inconvenience
3) The supply of the requisite machinery like lathes furnaces, welding equipment etc. to the firm by the National small industries corporation under hire purchase scheme.

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CHAPTER ONE

1.1 INTRODUCTION

The role of small scale industries in the Nigeria Economy cannot be over-emphasized. For any developing country such as Nigeria to achieve a viable economic development and self reliance, the establishment of small scale industries become imperative, due to the significant and inevitable role that such enterprise play in the growth of the economy.

The existence of industries form the bed rock of the growth of the economy of any nation, both the developed and developing countries as witnessed in U.S.A., Japan, China etc. Nigeria is not an exception to this assertion. The rate of her economic growth was nothing to write home about during the pre-independent period. When only very few industries manned by colonial masters existed and during which time the country relied mostly on imported finished goods made out of raw materials that were exported.

However, the country witnessed a drastic change in her economic growth when she attained independence in 1960 as a result of the establishment of various industries and also the indigenisation policy that followed. This upward trend in the

nation's economy as a result of industrialization clearly show the importance of industries in any nation that wants to from economically and be self reliant.

Industrialism has been seen to be the mark of modernity and an effective tool to muster and command both domestic and international respect. The reason which prompted the industrialization of Nigeria are party economic party technological and party social.

Another encouragement to small scale industries came into being when in 1975-1980 plan document. It was stated that "unemployment is an indication that the economy is working below capacity and a country in need for rapid development should not allow human resources remain idle. A major effort will therefore be made to ensure that the problem of unemployment is brought under control.

In studying small scale industry's financial problem, and knowing that small scale industry is a tool for economic development, the study of entrepreneurship is relevant. This is summarized in what Cole said "To study the entrepreneur is to study the central figure in modern economic development and to my way of thinking, the central figure economics". This view was endorsed by Robert "Economic development requires for more than have yet been available, but the resources it requires most are

creative innovations". This shows that to be able to achieve economic development though small scale industries, creative innovations must be encouraged as seen in several development plans made in the past.

Also there is a substantial body of opinion which holds that the main objective of industrial development policy in the less developed countries should be the encouragement of a variety of cottage-small scale industrial enterprises to meet the basic needs of their people and it is further argued that small scale industries can tackle more effectively certain problems of industrialization. Hoder said cottage industry is the kind of venture which depends upon traditional skills and so can help to build supplies, managerial and entrepreneurial experience which in turn can form the basis of more impressive industrial expansion.

Despite all the encouragement, small scale industries have suffered greatly in the country at large as a result of emphasis placed on large scale industries. Given the situation in Nigeria, it has been argued that the failure to attain the lofty goals of an industrialized economy has largely been due to the strategy and technology which has been adapted to industrialize the economy.

This given the situation of how level equilibrium, the general how entrepreneurial skill and other related industrial problems, a more meaningful and realistic industrialization strategy would be

that which resorts to capacity utilization of local resources that are both of material and human nature.

Moreover, there is no doubt in saying the fact that establishment and sustenance of small scale industries in a depressed economy like ours is one way of restoring the already dormant industrial sector, thereby raising the economic potentialities of the nation. This is why a viable small scale industry emergence, capable of utilizing the local raw material is very essential in the industrialization of any nation.

Nigeria is only thirty Nine (39) years old as a political entity but the geographical location it now occupies and its people have known and witnessed industrialization of sort for over a millennium. However the place of industrial development especially of the modern state has been rather slow.

Small scale industries play a very vital role in the economic and social development of any country. Therefore these institutions have so much impact in our day to day affairs to the extent that we consider them as part of life.

Many countries of the world, that have long attained advanced stage in industrial development started with small scale industries particularly in the manufacturing sector.

In Nigeria economy attention has been drawn to the fact that small-scale industries had received very little attention whereas it

provided employment for approximately triple the number engaged in large scale manufacturing as well as playing their role of crucial importance to our developing economy.

The importance of this sector to the economy was started in the National Development plans (1975-80) and (1980-84) quoted an "The development and promotion of small-scale industries would generate substantial employment opportunities for youths, stimulate indigenous entrepreneurship, facilitate effective mobilization of local resources, capital and skills and reduce regional disparities"

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Small scale industries points the way to transform the old concept of industrialization towards new and more promising forms that are in keeping with the needs of nations moving from a traditional to modern economy small scale industry can contribute significantly to economic advancement, if there is modernization in its organisation and technology, appropriate selectively in products chosen for small scale manufacture and good management.

Financing small-scale industries is a perennial problem in any economy. This problem endures because it is multi-dimensional. Owners of small scale industries continue to believe that they confront undue difficulties in obtaining the funds to carry out their plans.

h) To analyze the obstacle and prospects to rapid industrialization in Nigeria

i) To bring out the sources of financing small scale industries in Nigeria

j) To determine the contribution of the federal government in the area of financing and promoting small scale industries.

1.3 IMPORTANCE OF THE STUDY

As in the case of any research work the importance of the study cannot be over emphasized. The development of small-scale industries in the bedrock of industrial development of any developing nation.

This research work is undertaken in an attempt to identify the major problems of financing small-scale industries in the country, and using comrade cycle Zaria as a case study. The findings and suggestions of this write up will help to find a lasting solution to the problems of financing small-scale industries in Nigeria.

This project work would be a useful guide especially to those willing to set up small-scale industries and those who have already engaged in it. As well it is useful to students of Business Administration.

From this project, the industrialist could obtain information to improve the present level of operation and production generally.

The small scale indigenous firm have played an important part in the structural transformation of the economy.

Thus the importance of entreprenuer and their small-scale industries to an economy like Nigeria can be adequately summarized in the words of Kilby (1969) when he said, that the promotion of this form of industry lessens the need for foreign enclave type of enterprise in contrast to concentration in a few cities with its implication of urban unemployment and unrest, small-scale industry can be geographically decentralized, creating many islands of development, small firms provide a training ground or steeple stone to large scale enterprise, small industry taps latest savings and skills that could not otherwise be mobilized, because small-scale production entails labour, intensive technologies, for a given amount of capital (the scale factor) both employment and output will be larger under a regime of small industry than under alternative forms of organisation. As a quasi-sponge for urban unemployment and a provider of inexpensive consumer goods with little or no import content, this sector serves important pressure releasing welfare augmenting functions. It contribute to long run industrial growth is to produce an increasing number of firms that grow up out of small-scale sector.

The information contained in this paper could be of help to future researcher who may be interested in this sector of the economy

1.4 STATEMENT OF PROBLEM

The government has been playing appreciative role in promoting the survival and growth of small scale industries in recognition of their flexible and adaptive power in promoting economic development. Despite the effort put in by the government, small scale industries encountered some problems which include among others, technical knowledge, lack of managerial ability, import substitution strategy of 1960's and 1970's increased cost of raw materials tariff structure and import liberation which stripped small-scale industries of nay kind of protection. It was clear that the country's foreign exchange earning had divided significantly by early 1980's while the high import dependence of the manufacturing sector had become a liability to the economy.

These then form the basis of government's decision to restructure the country's economy, especially the industrial sector through the introduction of structural Adjustment programme in July 1986. Some other policies have also been established since then to restrictive the Nigerian economy.

1.5 SCOPE OF STUDY

This project work cover the country in general but with special attention to comrade cycle Zaria and is specifically concern with the problems of financial small-scale industries.

1.6 LIMITATION OF THE STUDY

Any study based on field research is difficult in Nigeria from little experience in gathering information, individuals and institution are afraid to give out information even for the purpose of education, they feel the researcher is an agent of the competitor who is all out to steal information from him. The major limitation was lack of adequate records from which correct and up to date information can be supplied. As a result, some of the information involved guess work and historical memories.

