INSTITUTIONAL FINANCING OF SMALL SCALE INDUSTRIES

IN KOGI STATE

BY

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DECLARATION

I hereby declare that this project has been written by me, and that it is a record of my own research work. It has not been previously presented in any applications for a higher Degree.

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CERTIFICATION

This project report entitled "Institutional Financing of Small Scale Industries in Kogi State" by Alh. Hassan Sule meets the regulations governing the award of the degree of MASTER'S OF BUSINESS ADMINISTRATION (M.B.A.) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to my wives Hajia Gogo and Hajia Aishetu as well as my children whose moral and spiritual support has sustained me throughout the course. This work is equally dedicated to my parents brothers and sisters in search of knowledge.

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to the study. My special thanks also go to Mr. Patrick Otijele, Confidential Secretary, and Mrs. M.A. Suberu who produced the computer print.

ABSTRACT

The issue of Institutional Financing of Small Scale Industries have received great attention in recent times in realisation of the fact that availability of finance is very essential for the growth and development of small scale industries. However, small scale industries have some common problems in all countries and perhaps the most basic problem in the lack of adequate capital and credit facilities for sustaining their growth and development.

In view of this chronic problem of financing small scale industries, this research project was undertaken with a view to find out whether the financial arrangement available in Kogi State in particular and Nigeria in general, were adequate, and to pinpoint their short-comings and suggest remedial measures so that finance does not hinder the growth of this vital sector of the economy.

The development and growth of small industries sector is very vital to any economy, whether developed or developing. Small scale industries contribute immensely to any economy in terms of employment of income and wealth, import substitution, encouragement to traditional craftsmanship, preservation of cultural heritage and development of entrepreneurship.

This study reveals that the S.S.l.C. scheme have not provided adequate financial assistance to small scale industries in Kogi State. Only 121 enjoy a total amount of N2.18 million only and the number of applications granted is very insignificant compared

to the number of applications received. Our findings also reveals that the N.B.C.I. has approved only N2.2 million for fourty six small scale projects since its establishment in 1982, and because it is new in Kogi State, many small scale industrialists are not aware of its existence or have no knowledge of the type of services it renders. We also found that the commercial banks have played an insignificant role in the financing of small scale industries in Kogi State. These findings reveals that the financial institutions have not been able to meet the financial requirements of the small scale industries.

In view of this conclusion, we suggest that some specialized financial institutions should be established to cater for the needs of the small and medium scale industries in Kogi State.

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ABREVIATIONS

S.S.I.C.S.	-	Small Scale Industries Credit Scheme
I.D.C.	-	Industrial Development Centre
N.B.C.I.	-	Nigerians Bank for Commerce and Industries
C.B.N.	-	Central Bank of Nigeria.

CHAPTER ONE

INTRODUCTION

In this chapter, is presented, the problem of the study the objective and relevance of the study, and the research design and metrology used. Also the definition of small scale industries as developed by various studies will be examined with a view to developing a general definition for the purpose of this study. A review of the relevant literature on the study, the limitation of the study and the scheme of the study are also presented.

1.1 THE PROBLEM

Small-scale industries anywhere have particular problems in the field of finance. In Kogi State the financial problem of the small-scale industries is that of finding funds at the right time of the right type, and in the right qualities, at various stages of development. The small firms have three special difficulties such as their not being able to demonstrate their chances of success in order to persuade potential leaders the existing leading and financial institutions may not cater for the special problems involved in small business finance and the businessmen and his advisers may not know how or where to get the money.

These problems have not gone unrecognized. Source efforts have been made to provide better ways of making institutional financing available to small-scale industries through various institutional arrangements and large funds have been committed to achieve these objectives.

It is rather unfortunate and pathetic that nothing tangible has come out of these measures as anticipated. The execution of such programmes has often been beset with series

of problems and constraints. These ranges from inadequate funding and diversion of funds to personal needs to burden – some qualifying requirement and terms which were ill adopted to the needs of the small scale industries.

In Kogi State, we have observed the small-scale industries sector to be characterized by low productivity and high rate of business failure. Added to this is the fact that there are a high percentage of loan defaulters among them.

However, there is a danger, which it is socially and economically desirable to avoid that the growth of small firms may be improved because they lack some of the facilities open to larger companies for obtaining capital. Therefore it is believed that institutional financing of properly conducted could be a very important and vital economic tool for aiding and enhancing the development of small-scale industries in Kogi State.

1.2 OBJECTIVE OF THE STUDY

The main objective of this study is to examine the existing sources of institutional Financing of small scale industries in Kogi State to examine the present structure of institutional financing of small scale industries in Kogi State to identify the special problems encountered by several financing institutions in dealing with small scale industries and to recommend some remedies that may help to alleviate the major obstacles to the institutional financing of small scale industries in Kogi State. Small-scale industries lack of access o finance is a common problem all over the country especially in Kogi State and hence the need for better financing facilities.

To be brief, this study focuses on the problem of improving the availability of institutional financing for small scale industries in Kogi State and as such the specific objectives of this study are:

1. To examine the extent to which the existing financial requirement of small scale Industries.
2. To pinpoint the shortcomings in the workings of these financial institutions.
3. To suggest improvement in their working and also to suggest a comprehensive scheme of financing small scale industries in Kogi State.

1.3 RELEVANCE OF THE STUDY

This study examines the existing institutional arrangement for financing small scale Industries identifies the problems and constraints associated with such programmes and suggestions and recommendations were made as to how to alleviate these problems and constraints thereby making institutional finance more readily available to the small scale industries.

Small-scale industries anywhere have particular problems in the field of finance. In Kogi State, the problem of institutional magnitude that any light thrown on how the problem can be eliminated or reduced so as to enhance the availability of institutional welcomed and valued immensely. It is believed that small-scale industries can contribute greatly to the economic development of Kogi State and of course could be enhanced through the availability of institutional financing.

1.4 DEFINITION OF SMALL SCALE INDUSTRIES

There is no generally accepted definition of small-scale industries. The definitions Vary from country to country and even within a country the definitions are used only relative to the objective as well as the industries to analyst have in mind. According to the definition of a small business developed years ago by the American Committee for Economic Development (CED) which was based on a cross section of characteristics a small business in one which posses at least two of the following forum characteristic: -

(i) Management of the firm is independent usually the managers are also the owners.

(ii) Capital is supplied and the ownership is held by an individual or a small Group.

(iii) The area of operations is mainly local with the workers and owners living in one home community the markets need not be local.

(iv) The relative size of the firm within its industry must be small when compared with the biggest units in its field.

This measures can be in terms of sale volume, number of employees or other significance comparisons. Definitions of a small firm for these purposes demand some measurement of its size compared with the large firm various measures including the number of employees the volume of sales the nature of firm ownership and the area of definition have been used[2]. Defining small-scale industries with respect to volume of annual sales, the small business administration of the United States of America determines a ceiling range from 1 million to 5 million dollars of annual sales[3].

The central Bank of Nigeria's credit guidelines defines a small-scale enterprise as any manufacturing enterprise whose annual business turnover does not exceed N500,000.00[4]. The definition of small-scale industry based on the size of the business differs grossly, between the develop and developing countries since it depends on the stages of industrialization of a country. In Japan for example small industries are defined as those industries having less than 10 million year in capital.

In Britain, industries, which are considered "small concern", are mainly private companies with net assets of less than £250,000.00. Italy and the United States of America defines small scale industries as manufacturing plants investing not more than $1,600,000.00 $2,000,000.00 and which do not dominate the market.

In Nigeria, the definitions have been according to different institutions. The Industrial Development Programme of the Federal Government of Nigeria stated that any manufacturing processing or services industry with a capital investment not exceeding N150,000.00 in machinery and equipment alone is to be treated as a small-scale industry. The Industrial Research Unit of the University.

1. Baljit S. (1961): The Economics of Small Scale Industries, Asia Publishing House, London.
2. Dan Steinhatt 1983 Small Business Management Fundamentals, London.
3. Manto M.M. 1983 Small Business in Bauchi State.
4. Central Bank of Nigeria Monetary Policy Guidelines 1998
5. Hoseuts B.F. (1968): The role of Small Industries in the Process of Economic Growth.
6. Bate J. (1971): The Financing of Small Business sweet and Maxwell, London.

7. Aluko, S.A. et al (1973): Small Scale Industries Mid Western State Kwara State, Lagos State of Nigeria.

8. Anonymous (1980): Use your opportunities for starting a Small Industry, Federal Ministry of Industries, Lagos.

The defined small scale industries as those whose total assets in capital equipment, plant and working capital are less than N50,000.00 . It may be factory or non-factory establishment. It may also be a household a cottage craft or factory industry[9].