The company although granted interviews but refused to give one statement of account. They prefer one to just go through it in their office and drop it.

Also another constraints was time and finance that was why the research was only carried out on comrade cycle Zaria.

1.7 DEFINITION OF SMALL SCALE INDUSTRIES

Definition of small scale industries: Small scale industries is hard to define, many writers have attempted to define what a

small-scale business is like, many definition have been forwarded for different purposes, that is why some writers view small scale industry from the number of people employed while other involved at it from the capital employed or sales volume in forms of their area of operation, or even on the basis of type of product manufactured.

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The small business Act of 1953 defined small business "as a business that is independently owned and operated and not dominant in its field of operation". The Act also authorized the small business Administration (SBA) to develop a more detailed definition that taker into account such criteria as sales volume and the number of employee in the firm. Pickle and Abraham (1972.4).

Hence, the definition of small scale industry is usually based on certain criteria such as number of employees, capital investment, sales volume (turnover), motive power and total assets.

In Nigeria, the industrial Research and Development unit at Ife in 1973, defined a small scale industry as "one whose total assets in capital equipment, plant and working capital are less than N50,000.00 and employing fewer than 50 full time workers".

The Federal Ministry of industry defined small scale industries as those with total capital of up to N60,000.00 in 1973

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but in 1986 the total capital became N500,000.00 but still employing up to so people.

Central bank of Nigeria defined small scale industries as having an annual turnover not exceeding N500,000.00. The World Bank said small scale industry is one with a total capital outlay excluding land of N100,000.00 to N2 million.

According to Isemin (1973:15) National Directorate of Employment (NDE) defined small scale industries as an establishment with capital investment as low as N5,000.00 and employing as few as three people. With regards to the National Economic Reconstruction Fund (NERFUND), small scale industries are define das those with fixed assets other than land but inclusive of the cost new investment not exceeding N10 million.

In India, small scale industries include all industry units with a capital investment of not more than 750, 000 (about $41,400) irrespective of the number of persons employed.

In Indonesia, small scale industries are defined as all enterprises whether household, cottage employing less than 10 full time workers and not using motive power.

In Netherlands, they are defined as an Industry in which the manager performs personally all function of management without encouraging prospective small scale industrialist, it negotiated 42 million dollars loan with the World bank in 1984 for small and

medium scale industries.

Furthermore in 1988 the Federal government allocated N100 million for the creation of self employment in small scale industries that is NDE.

The Federal government's financial allocation to small scale industry credit scheme during the fourth development plan period (1981-1985) was N295 million of this amount, the federal government provided N200 million and expected the balance of N95 million to be raised from the World bank, in addition the national economic recovery fund (NERFUND) and small and medium scale enterprise (SME) schemes were introduced with a total resource allocation of N4.46 million.

The NIDB has determination to forge ahead in its financial and technical assistance to the small and medium scale industries in Nigeria and as the leading participating bank under the SME and NERFUND schemes, NIDB will not rest in ensuring that more of its projects benefit, from the limited resources allocated to the scheme in the current 1991 - 93 rolling plan.

Bank - Bank is define as a dealer in money and credit, holding itself out to receive from the public, deposits repayable on demand by cheque". O.A. Lawal. (1982:186) A bank provides certain services for its customers - depositors and borrowers and in return receives payments from them in one form or another. It

tries to earn a profit for its stock owners.

Capital - Capital has been described as the produced means of production or stored up wealth used to produce further wealth. The distinctive nature of this factor is that it is man-made. Capital is accumulated out of income by saving. The basic propensity to save and accumulate capital differs between countries. But the very nature of West African economics is basically underdeveloped with low incomes per capital, hence capital accumulation is low or inelastic. Capital goods include factories and equipments, roads and railways, houses and add to the existing flow of goods and services. It has often been asserted that there is capital shortage in West Africa. The present state of capital accumulation is very much determined by the level of per capital incomes and the marginal propensity to save. There exists differences among the countries in their saving habits. However, countries which save more out of incomes and profit are likely to accumulate more capital. If we want more roads or more houses, then we must invest in their resources which could have been used to produce goods for immediate consumption.

Savings are therefore an exchange of present for future income through capital accumulation which is also an income, earning asset. O.A. Lawal (1982:8)

Entrepreneur:- The person who co-ordinates other factors of

production for effective utilization is the entrepreneur . The emergence of indigenous entrepreneurs in West Africa is very slow, because of their peasant backgrounds; this background limits their role as uncertainty - bearers willing to innovate. Such backgrounds and other social attitudes have greatly reduced the supply of indigenous West African entrepreneurs.

The role of the entrepreneur is crucial in the study of the wealth of a nation. He is assigned the basic role of the innovator in the economic system. He sees, calculates what uses society wants to make of its scarce resources, and organizes the resources to serve these uses. He is the intermediary between the forces of demand and supply . O.A. Lawal (1982:16)

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Development:- from the word develop, which means cause to grow larger, fuller or more matured, organized. Therefore industrial development is the conscious effort of the government to bring about changes in the economic variables (consumption, savings, investment) production of an economy. Advanced Learners (1992:236)

Loan:- A sum of money borrowed at an agreed rate of interest. Commerce for senior secondary schools. F.F. Odoom (1982:113)

Interest:- Money charge or paid for the use of money; payment made by a borrower for a loan, expressed as a percentage e.g 5% on a loan. Oxford Advanced Learner (1992:445)

Resources:- Wealth, supplies of goods, raw materials etc which a person, country etc has or can use. Resources are also the factors of production used int he economy or firm to produce and distribute goods and service which are classified into land, labour and capital. Advanced Learners (1992:720)

CHAPTER TWO

2.0 LITERATURE REVIEW

This chapter deals mainly with the literature review of past write up in this field or related fields. The researcher will be taking a look at the role of small scale industries in the Nigeria Economy.

There have been so many write up on small scale industries by some authors and some of them have in their write up related the role of small scale industries to the Nigerian economy as at the past few years up till date.

It is intended to reflect some of the writers' view on the subject matter.

The literature on small scale industries is expanding, but a careful scrutiny of various definitions attempted reveals that there are no universally accepted definitions of small scale industries that exist.

Industries regarded as small or medium in developed countries could be regarded large in developing countries. Therefore each country has tried to define small scale industries to suit its environment and purpose considering the level of industrial development in the country and also designed to meet the

administrative and other needs of the country.

The main indices of such definition include number of employees, capital investment, sales volume (turn over), motive power, total asset, volume of output, management style, production techniques and status of ownership.

Prior to independence, industries failed to make any appreciable impact on the Nigerian economic. Only a small number of industries existed and most of those industries were predominantly agricultural for domestic and export markets.

The primary reason for low degree of indsutrialisation was due to institutional obstacles inherent in colonial economic structures which were largely dominated by trading companies. The colonial trading enterprises deliberately rejected industrialization in Nigeria for the primary motive of protecting their own trading interest.

However, the history of real industrial development in the Nigeria commenced in 1923, when Lever Brothers (West Africa) Limited was incorporated to manufacture soap at the oil mill; Apapa; Badarinsa (1987):34) reports that "the first industrial venture in Nigeria was set up in 1923 by Lever Brothers for the manufacture of Soap".

None of the conventional grounds for establishing a manufacturing company seemed relevant and there was no

protective or preferential tariffs and no import controls, neither was there a large market to sustain its production.

Thus, the company made losses in the initial years but later started making profit.