Small-scale industries can also be distinguished by the nature of their business operations. In India, different definitions were adopted and revised in the last three decades because they were found to be too restrictive. A more recent definition regards small scale industries as comprising manufacturing enterprises with a capital investment in machinery and equipment not exceeding Rs 2 million and in the case of ancillary small industries not exceeding Rs 2.50 million[10].

In the case of Nigeria the third National Development Plan (1975 – '80) provided a long list of industries with scope for small-scale operation in the country. This industries can be categorised broadly into the following:

1. Agro-based industries
2. Livestock – base industries

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9. Aluko S.A. et al, op. Cit, p xvi
10. Aluko S.A. et al op. Cit p xv

3. Forest – based industries

4. Marine – based industries

5. Other industries

The Federal Ministry of Industries reviews this list from time to time having regard to the development situation in the small industries sector[11].

Small-scale industries can also be distinguished from large ones with respect to financial control. According to Fred Western and Eugene F. Brigham, the major financial characteristics of small-scale industry are as follows:

1. Formal, direct and personal financial control of the firm.
2. Provision of the necessary funds either from personal saving or borrowed from friends.
3. *Difficulty in obtaining loan from banks.*
4. Working capital management being the over-riding problem.
5. Liquidating becomes crucial and critical with the problem of under-capitalization.

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11. Use your opportunities for starting a small industry op. Cit p.6

12. Weston J.F. and Brighan E.F. (1980): Managerial Finance, The Oryden Press London p. 18.

The number of employees has also been used to determine what distinguishes a small-scale industry from its large - scale counterparts. In Japan, these are industries with less than 300 employees[13] and in Britain it was defined as those industries with not more than 200 employees. In Nigeria, the Industrial Research Unit of University of Ife regards a small-scale industry as one employing fewer than fifty (50) full time workers. Generally the number of

employees may start from as low as five in a developing country to as high as 500 in a developed country. Each county's definition depends on its environment purpose as well as its general level of industrial development.

These extensive review of the lteratune on the definition of small-scale industries shows that there is no standard and generally accepted definition of small-scale industries. However, for the purpose of this study a small-scale industry is considered as one, which possesses the following characteristics:

1. Having annual business turnover not exceeding N500,000.00 according to Central Bank of Nigeria.
2. Having not more than 50 employees on full time basis.

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13. Hostelitz, B.F. Op. Cit, P.8

3. Having limited access to financial institution for long term loan and absolutely inaccessible to the sources of financing through the capital market and
4. The nature of business operation being either Agro-based or in manufacturing of service.

Terms like small business small enterprises and small industry are used to refer to a small-scale industry throughout this study. The owners of these industries are also variously referred to as small businessmen, small proprietors, small entrepreneurs and small industrialists.

1.5. RESEARCH DESIGN AND METHOLOGY

The survey research method is the basis methodology used in this project. A questionnaire was developed and administered on a representative sample of small firms in Kogi State. A questionnaire-guided interview was also used in areas where the proprietors lacked the necessary educational background to properly understand and respond to the questionnaire. In the interviews with the proprietors certain straight forward facts were first obtained about the nature of the firm number of people employed. The following some questions about the initials and present sources of finance additional capital needs and institutional preference.

Finally, information was requested about the firm's channels of distributions and market area management problems leading into question about its future policies, plans and problems.

The data firm the questionnaire and interview was of course supplemented by information from the financial institutions about their view on this important financing problem. Some background information was also obtained from some ministries in Kogi State. Finally, the author's personal experiences proved to be very helpful in analysing the problem.

1.6 THE SAMPLE

There is no accurate record of the total number of small scale industries in Kogi State. This is because many such industries are not registered with the Kogi State Ministry of Commerce and Industries. However, it is estimated that about 600 small scale manufacturing and service enterprises exist and operate within the state.