Further meaningful attempt to industrialize the country was not made until 1946, when Nigerian Breweries Limited was formed as a private company for the purpose of manufacturing and selling beer and mineral waters. In the middle 50s, the Federal government and government of the Western Region of Nigeria established the Apapa and Ikeja Industrial Estates to facilitate the setting up of a number of industrial ventures namely the Metal Box Nigeria Ltd. Dunlop. The Nigerian Textiles Mill Ltd, Tower Aluminum and Asbesteros cement Company. This development was in line with broad frame work of the Economic Development Plan 1955 - 1962 as set down by Federal and Regional Government within the federation.

The first phase of industrial development in 1960 was focused in import substitution activities, particularly in the area of durable and non-durable consumer goods. The main objective of import substitution is to minimize the nations dependence on consumer goods and enhance self reliance for economic development. Government set up a ring of tariff projections for pioneer industries, while the established factories in Nigeria were

given tax holiday and concessionaire import duties on raw materials.

The tariff protection and tax holiday led to quick growth of Nigeria's textile, beer, soft drink, soap and detergent industries. Due to the growth, Central Bank of Nigeria estimated in 1973 that the ratio of domestic production to total supply was over 90% in textile, beer, beverages, soap detergent and roofing sheets.

In the era of seventies, the federal government intensified its industrial promotion measures. During that period, Industrial Development Centers (IDCs) in Zaria, Owerri and Oshogbo were introduced. Small scale industries credit schemes were introduced in Federal and State Ministries of Industry and the promulgation of indigenisation decrees comprising enterprises promotion and capital issue Decrees in 1972 and 1973 respectively to promote indigenous enterprises.

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This led to establishment of the Nigerian Bank for Commerce and Industry (NBCI) in 1973 to provide funds for industrial and commercial investment. Nigerian Agricultural Bank Ltd (NAB) was established to promote agro-allied industries and agriculture in general. All these were implemented in the Second National Development Plan (1970 - 1974) to promote the growth of small scale industries in Nigeria. In the third and forth National Development Plans, government used financial institutions to

further channel disbursement of funds to small scale industries, almost all state governments established investment companies to promote their establishment and various research institutes were established.

With the introduction of the Structural Adjustment Programme (SAP) by the Federal Government in 1986, nation intensive industries have been incurring substantial losses. Through the Structural Adjustment Progrmame, the government redressed the structural imbalances in the economy and had instead created a self-reliant and vibrant economy. It had also reduce the unhealthy reliance on petroleum production and import and a visible reactivation of cash crops as well as food production. Higher returns became the lot of the farmers and it made possible a progressive emphasis on local sourcing of raw materials by industrial processes. Distortions noticeable in the pricing system were corrected and the programme encouraged a shift to the consumption of locally produced goods and services.

The Structural Adjustment Programme also brought about governments reappraisal of the regulatory environment, the structure of protection of local industries and package of incentives to local manufacturers which then mark a watershed in the evolution of the industrial sectors in general and led to active encouragement of small scale industrial sector in the country.

Other programs established for promotion of industrialization include World Bank SME's Scheme, Directorate of Food, Road and Rural Infrastructure (DFRRI) and National Directorate of Employment NDE. In 1989, People Bank and National Economic Reconstruction Fund (NeRFUND) were established while in 1990 Community Banks were introduced. All these were to promote small scale industries in one way or the other.

Despite the various policies embarked upon by both the Federal and State governments, the expected growth has not materialized and the mortality rate of small scale industries has increased due to some constraints encountered by small scale industries. However, the government is still attempting to eradicate these problems and constraints by policies being continually made and studying their effects to see improvement on small scale industries or otherwise. Babarinsa (1987:34).

2.1. HISTORICAL OVERVIEW OF COMRADE CYCLE

Comrade cycle is one of the small-scale manufacturing in the country. It is situated in Zaria Industrial Area, Kaduna State. Zaria is one of the oldest northern empire. Comrade Cycle was established in the early 1980s as a processing company then they use to fit already made part of bicycles (that is assembling) but in the mid-80s they started manufacturing tubes and tyres. They got

raw materials from Warri and Benin, gradually the company started moulding the different parts of bicycles in Nigeria, raw materials were gotten from Ajaokuta steel and Delta Steel Companies. They are the first indigenous bicycle manufacturer in Nigeria. They manufacture different brand of bicycles i.e. children and adult bicycles.

The Company is a family - like company. During the late 80s the company grew but soon after the introduction of SAP and SFEM (Structural Adjustment Programme and Second-tier Foreign Exchange Market), it was affected because some of the parts were imported they suffered seriously because there was decline in production and increased demand (This was due to high cost). They have been undergoing financial crises. But recently, when NDE (National Directorate of Employment) was introduced, some of the parts are now locally manufactured, they have now resolved to using local materials. Their product is being sold nation-wide and their staff strength is between twenty to forty people.

This research study is hoped to reveal the financial problems being faced by comrade cycle an indigenous company in Zaria, Kaduna, Nigeria.

2.2. FEATURES OF SMALL-SCALE INDUSTRIES

1. Relatively Little Specialization in Management

With some overstatement, we may say that small industry is characterized by one-man management. The manager and perhaps a few assistants handle production finance, purchases personnel, sales, and all other aspects of the business. There are no vice-presidents for specialized management tasks as in large organizations and little or no provision for staff as distinguished from line functions. This characteristics gives small industry certain special needs for types of advice and aid which are not so much needed by large manufacturing firms.

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2. Close Personal Contacts

The manager is personally in touch with production workers customers, suppliers and owners (ownership is often identical with management). If the manager is a good one, this characteristics of small industry gives a quality of human relations and a flexibility in daily operations - For example, in meeting a customer's special requirements - that may in some circumstances mean a competitive advantage over large industry.

3. Handicaps in Obtaining Capital and credit

The small industrial firm cannot raise capital in the organized securities market, and owing to greater unit costs of small transactions, greater risks and other factor - often finds difficulty

in getting loans and credits from banks or other financing institutions. This characteristics, of course, also suggest needs for special types of developmental aids.

4. **Sheer numbers of small industry units**

It is often impracticable, or at any rate uneconomic, to apply to thousands of small units the same development techniques (e.g. individual feasibility studies) which can be applied to tens of large units. Group techniques must be devised for small industry development, analogous to the extension methods used in agriculture to reach many small farmers, Richard Morse (1965:3).

2.3. GROWTH OF SMALL-SCALE INDUSTRIES SINCE THE FIRST NATIONAL DEVELOPMENT PLAN

Small factories can contribute to economic growth, first, through the introduction of many products in which such factories are prevalent even in modern economies, but which are new to most non industrialized societies.

Small factories in these industries are profitable and socially beneficial even though they do not exhibit great individual growth. Many products of such industries are in great demand in developing countries. Their introduction, if suitable in the country's particular circumstances, will promote the diversification of manufactures and the emergency of healthy new enterprises

that are vital elements in economic transformation.

To evaluate new small-scale manufacturers for developing countries, it is therefore useful to ask: "what important types of products are successfully made in small factories in industrialized societies? Why?

Clearly, we are concerned with the growth of firms, whether by reinvestment of profits or by attraction of new investment funds through a favourable profit history. Such mobilization of capital to accomplish new economic tasks is one of the taproots of national economic growth.

From the standpoint of modern small industry, we are interested in determining what conditions permit a firm to enter an industry at a modest level of size and yet achieve profitable operations as a basis for expansion, Richard Morse (1965:106).

2.4. FACTORS CONTRIBUTING TO BORROWER RESISTANCE

1. Rigidity of approach on the part of financial institutions

The point was made by a representative of commercial banks that by tradition and as a matter of policy, Bank were averse to making medium or long-term advances for a period of 3 to 7 years to finance fixed capital requirements. While the call for reorientation of attitude on the part of commercial banks should be needed by them this would be facilitated if the reserve bank of

Nigeria could actively encourage the adoption by commercial banks of the promotional view in the matter of financing small-scale industries. It was suggested that banks which granted such advances may be refinanced by the reserve bank of Nigeria. It was stated by one of the participants representing small-scale industries that small scale industrialist who had approached commercial banks for advances had been informed that the Reserve bank had prescribed a reduction of advances and so they could not be accommodated while this might be a misinterpretation of directives issued by the Reserve bank in pursuance of its policy of credit control, the results from the point of view of the small-scale entrepreneur were unfortunate. The borrower often did not know the correct position and was apt to conclude that the banks are not really interested in lending to him. This was not calculated to help improve bank - industry relationship.

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The view was also expressed that frequent transfer of branch executives led to discontinuity of policy and prevented the development of sympathetic understanding of the needs of the small-scale borrowers which was so essential.

On behalf of the state bank, one of its representatives pointed out that a directive had been issued to all its agent that apart from entertaining proposals that were addressed to them,

they should themselves approach the industrialists who may be in need of financial assistance. They had also been encouraged to take calculated risks in financing small business.

3. Complicated Nature of information required from the borrowers.

A number of participants attributed the unwillingness of the small borrowers to approach organized credit institutions to the unduly detailed and complicated nature of the information asked of borrower when they apply for an advance. Many of the small-scale units were not in a position to supply all the information required in loan application forms and it was argued that simplification of these forms would go a long way in reducing "borrower-resistance". Some of the commercial bank representatives contended that the credit institution did, in fact, need all that information in order to appraise the borrower's credit standing ability to repay and so forth.

A special invitee to the seminar pointed out that while the details called for, could be curtailed somewhat and the form of application streamlined, it would be inadvisable to cutout too much, as after all, the information asked for was really what the entrepreneur should ask himself before deciding on his investment. He suggested that the financial institutions should

function as counsellors also and assist the borrower in collecting and presenting the required information properly.

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3. **Strict requirements of security**

Much the most serious complaint against the organized credit institutions was that they were extremely rigid in their requirements of security and insisted on margins that were too large for the majority of small borrowers. This was particularly true of the state financial corporations. In addition, credit agencies accepted only a few selected commodities as security for advances, and this too generally on a pledge basis several of the members pointed out that these practices made it exceedingly difficult for the small industries to borrow from banks. It was urged that in the present climate, when bank deposits were increasing and Reserve bank policy was directed towards enlarging bonafide industrial advances, the larger banks could perform a national service by expending their cooperation to the small industrialists directly or through the smaller regional banks.

4. **Delay involved in the sanction of loans**

It was generally accepted that the organized credit institutions could compete more effectively with the non-institutional lender if they made proper arrangement for expeditions processing of loan applications. One way of doing this was to delegate greater authority to branch agents in regard to the

sanctioning of loans.

Delays were due more to the imcomplete information furnished bythe applicants than to the time taken for consideration of the applications. This did not normally exceed 10 days if the applications were completed in all respects. All power had been delegated to branch agents to sanction loans to small-scale industries to the extent of 10,000 in each case. It was contented on behalf of the commercial banks that under the present circumstances some delay was inevitable and this would continue until some of the suggested procedural and legal changes had been adopted.

It was pointed out by some of the members that, in the case of state financial corporations delay occurred even after loans had been sanctioned owing to the time taken for verification of the title of the borrowers properties proposed to be mortgaged. A seminar organized by institute of bankers on financing small scale industries (1991).

2.5. FUNCTIONS AND SIGNIFICANCE OF SMALL SCALE INDUSTRIES IN THE ECONOMY

Small scale industries act as a powerful factor in rapid, decentralized growth of a developing economy like Nigeria. The functions and significance of small scale industries to a developing

country are so vast that they cannot be relegated to a weak background. The functions and significance of small scale industries in the economy include:

i. Creation of job opportunities:- Small scale industries having a high number of establishments and being labour intensive in most cases, ensure employment for a large number of people. This is confirmed in the statement of Schalder (1968) "Small Scale industries can offer a good solution to the twin problem of a pressing need for higher industrial output and increasing employment"[2]

ii. Small scale industries mobilize and utilize local resources and funds which would have been lying idle or wastefully spent and directs them to productive uses. Associated with this notion, Schumacher (1983) writes that "small businesses mobilize the priceless resources which are possessed by all human beings, their clever brains, skillful hands and supports them with first class tools"[3]

iii. Small scale industries bring about more even distribution and development of industrial enterprises.

iv. Small scale industries play an important role in the introduction of new goods and services to the market.

v. Small scale industries are more likely to employ less skilled workers and individuals with no prior working experience.

This employment practice benefit the economy in two ways. By employing workers that may otherwise have difficulty securing employment, thereby reducing the duration of transitional unemployment these individuals and the employment of these workers raise their productivity by giving them on the job training and work experience.

vi. The significant involvement of small scale industry in market entry and exit helps to ensure mobility of capital resources.

vii. Small scale industries purchase, use and often revitalize used capital equipment.

viii. Small scale industries act as market demand "shock absorbers" by employing flexible production technologies, they have greater flexibility than large ones. By acting as demand shock absorbers, small scale industries help to satisfy temporary demand increases without causing sharp price increases.

iv. Small scale industries bring about a balance in the growth of large scale industries by the removal of over contraction of economic and monopoly powers caused by dominance of large scale industries.

x. Small scale industries are important suppliers in very specialized markets as they exist to serve particular demand, as in the case of consumer goods for which there is

considerable diversity of taste. They are also important suppliers of intermediate goods. Small scale industries aid large scale industries by manufacturing raw material input and they also act as catalyst to larger industries. Olurishe (1997:17).

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2.6. PROBLEMS OF SMALL SCALE INDUSTRIES

Small scale industries constitute the bedrock of Nigerian industrialization. The government has been employing strategies to enhance their effectiveness, but despite these strategies small scale industries are not living up to expectation. According to Babarinsa (1987:37) "The contribution of industrial sector amounted to less than 10% Gross Domestic Product (GDP)"[4]

Also in analyzing of small scale industries, Adejugbe (1988:55) stated that "in 1983 about 322-400 people got employed both in the small and large scale industries.

Gross output was ₦10,152.3 million with the value added being N525.5 million. Despite this improvement capacity, under utilization was still very high". This is an indication that something is wrong somewhere.

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Some of the problems arising stem from the nature and characteristics of small scale industries and these problems have limited their access to capital and other services for which the

government policies are specifically meant to solve. These problems among others can be identified as follows as stated in policies on small scale industries in Nigeria, Obitayo (1991:35).

1. Poor management:- This has remained the major single factor that has crippled many small scale industries in Nigeria as a result of poor control system, improper records of financial activities, lack of technical and economic counselling.
2. High rate of failure:- This is due to inadequate working capital which restricts the productive capacities of some small scale industries and which in some cases led to their demise. Small scale industries are considered as high risk ventures by financial institutions especially banks, so they usually do not attract loans.
3. Low productivity:- In Nigeria productivity is generally low in small unit industries, since profit is realized from sales and costs, the volume produced influences cost and profits. Due to low productivity of small scale industries, it is difficulty for them to survive with stiff competition.
4. Under capitalization:- Many small scale industries are under capitalised. They suffer from inadequate working capital and thus have difficulty in finding their business operations, especially the purchases of raw materials. At times payment

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are held up by customers and that constitutes the cause of the major part of small industries financial difficulties.

5. Restricted Access to institutional credit:- Most small scale industries are unable to meet the lending requirements of the commercial and merchant banks due to improper record keeping or inadequate capital base.

   Banks shy away from small scale industries, as they are seen as risk ventures.