For the purpose of this study approaches were made to 120 randomly selected firms, 10 firms from each of the 12 Local Government Areas of Kogi State. For reasons including lack of cooperation, travelling, sickness and even misplacement of the questionnaires, information could not be obtained from all the selected industries. The final sample consisted of 40 firms which represents 33% responses. The distribution of this sample according to Local Government Areas in the state is as follows:

Table 1.1:

DISTRIBUTION OF THE QUESTIONNAIRE
ACCORDING TO LOCAL GOVERNMENT AREAS

L.G.A	Questionnaire Distributed	Responses Recorded	% Total
Dekina	10	2	20
Idah	10	3	30
Ankpa	10	4	40
Omala	10	3	30
Olamaboro	10	2	20
Ofu	10	4	40
Igalamela	10	3	30
Ibaji	10	2	20
Bassa	10	2	20
Kabba	10	3	30
Okene	10	5	50
Okehi	10	5	50
Ajaokuta	10	3	30
Kogi	10	2	20
Kotonkarfe	10	1	10
Ijumu	10	2	20
Adavi	10	2	20
Ogorimagogo	10	3	30

1.6. SCOPE OF THE STUDY

This study is intended to cover the problem of institutional financing of small scale industries in Kogi State and the institutional financial structure.

The field research has been carried out in all the 18 local government areas of Kogi State. The existing financial institutions in Kogi State were also examined to identify their problems and constraints in financing small scale industries. The results have been thoroughly analysed in the course of the study and any generalisation made originates from an interene drawn from such analysis.

1.8 REVIEW OF RELATED LITERATURE

In both the advanced and developing countries, efforts have been made to examine the financial problems and arrangements for financing small scale industries and steps were taken for improvement. A survey of small scale industries in Japan (1962) concluded that an important phase of the overall measure to assist small enterprises and to rouse them to a competitive level against big enterprises must necessarily involve the means by which their credit standing is improved and their source of finance is secured[14].

A similar study, Davenport (1967) of 120 factories in Columbia was carried out for assessing the strength and the growth capacity of small firms as well as to pinpoint the major factors limiting their expansion and modernisation. Seventy (70) enterprises were identified as growth potentials and 60% of these were deemed to expand sign financially with financial assistance alone[15].

The highest priority requirement for significant expansion according to the survey team was additional financing. This emphasises the potential contribution an effective financing programme can make towards the development of small scale industry in Columbia.

A study of small metal working firms in a North India town (Chopur) carried out by Moorog (1956) concluded that the root causes of small entrepreneurs lack of success was their perennial shortage of capital. The small entrepreneurs often has no satisfactory external source of capital either at all or where he has such limited access on terms he is hardly able to accept[16].

In other countries like Kenya, Ghana, Pakistan etc. various studies have concluded that the financial needs of small scale industries are sufficiently distrust urgent and inadequately served to require special financial programme.

Some dissenting opinion do of course, exists. For example Sayrep Schatzs study in Nigeria concludes that no capital shortage exists for local industries that the problems in rather one of the capital mainly seeking viable private projects[17].

However, other recent survey Konto (1983) also in Nigeria further confirm that small business are short of adequate funds for long term financing. The factor responsible for this includes strictness of financial institutions on their loan repayment policy as well as the businessman's failure to plan and prepare their own budgets and keep records as guide for their business for their business operations.

An investigation in the special problems of small scale units carried out by the Randelitte Committee on the working of the British monetary system found out that the market does not take care of small firm's financial needs. The problems are such

that firms cannot obtain security, often do not want outsiders in the firms and have no organised market to draw on hence their own accumulated reserved are the principal sources of expansionary capital. The committee was of the view that aid to such firms is justified because their chances of survival are explicitly linked to the general rate of growth of the economy, Hoselitz (1968).[19]

In short, studies on the subject recognises the problem of providing financial assistance to small scale industries but there are differences of opinion with regard to the nature and form such assistance should assume.

1.9. LIMITATIONS OF THE STUDY

Certain limitations must be admitted for this study. Clearly a sample of 40 firms was not large enough to allow a full analysis. Although the industries on which it was based represent a wide range of manufacturing processing services and other industries despite all the safeguards and the researchers explanation of the purpose of the study to various proprietors most of them were still hypertantise and suspicious that the study has something to do with taxation. Consequently some of them refused to co-operate while those who did were very reluctant to answer questions relating to capital structure capital employed and number of employees.

Another problem was the fact that may of the proprietors were not educated and the question had to be read and interpreted to them carefully. This was very time consuming making the administration of the questionnaire to take more time than expected. A greater head arose over accounting information. Many of the firms do not keep adequate records, records from which up to date and accurate information can be gotten. Hence the amount of

financial information available was restricted as it was mostly based on queries and estimates from some respondents.

Future researchers should take note of this limitations with a view to providing prior solutions to them so as to make their work easy.