6. Indiscipline: Managers of small scale industries often lack discipline in the sense that loans obtained for businesses are often deliberately diverted to ostentation expenses some borrow and do not divert but yet unable to pay back loans as and when due. The interest and principal on loans from government owned financial institution are often mis-conceived as their share of "National Cake". Although there are some genuine cases of loan defaults arising from operational difficulties, Indiscipline still remains the major cause of non-performing loans.

7. Infrastructural facilities:- The continuous disruption of power supply, non-existence or irregular water supply, lack of well developed industrial estates and poor road network constitute constraints to the rapid development and growth of small scale industries. Olurishe (1997:20).

Adequate funding is a pre-requisite for the survival of any business concern whether small or large.

As finance is the life wire of any business though the degree of its need varies form one industry to the other.

Davenport (1978:12) in a study of financing programme of small-scale industries in a wide variety of countries maintained that the primary concern is to arrive at institutional arrangements which are well adapted to the requirements of the newly developed small scale industry sector.

However, the study of Davenport focuses attention in finding better ways to meet the financing problems of small scale manufacturing units. At the same time he discovered factors which stand in the way of financing the development of small factories into two - risk and costs. This obstacle was more stressed, particularly by lenders, than risks problems. The financing of small-scale factory involve somewhat greater risk than major alternative financing opportunities open to lenders.

However, there are two special risk problems involved in financing small factory development. The first are those which arise from the development of orientation of such financing; while the second is concerned with the general characteristics of small scale factories. He identified the characteristics in the following manner.

1. Cost and profitability obstacle

Cost constitute an hinderance as regards the extension of the types and amounts of financing required for the healthy development of small manufacturing units.

Davenport categorized cost problems into two firstly there is high lending costs which may push lending rates to such a level that small scale enterprises cannot afford to utilize borrowed funds or will be at a serious competitive disadvantages with larger firms in the same line. Secondly, cost - together with government ceilings on lending rates may result in its being less profitable or even quite alternative lending opportunities, have meager owned capital and command poor credit rating compared to their own counterparts in the large scale sector. The reinvestible funds generated by these enterprises are meagre and their ability to self finance their growth is limited.

Thus, not only small scale industries are in a difficult position in financing their projects, but their problems are many for want of adequate finances. The broad conclusions emerging from the study conducted by Nigal Singh 13 of the capital structure of small scale industries are given below:

a. Lack of initial capital to start business. In most countries, small scale units are predominantly proprietorship or partnership establishments. Therefore, the small scale unit

make use of proprietor or partners' own resources to finance the unit; initial capital is just sufficient to give a start to the venture.

b. Maintenance of accounts - small scale units are unable to show their past performance and earning potential through records on which the financial institutions mainly depend for taking investment decision. Further, information available to financial institutions pertaining to field suited to the development in the small-scale sector is inadequate or not available for taking decision.

However, Nigal focussed attention on the management problems of small-scale industries to study also touched on the other functional areas of small scale industries. This study lays down the shortcomings in the management of small-scale industries and suggests ways for management development.

CHAPTER THREE

3.1 RESEARCH METHODOLOGY

This chapter deal with the sources and ways data were gather for the research study. The objective of this research study was to gather some information on sources of funds for financing small-scale industries in Nigeria and also identify the financial problems which adversely affect the successful operation of these industries and to make some recommendation (suggestions).

In view of the largeness of small-scale industries operating in Nigeria, effort was made to limit the study to comrade cycle, Zaria. For the purpose of this research study, data were gathered through two main sources namely; primary and secondary source respectively. These are the main source through which information about small-scale industries in Nigeria were gathered.

The primary source comprised of personal interview with the manager of comrade cycle. Also, secondary source include scrutiny of relevant books, booklets, publications and journals.

Methodology deals with the methods that will be applied to get the necessary information relevant for the conclusion to be arrived at in the research and the methods of analysis.

Data refers to the information extracted from observations

and can be qualitative or quantitative.

Data are collected in order to

1. Understand the objectives of the system under research.
2. Understand requirement of the system.
3. Understand how the objectives and requirements are met through the careful analysis of operations and procedures.
4. Understand the problem areas of the study. In this work, both primary and secondary sources of data are collected.

This chapter focuses on the research methods, methods and sources of data collection and methods of data analysis.

3.2. RESEARCH METHODS

There must be thorough knowledge of the basic methods of research to guide the researcher in the choice of a primary research method to be used in solving a problem. A research may be defined as a process of striving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data.

There are four major approaches in research method, namely, historical, descriptive, experimental and survey research method.

3.2.1 HISTORICAL RESEARCH METHOD

This method interprets past trends of attitude, events and

facts. History is any integrated narration or description of past events or facts written in a spirit of critical inquiry for the whole truth. The purpose for which historical research is undertaken are outlined under the following major headings.

1. The first purpose of doing historical research is to gain a clear perspective of the present.
2. A common motive underlying it is the simple scholarly desire of the scientist to arrive at an accurate account of the past.

3.2.2. **DESCRIPTIVE RESEARCH METHOD**

This method gives a picture of a situation or population. Any consideration of phenomena generally begins with a full time understanding (description) of the phenomena. There are three basic methods of descriptive research.

1. Direct observation of phenomena to be described
2. Indirect observation
3. Analysis of records maintained for other than research purposes.

There are basically four types of research:

1. Case study
2. Sample survey study
3. Correlation study
4. Cross-sectional and longitudinal study.

3.2.3. **EXPERIMENTAL RESEARCH METHOD**

This is the most scientifically sophisticated research method. It is often confused with the scientific method by the layman who equates experimentation with the physical sciences. Experimentation is only one aspect of the scientific method.

The purpose of experimentation is to identify the conditions underlying the occurrence of a given phenomena. In this method bias is both reduced and controlled. This is because the conclusion drawn from such an undertaking depends purely on the result of the research. Also precision and accuracy is achieved in scientific research.

3.2.4. **SURVEY RESEARCH METHOD**

This method studies both small and large population by selecting and studying samples chosen from the populations to discover the relative incidence, distribution and interrelations of sociological and psychological variables. Surveys investigate phenomena in their natural setting.

Surveys are classified into the following methods of obtaining information:

i. Personal interview

ii. Mail questionnaire

iii. Panel technique

iv. Telephone surveys

v. Controlled observations.

3.3. METHODS AND SOURCES OF DATA COLLECTION

i. PRIMARY SOURCE:-

Data may be expressly collected for a specific purpose such data are known as primary data. Primary sources are data provided by actual witnesses to the incident in question. The advantage of obtaining such data is that the exact information wanted is obtained. Terms are carefully defined so that as far as it is humanly possible, misunderstanding is avoided. The primary source is obtained through personal interviews and carefully taken notes during interviews or discussions for relevant information.

The primary sources of data gathered was mainly personal interview with the manager of comrade cycle, Zaria. Also with the bank manager of UBA (United Bank of Africa), Lagos. The researcher had to talk with the manager of (UBA) in order to understand or know why the small-scale industries are not granting loans easily.

The interview respondent was on:

1. Proprietorship of small-scale industry
2. Small-scale industries credit scheme
3. Manager of financial institution
4. Staff.

Interview was adopted to ensure some degree of accuracy of

the data collected. Also the use of interview in the course of this research allowed information to be collected through personal contact that is faced to face approach, the researcher had a first hand information. It afforded the opportunity to clarify statement made by the interviewed or to further expantiate unlike questionnaire which does not give such opportunity.

A cordial relationship was established between the interviewer and interviewee through personal contact. At the end of the interview the two individuals (interviewer and interviewee) will understand the problems of the company.

In addition, some information were from the industrial development center, it is a submission of Federal Ministry of Industries which is responsible for research on small-scale industrial development in the country.

All these sources form the greater proportion of the information required and analyses by the study.