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14. Anonymous (1962): "Administration for Development of Small Enterprises in Japan" Ministry of International Trade Tokyo p.4.
15. Davenport R.W. (1967): Financing the Small Manufacturer in Developing Countries, Mcgraw Hill, New York, P.5.
16. Mccrory J.T. (1956): "Small Industry in a North Indian Town case studies in Latent Industrial Potential" Ministry of Commerce and Industry New Delhi P.3
17. Davenport R.W. Op. Cit, P.5.
18. Konto N.M. Op Cit, P.53
    See also Aluko S.A. et al, op. Cit, P.xvi
19. Hoselitz B.F. Op. Cit, P.180.

CHAPTER TWO

SMALL-SCALE INDUSTRIES IN KOGI STATE

In this chapter, the place of small-scale industries in the economy of Kogi State will be examined. Areas to be highlighted include the following:-

1. Structure and Administration of Kogi State
2. Agriculture and Natural Resources
3. Industry
4. Small Scale Industry in Kogi State and its Contribution in terms of:
5. Employment Generation
6. Use of Local Resources
7. Export
8. Distribution of Wealth and Economic Power
9. Development of Entrepreneurship
10. Encouragement of Traditional Craftsmanship
11. Preservation of Cultural Heritage.

2.1 STRUCTURE AND ADMINISTRATION OF KOGI STATE

Kogi State is an integral part of the present thirty six State Structure of the Federal Republic of Nigeria. It has a land area of 60,388 square kilometres and is naturally bordered by River Niger along its Northern and Eastern boundaries. It shares boundaries with Sokoto State and Niger State in the North; Benue and Plateau States in the East, Oyo, Ondo and Bendel States in the South and in the East an international boundary with the Republic of Benin[1]. These unique locational features together with its middle belt position have

conferred on it the nickname "the gateway between the North and South." Its projected population figure for 1995 was 2,898,522 Local Government.

With the implementation of the Local Government Reforms of September, 1976 in conformity with the establishment of the third-tier of government in the country, the following administrative units were created namely: (1) Okene, (2) Okehi, (3) Adavi, (4) Ogori Magongo, (5) Ajaokuta, (6) Dekina, (7) Idah, (8) Ankpa, (9) Bassa, (10) Omala, (11) Igala-mela, (12) Olamaboro, (13) Ofu, (14) Ibaji, (15) Kabba, (16) Mopa, and (17)Ijummu Local Government Areas. The annual rainfall of the State ranges from 800 – 1,500 millimeters in local government area in the North-west to 1,000 – 1,500 millimeters in the South East.

About 65 percent of the Kogi State population live in the rural areas, while the remaining 35 percent live in sizeable cities and towns that are

1. Fourth National Development Plan, 1991 – '95 Kogi State Programme, (Ministry of Economic Development, Lokoja), P.1
2. Fourth National Development Plan, 1991 – '95 Kogi State Programme (Ministry of Economic Development), P.1

Fairly well urbanized.[3] Basic infrastructures and social institutions such as health centres, hospitals, schools, water supplies, and electricity either exist or are under construction in the major towns of the state.

2.2 AGRICULTURE AND NATURAL RESOURCES

Agriculture is the life wire of the state's economy since it provides employment for more than 70 percent of the population and also contributes about 70 percent of the State's Gross Domestic Product.[4]

MAJOR FOOD CROPS:

The interaction between the ecological diversities, soil and climatic variability's in the State has made available a wide expanse of fertile and deep arable land suited to the cultivation of variety of food and cash crops such as yams, cassava, maize, beans vegetable, sugar-cane, citrus, cocoa, coffee, cotton and groundnut.

Because of its peculiar type of vegetation, low incidence of trypanosomiasis and suitable climatic conditions, Kogi Local Stock Husbandry in the State. Livestock items reared here comprise: cattle, sheep, and goats, poultry production has also assumed a prime importance in the state.

Both the natural as well as planned (reserved) forest resources of the state estimated at about 54,000 square kilometers of wood land contain a variety of valuable forest products such as Teak.

3. Fourth National Development Plan, (1991 – 1995) Kogi State Programme (Ministry of Economic Development, Lokoja), P.1. Iroko, Mahogany, Gmelina which provides resources for housing, furniture and other construction industries.

MINERAL DEPOSITS:

Considerable deposits exist in various parts of the state notable among which are the Limestone deposits at Jakura in Kogi Local Government Area, Elebu in Moro Local Government Area, and good quality iron are in Okene and Okehi Local Government Areas.