2. SECONDARY SOURCE:-

These are subject inherent to danger to inaccuracy as evidence is transmitted from one individual to another. It tends to become distorted. Secondary data must be used with caution as such data may not give the exact kind of information needed and the data may not be in a suitable form. These data are collected frequently for administrative purpose. Secondary source

personal letters, books (iv) Extensive review of related study especially textbooks, journals, newspapers etc.

3.2. METHODS OF SAMPLE SELECTION AND ANALYSIS

In choosing a research method to adopt for a particular study, it is relevant to consider the suitability of the method to the study. The method and techniques of research adopted will be to a great extent determine the reliability of findings to end-users.

The more clearly and thoroughly a problem and its many ramifications are identified, the more adequately the study can be planned and carried out to successful completion. Among others, the following specific reasons highlighted below form the basis for the choice of method.

Official documents provided useful information on the Nigerian economy, official documents were complemented with personal interviews in order to get primary data from them on necessary issues.

Also, historical research method is used to get information on the historical development of Nigeria and the sector mentioned in this project.

Relevant textbooks, journal, magazines, were also used. Statistical tables were used in data analysis as well as percentages and averages.

In the case of this study there was no special technique used because we investigated only one company.

Emphasis was based on the small-scale industries in Nigeria generally, one company was chosen because of time and financial constraints.

The method of analysis used here was purely a descriptive study. This method of analysis was found suitable and relevant for the study because most of the information obtained show relationship.

The study sought to identify financial problems as it affects the operation of small-scale industries in Nigeria. Many questions relating to financial problems were raised and options were soughed.

In view of this no sophisticated statistical method of analysis was employed rather a method involving simple tabulation and percentage were used.

CHAPTER FOUR

ANALYSIS OF INFORMATION FROM INTERVIEW

This chapter deals with the presentation and analysis of data for the purpose of the research study. Data collected would be presented and analysed so as to deduce a true picture of the financing problems facing the operations of comrade cycle firm in Zaria Kaduna State, Nigeria.

4.1. PROBLEMS OF COMRADE CYCLE FIRM

Recognizing the important role that the firm play in the Nigeria economy, the Federal government have been taking active measures to promote and foster its operation.

The measures taken have been partially effective in removing the handicaps in the establishment and development of the firm but many of the problems in the field of production, distribution of finished goods and finance still remain.

This research study which is being carried out by interviewing various managers of the comrade cycle have thrown valuable light on the various difficulties faced by the company and reports prepared by this study have made recommendations to overcome them.

Some of the difficulties in respect thereof mentioned in this report.

A. RAW MATERIAL

In view of the rising tempo of the firm's activities, the shortage of right type of raw materials at standard prices has affected the entire firm's production. In addition to this general aspect, there are certain difficulties peculiar to comrade cycle firm due to the smallness of its size and its weak financial position, because of these factors, the firm have to utilize the services of middlemen who provide material on credit, such an arrangement result in higher cost of raw materials and is particularly disadvantageous in the case of imported raw materials in which the profit margins of middlemen are quite high.

The meagre resources induce the firm's management to use cheap and inferior type of material which naturally affects the quality of their finished products.

Further, the irregular supply of certain raw materials affects its production programmes.

The raw material problem has been extremely acute for steel-based firm producing bicycles and its parts etc. The shortage is greater in the case of supply of special steel like chrome-vanadium steel, chrome-silicon steel etc. The manufacturers

complain that since some companies supply steel only in wagon loads, they cannot obtain their requirements which are of a much smaller order. The firm's management also complained that even at time when they try to buy wagon loads there is inordinate delay between placing of orders and receipts of supplies. It appears that although the quota for the company had been raised, but actual supply has not matched the quota. It is alleged that dealers deliberately delay supply of quotas till the expiry of the quota certificate and later sell the material in the open market at inflated prices. As a result, comrade cycle is compelled to purchase defective imported materials and/or scrap metal from local dealers who had obtained them in bulk in auctions conducted by government and semi-government workshop. All these factors raise the cost of production and have an adverse impact on the quality of the finished goods.

In the absence of sales department and because of their limited staying power the producer is forced to sell the products to middlemen, generally at lower prices. Thus the actual producers suffer both ways - higher prices for raw material and lower prices for finished goods.

The remedy perhaps lies in establishing producers' co-operative which would improve their bargaining power in purchase and sales and eliminate the margins of middlemen.

B. **POWER**

Shortage of electric supply in Zaria town where the company is situated, also the ever changing timings of power supply and high rates at which power is supplied lead to under-utilization of installed capacity and raise the cost of production.

C. **SUPPLY OF MACHINERY**

One of the main handicaps of the firm is being shortage of funds to buy modern machines and tools, they are forced to use old and outmoded machinery which affects both the quantity and quality of their production e.g. the majority of the brass work done is by crude tools and machines which results in higher costs and poor finish and precision.

D. **COMRADE CYCLE'S PREMISES AND COMMON FACILITIES**

The comrade is units are located in old, congested, poorly lighted and ill-ventilated premises in crowded residential localities which not only affect the health of workers in the long run but also the efficiency of production.

The housing of comrade cycle in such center, creates difficulties regarding availability of power, proper installation of machinery, storage etc. The existing factory sites have become extremely unsuitable due to rise in sub-soil water.

Further, at present, comrade manufacturers lack common facilities like heat treatment, electroplating, stove-enamelling case

hardening etc. because they cannot be provided out of the resources of individual units of the firm.

Naturally they adopt crude methods or get the finishing done by outside parties or sell their products in unfinished form. In some cases, articles have to be transported to several different agencies for different operations e.g. back wheels of the bicycles - they are cast by one party, machines by another electroplated by a third and painted by yet another, before they are brought to factory. Moreso, the process involves considerable delay as well as high costs of transport.

E. TRAINING IN PRODUCTION TECHNIQUES AND BUSINESS MANAGEMENT

Many of the people engaged in the company lack education and are not familiar with modern production techniques, management and marketing. They also do not show any initiative in introducing new design to attract business and usually stick to traditional patterns. In other to improve their competitive position, it is necessary to train them in business management, accounting and new techniques.

F. TRANSPORT

It is not a gainsaying in the fact that the company experience difficulties in transportation of the finished goods as

well as in getting supplies of raw materials. Their severity, however is felt more by sales and purchasing department as they have to depend on regular supplies of raw materials as well as quick distribution of finished goods because they cannot afford to maintain large stocks; where transhipment from broad to meter-gauge system or vice versa is involved, considerable delays have become common. delay in transport locks up the funds for a longer time raising interest costs.

G. MARKETING

Side by side with the difficulties discussed above on the production front, comrade cycle face many problems while marketing its products chiefly because of the absence of well developed sales department comparable with that of larger competing firms, absence of standardization of products, inability to meet the requirements of government and other bulk purchasers and the urgent need to dispose off their products immediately at any available price, due to paucity of working capital and consequent lack of staying power.

In the absence of sales department worth the name and the poor publicity, Comrade cycle is often forced to sell its products to dealers who market them under its own trade names. These dealers encourage the firm to produce mainly cheap products which they can easily sell. Another difficulty is regarding market

research, the firm do not have adequate information bout competitive price quotations consumer preferences etc.

H. **STANDARDIZATION**

Absence of standard and lack of facilities for quality control hamper sales of products of Comrade Cycle firm. Even in respect of products where standard have been laid down by the Nigerian standard for organization. The firm do not strictly conform to the use specifications.

I. **GOVERNMENT PURCHASES**

Government is one of the largest bulk purchasers of products that could be manufactured by the firm. But this firm is unable to fulfil the requirements of government purchasing agencies especially those regarding security deposit, bank guarantee, income-tax clearance certificate, container specification etc. The delay in payment of bills, which is quite common, also block up working capital. Further, the government policy of deducting amounts due to it from suppliers out of the proceeds of bill makes banks hesitant in giving advances against bills handed to them for collection.

J. **FINANCE**

Lack of finance is a serious drawback in the company. The company do not have sufficient fund of its own for fixed capital investment fund of its own for fixed capital investment nor can it

obtain the necessary resources from institutional agencies who are doubtful of the ability of such borrowers to repay the loans in time in the absence of developed market for its products. Shortage of funds affects their ability to install modern machinery and tools and to maintain well organized and fully equipped factories. Similarly, they cannot buy and store good quality raw materials or stock their finished products, pack their goods attractively, have any sales department of their own or furnish security deposits where necessary.

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4.2. DURATION OF BUSINESS OPERATION

From the research study carried out the company is well established that is why it was commercialized as an indigenous company in Nigeria. Because of the aid it gives in the manufacturing sector of Nigeria economy, the company does not have a specific duration of business operation.

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4.3. NATURE OF BUSINESS

There are many types of small business in Nigeria but for the purpose of this study, we will consider the manufacturing and assembling company. This research study indicate that manufacturing company is more attracted to small business men than processing and service business manufacturing company is a

favourable sector in Nigeria because government policies have been emphasized there in order to help develop manufacturing sector of Nigeria economy and to lessen the rate of dependence on foreign products. Also financial institution give priority to manufacturing business in line with government policies.

4.4. USE OF RAW MATERIALS

Comrade cycle's source of raw materials have been categorized into local and imported local sources refers to where the raw materials are got within the country that is Kano and Benin where the company buy the pipe to be melted and used as part of the raw material to be used for the production of their end product which are bicycles. Imported sources refer to where the raw material are got from outside the country e.g. America etc.

From the research study, I was made to understand that the company's major source of raw material is locally available and this is about 60% of the total raw material needed for production and the remaining ratio of raw material expected outside the country is 40%.

4.5. EMPLOYMENT GENERATION

One of the major characteristics of Comrade Cycle firm is the provision of employment through labour intensive mode of

production. The research study on Comrade Cycle reveals that workers engaged in the entire activities of the company are thirty (30) in number.

NATURE OF PRODUCT MANUFACTURED

Products manufactured by Comrade Cycle firm are either consumer or industrial goods. But as per this study the Company is engaged in the production of industrial goods. The production of industrial goods involve the acquisition of heavy plants and machineries which entail a huge capital investment. Comrade cycle do import the parts of the bicycle for assembling, so as to sell the end product to wholesalers or to a large institutions or companies under the loan scheme.

In Nigeria consumer goods has a high percentage over industrial goods because there is always a ready market for the goods.

4.6. INITIAL SOURCES OF CAPITAL

The problems of capital scarcity in the operations of the firm is generally well known and the issue of inadequate credit facilities of small enterprise, even when they give some financial assistance, such assistance is usually not adequate enough to cater for their financing problems. The industrialist have to

contend with several sources of finance such as personal savings, financial assistance by friends, family and loan.

Comrade cycle's sources of finance are from the following with its percentages

Sources	Percentage
Savings	45
Friends	15
Family	10
Loan	30

From the research study carried out, personal savings has the largest percentage of initial source. In most cases finance from friends and family is usually combined with personal savings for the initial take-off of the business. This shows that Comrade Cycle rely on personal savings to start its business even though this is a difficult task.

Loans from banks may not be forthcoming due to the bottleneck and conditions attached to obtaining the loan.

These conditions are so stringent that the Comrade Cycle's management may not be able to fulfil them.

4.7. EXISTING SOURCE OF FINANCE

It is easier for existing establishments to get financial assistance from financial institution than those which are about to

commence business. This is because of fear of business failure by the financial institutions and the ability of the new business to provide adequate securities.

Source	Percentage
Retained earnings	33
Family and friend	24
NBCI	12
SSICS	10
NERFUND	1
Commercial bank	7
Others	14

The firm claim that they use a combination of the above sources available to them. However, it can be observed from the major source of finance (33%) to the firm (24%) of the source of capital is obtained from friends and family 12% is from Nigerian Bank for Commerce and Industry (NBCI), then 10% from Small Scale Industrial credit Scheme (SSICS), 7% from commercial banks and 14% from other sources.

In the case of National Economic Reconstruction Fund (NERFUND), the firm claimed that they are presently processing their application through commercial banks. The result of this

study clearly confirms the allegation that banks usually do not assist firm It is said that banks deliberately impose strict conditions which the borrower is unable to meet.

The bank on their own side argue that firm's entrepreneurs usually approach them with ill-conceived unviable projects in which they have no stake except the hand on which the project are to stand.

Also, there is that desire of the firm to expand in its operation, and this desire create the need for more capital because the firm is conscious of its smallness and it wants to expand but there is no assurance of acquiring huge capital from any financial institution for the fear that is being entertained by the borrower in relation to giving loan to the firm.

From the interview, the respondent gave a high indication of their desire to expand their operation if they could obtain additional capital. Also there is plan to acquire modern production techniques and process. The intention of the management of the company to diversify was mentioned.

Below is the scale of preference for more finance.

More	Rating
Expansion	5
Modernisation	4
Diversification	3

Replacement	2
Others	1

There are various reasons for such preferneces. Some of them are technological innovation for effective and efficient production and effective marketing etc. which are lacking in the firm presently. From the interview conducted the repondent was asked to indicate which of the finance house they would prefer to obtain loans among major financial institutions in the country. The response show that small scale industry credit scheme (SSICS) was more preferred to obtain loans putting the loan duration in mind in accordance to the term of the loan obtained.

From the research study we are able to understand that approval of the application for loans is within nine months - one year (9 months-1yr.) At the Ministry of Commerce and Industry, it was confirked that approval of any application is subject to the availability of grants from the federal government and the repayment of loans by previous beneficiaries.

Financial institution has to conduct its own investigation to ascertain in the genuiness and viability of the proposed project which usually takes some time.

However, any delay of up to six months and above is too long to enable an enthusiastic entrepreneur to go into business or carry out a project.

4.8. RATES OF INTEREST

One important area of the firm is the rate of interest charged by financail institutions. Financing and credit Scheme sponsored by government normally charge low interest rate. Such institutions are small scale industries and credit scheme (SSICS), National Economic Reconstruction Fund (NERFUND), National Directorate of Employment (NDE), etc. to mention a few. Commercial banks on the other hand charge interest rate according to the prevailing Central Bank of Nigeria (CBN) regulation and market conditions.

It has been discovered that commercial banks charge higher interest rate on loans granted to the firm for so many reasons. Some of the reasons include

- Longer duration of the loan
- Greater risks involved etc.

The interviewer/researcher asked the respondent (manager of comrade cycle) whether interest rate charged by financial institution are reasonable or not. The respondent was of the opinion that the interest rate charged are unreasonable and unjustified.

In view of the important place of Comrade Cycle, firm in economic development of Nigeria, banks are supposed to charge very low interest rate in order to make funds cheaply available to

the firm. It is note-worthy to mention too that out of the several external source of funds available to Comrade Cycle, Nigerian Bank for Commerce and Industry, Small Scale Industry credit Scheme etc. are assisted by the Federal government as well as the state government in the area of special assistance to comrade cycle firm. As a result their rate is very low compared to those of the commercial banks and yet these government assisted sources of finance cannot adequately meet the financial requirement of the firm. So the firm's entrepreneur has no option but to go to the commercial banks in spite of their high interest rate.

4.9. LOAN REPAYMENT PERIOD

The duration of loan repayment depends on the purpose and amount of loan. The financial institution giving the loan can also determine the repayment period.