(This is the base of the Ajaokuta Iron and Steel Project). The importance of this project to the industrial leverage of Kogi State in particular and the Nation as a whole cannot be over emphasized. Smaller quantities of other mineral such as marble kaolin, felspar, gold, columbite and tin, also exist in the state.

2.3 INDUSTRY

In spite of the abundance of many agricultural and mineral resources available in Kogi State, the tempo of manufacturing activities in the State has not been very significant as a result of many contraints, most of which tend to discourage would-be technical partners from participating actively in the State's manufacturing programmes. Rapid industrial development in the State in hampered be acute shortage of essential infrastructure, e.g. electricity and water supply, lack of good road network, etc. shortage of financial resources, the dwindling productivity in the Agricultural Sector which should have stepped up an encouraging industrial development in the state, the delay arising from lack of feasibility studies of those projects ear-marked for implementation in the previous plans and protracted negotiations with technical partners. However, it promotional activities to encourage and attract foreign investors to the state to participate not only in Government Industrial Programmes, but to also come in and establish viable industries in the state.

SMALL – SCALE INDUSTRY:

In realization of the enormous contribution small – scale industries could play in achieving a rapid economic growth and development, the Kogi State Government in her Forth Development Plan (1991 – 1995) ear-marked a capital sum of N3 million for the

promotion of small-scale industries in the State in order to encourage their growth and expansion throughout the State[5].

Generally, the primary concerns of Kogi State Government in the industrial sector during the forth plan period (1991 – 1995), is to accelerate the industrial development of the State and make the economy of the State self sustaining. In this regard.

4. Forth National Development Plan 1991 – 1995 Kogi State Programme (Ministry of Economic Development, Lokoja). P.44. The 1991 – 1995 plan is designed to achieve the following objectives.[6]

(i) establishment of at least one industry in each of the seventeen local government areas of the State.

(ii) promotion of Agro-based industries

(iii) according priority to labour intensive industries

(iv) encouraging indigenous participation in industrial investments.

2.4. SOME ACHIEVEMENTS

The state achievement in the implementation of its second Capital Development Programme (1991 – 1995) had revealed appreciable improvements in spite of constraints such as inadequate finance, lack of skilled personnel in some key sectors of the economy and lack of sufficient number of competent and reliable contractors. This has been made possible through the various institutional arrangements introduced during the period to speed the tempo of plan implementation. Some of these are:-

(i) the state planning machinery was strengthened to enable it cope with the demands of the second programme through the establishment of

5. Ibid, P. 40.

planning units in a number of executive ministries and the monitoring unit in the Ministry of Economic Development. They latter oversaw the extend to which plans and programmes are translated into actions and their objectives reliable. Other institutional arrangements established during the period comprised: the State Planning Council; the State Ministerial and Area (Local Government) Plan Implementation Committees and the Zonal Planning Offices at Lokoja, Share, Okene and Omu-Aran. The Implementation Committees monitors on a continuous basis the project implementation activities of the state and local government and also draw attention of these governments to any lapses for quick rectification;

(ii) State Manpower Committee offered and programmes advice to the Government on appropriate policy measures and programmes for meeting the state's manpower needs;

(iii) with the establishment of a Budget Bureau by this administration, annual capital estimates are now better prepared than before to ensure prudence in public expenditure and the realisation of the priority objective and goals of the State Government while tender arrangements have also be streamlined.

CONSTRAINTS:

The performance during the (1991 – 1995) plan period leaves no one in doubt that in spite of the uncomfortable financial predicament which the state experienced shortly after the take off of the plan, it has nonetheless succeeded in mobilizing the available human and material resources for its implementation. However, in spite of the remarkable achievements

recorded in the various sectors, it is pertinent to mention that greater achievements would have been attained if certain formidable constraints and bottlenecks had not been experienced during implementation such as:-

(a) Inadequate finance – this has been a perennial problem which the government has been doing everything to combat;

(b) Inadequate infrastructural facilities such as roads, telecommunication facilities, power and water supplies;

(c) Paucity of genuine technical partner and protracted negitation that are often encountered when projects are finally identified for execution in collaboration with external agencies/partners.