Below is a table showing the respondent's view on loan repayment period.

Period	Percentage
1 year	9
2yrs-5yrs	66
6yrs-10yrs	25

The table reveals that the ability of the respondent to be

able to pay his loans within the period of 2-5 years is 66% while from 6-10 years is 25%. On the question of grace period granted to industrialist findings show that it is favourable because during the period of grace, only interest is required to be paid on quarterly basis on reducing balancing method before the payment of the principal. This of course relates to those financial institution supported by government.

The commercial bank's loan repayment period depends on the loan agreement which is made known and acceptable to the small scale industrialist before the loan is granted.

4.10. METHODS OF DETERMINING PROFITS

Profit determination is very vital to Comrade cycle firm because one of the purpose of establishing the firm is for making profit, so that the company can grow and it is from this profit that the workers would be paid their salaries.

Therefore, the method the company use in determining its profit are by the use of profit and loss account for the year ended period of accounting, also they prepare financial statement of account above all the accounting methods mentioned. the financial manager of the company indicated that best method being used by the company to calculate its profit is the comparability of the operating cost with the cost of goods sold.

CHAPTER FIVE

5.1. SUMMARY

Small scale industries form the bedrock of economic development particularly in the development countries such as Nigeria.

In view of the pivoted roles the small scale units plays in the economic development, the federal and state governments have created unit that are charged with the responsibility for financing and supporting the activities of small scale industry in the economic development of the nation.

In view of the study conducted in comrade cycle industry, we had seen what the financial problems had caused the company's operation in every aspect of its activities.

Although about two decades ago government established policies and programmes to accelerate economic development of the Nigerian economy by giving financial support to small scale industries of which Comrade cycle was not an exception. The industry is lacking adequate finance despite all promotion measures and programmes initiated by the government, the desired growth and development have not been fully achieved.

Some of the reasons that cause this problem in the Comrade Cycle Industry was due to poor management, high level of indiscipline, poor marketability, inadequate technical knowhow, restricted access to institutional credit, low productivity, poor accounting standard, financial limitation and environmental factors.

5.2 CONCLUSION

From this study, having realised the role that the small scale industry play in the development of our country Nigeria, we know that it is important to support the small scale industry financially and then, having known the problem they encountered in acquisition of fund and the havoc this has caused in their operation, we now make suggestions and recommendations for what can be done to lessen the financial problem faced by the company under our study.

KASHIM IBRAHIM LIBRARY

5.3. RECOMMENDATIONS

To make this study meaningful it is considered imperative to give some suggestions that could remove the financial limitation of Comrade Cycle industry to contribute appropriately to the growth and development of Nigeria economy as identified in this research.

The following are some recommendations, which in the view of the researcher will improve the financial problem of Comrade Cycle Industry.

The main suggestions are small units should form industrial co-operative societies which would arrange for import of raw materials from abroad and for bulk purchases on behalf of their members, also scrap should be auctions by the Director General of Supplies and Disposals in small lots or a portion of the material may be reserved exclusively for small units or a lower bid from such units may be accepted.

It is recommended that power capacity should be raised and timings of supply regularized in such a way that small-scale units are not incovenienced.

Also, the supply of the requisite machinery like lathes, furnaces, welding equipment etc. to small-scale units by the National small industries corporation under its hire-purchase scheme is recommended.

Another suggestion is establishment of industrial Estates with common services and other facilities such as a good site, power, water, gas, compressed air, railways, sidings, etc, is recommended. It is suggested that factory space in these estates should be made available either by outright sale or on hire-purchase basis or on rent.

Various measures have been suggested to impart training in production techniques. Study trips of small industrialists to large industrial units are recommended so that they can familiarise themselves with advanced techniques. Further, it is proposed that such large units should be induced to sub-contract production of component parts to small-scale units and provide necessary technical assistance therefore. Another suggestion is that, besides obtaining the services of foreign exports, a few selected representatives such as foremen, ministries etc. from various small industries may be sent abroad, (say to Japan and Germany) for training in modern techniques of production. The main burden of training would naturally fall on service institutes and extension centres. They are also charged with the responsibility of evolving new designed based on evaluation of market trends preparation of proto-types and training of small units in adopting such designs.

In terms of marketing of their product two suggestions are made in this connection (1) producers' cooperatives or preferably raw material procurement co-operatives should be organised and the work of marketing should be entrusted to them along with other functions, and (2) The National small industries corporation should, on an increasing scale, popularise the wares of small units through their mobile vans.

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In terms of standard of product, it is recommended that the Nigerian standard organisation should lay down quality standards in respect of products for which they have not done so. The unit also should be advised that in their own interest they should conform to these standards.

Further, the state government, should initiate quality marking schemes based on these standards.

In term of finance, we know that lack of finance is a serious drawback, small scale industrialists do not have sufficient funds of their own fixed capital investment. In line with this financial problem, the remedies suggested are that the government should give tax relief and exemptions to small firms during the periods of gestation to allow them find their footing in the market place. Also, the Federal government through the central bank (CBN) should compel the commercial banks to set aside a minimum of 45% of their loan and advances to finance small scale industries sector. Penalty should be stipulated for non compliance.

Such financial assistance should be made available at relatively low interest rate of say 10% instead of the present 21% interest rate charged by the commercial banks. The provision of financial assistance by the government should not necessary involve physical disbursement of cash to small-scale entrepreneurs, but should be in the form of making available

equipment machinery and raw materials to avoid the money being diverted for personal use by the entrepreneurs.

Also the federal government should increase the equity base of NBCI and also to encourage the participation of wealthy individuals in the country in the purchase of shares of the bank. This will allow for more funds to be made available to small scale entrepreneurs.

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STRUCTURE OF QUESTIONS,

FOR INTERVIEWING THE MANAGERS

1. What is the nature of your enterprise/industry
   a. Manufacturing
   b. Processing
   c. Servicing
   d. Others.
2. What is the form of your business organisation?
   a. Sole proprietorship
   b. Partnership
   c. Private company
3. What is your educational background (the entrepreneur)
   a. primary school leaving certificate
   b. WASC/Grade two
   c. Technical Certificate
   d. NCE
   e. Degree.
4. For how long have you been operating this business?
5. How many workers are employed in this firm?
6. Where are the sources of raw materials used in the company?
   a. Is it locally available
   b. Imported.
7. What are the kinds of product manufactured?
   a. Consumer goods
   b. Industrial goods
8. What are your initial sources of capital?
   a. Personal savings
   b. Inheritance
   c. Bank loan
   d. Loan from friends
   e. Other sources.

9. Which existing source of finance do you use?
   a. NBCI
   b. NERFUND
   c. SSIC
   d. Commercial bank
   e. NDE
   f. Others.
10. How you benefitted from any of the sources of finance listed above (9)?
   a. Yes b. No.
11. If yes, for what purpose?
   a. Establishment
   b. Expansion
   c. Modernisation
   d. Replacement
   e. Diversification
12. What amount of profit do you make in your business per year?
   a. Below ₦5,000
   b. ₦5,000 - ₦15,000
   c. ₦15,000 - ₦30,000
   d. ₦30,000 and above.
13. Are the procedures for granting loan satisfactory to you (Yes/No)
14. Are the rates of interest charge by financial institutions reasonable in your own opinion?
15. Do you engage in other business like trading or farming? (Yes or No)
16. If yes to question 15, do you keep separate account for each business?
17. Which of the following affects the performance of your business (profit)?
   a. Wives
   b. Relations

18. Who are your customers (target market)?
    a. Working class people
    b. Farmers
    c. Scholars
19. Do you engage in commercial advertisement of your product?
20. How reliable or dependable are your products?
21. Is the company into manufacturing or assembling alone or combinaiton of both function?