(d) Expensive designs and high contract prices – the propensity to adopt expensive project design coupled with inflationary contract prices had adversely affected the amount of resources that could be made available for other productive uses. The corollary of this was tendency to embark on white elephant projects. The Adewole Housing Estate provides a good example;

(e) Shortage of Manpower – this problem was aggravated by the greater demand being generated by the rapid expansion in the socio-economic development of the State. The shortage is particularly critical in the technical and professional fields;

(f) Duplication of efforts and wastage; this problem was particularly common with the state parastatals where, in spite of the increased government subvention, some parastatals, including those which were supposed to be profit oriented, have regrettably continued to run at a loss.

Table 2.2. shows the summary of government capital investments for the fourth National Development Plan (1991 – 1995), Kogi State Programme;

TABLE 2.1:

KOGI STATE DEVELOPMENT PLAN (1991 – 1995)
SUMMARY OF GOVERNMENT CAPITAL INVESTMENT

SECTOR	TOTAL PLAN ALLOCATION	PERCENTAGE DISTRIBUTION
A. ECONOMIC		
1. Agriculture & Fishery	63.230	6.30
2. Livestock	7.450	0.74
3. Forestry	5.510	0.55
4. Industry	104.210	10.39
5. Commerce and Finance	28.850	2.87
6. Co-operative	3.250	0.32
7. Transport	163.600	16.31
Sub-Total	376.100	37.50
B. SOCIAL		
8. Education	207.100	20.65
9. Health	48.790	4.87
10. Social Welfare, Youth Sports & Culture	21.640	2.15
Sub-Total	277.53	27.67
C. REGIONAL DEVELOPMENT		
11. Community Development	5.200	0.52
12. Water Supply	104.000	10.37
13. Power	48.000	4.79
14. Town & Country Planning	50.980	5.08
15. Housing	45.000	4.48
Sub-Total	253.180	25.24
D. GENERAL ADMINISTRATION		
16. Information	14.435	1.44
17. Administration	81.665	8.14
Sub-Total	96.100	9.59
Grand Total	N1002.91	100.00

Source: Forth National Development Plan 1991 – 1995 Kogi State Programme

2.4 SMALL SCALE INDUSTRY AND ITS CONTRIBUTION

Kogi State possesses certain characteristic which makes the emphasis on the Development of small scale industry a necessity. For example there is a predominance of primary production characterized by primitive technology and under-employment and the relative insignificance of the modern industrial production and the tertiary sector. There are also problems of low income, low savings, inadequate investment, high population growth rate and infrastructural deficiencies.

In realization of the great role the small scale industries can play in the industrialization of the State, the Kogi State Government, at various times have provided incentives and facilities to enhance the growth of the small scale industries in the state.

The fact that small firms are such an important part of the economy of Kogi State is not a historical accident. It is not only the result of Government programmes to aid small firms or a benevolent policy by large firms. Competition on our society is recognized as desirable in order to serve the population better. Small firms actually have advantages over large firms in many cases. All large firms were once small. They grew because they were well managed with dynamic leadership. Many of today's small firms will become giants in tomorrow's business world. So smallness can be looked at as a stage in growth. Small industries are also a training ground for management and labour. Also the fact that the absolute amount of capital required is modest and can be raised out of domestic resources without recourse to foreign participation makes its development an effective way of mobilizing private savings and initiative.[7]

SMALL BUSINESS IN KOGI STATE

The areas of activity for most small firms in Kogi State can be classified as follows: manufacturing, mining; wholesaling; retailing and service.

MANUFACTURING

Manufacturing firms engage in the gathering of raw materials necessary for the creation of consumer and industrial products and in giving them useful form through their manufacturing processes. Most small manufacturing firms then pass their finished products on to wholesalers or other distributors who handle their further distribution to the eventual users of these products.

MINING

Mining firms engage in gathering raw materials from the bowels of the earth. They either

7. Anonymous (1966), small scale industries in Africa and India, African Quarterly Journal

July – September, 1996 P.2.

process the raw materials into consumer goods as part of their normal operation or sell them to other firms which convert them into usable form. It is the former which exist in Kogi State. An example is the quarrying industries which abounds in large numbers because Kogi State is topographically a rocky area.

WHOLESALING

Wholesaling for the distribution of both consumer and industrial goods is a large part of the small business scene in Kogi State. For most consumer goods, marketing experience in business has demonstrated the economic benefits of using established wholesale channels

of distribution. By using wholesalers, the costs of distribution are greatly reduced. In addition, one wholesaler handles many other products in his particular area of activity.

RETAILING

Retailing represents the largest percentage of all small firms in Kogi State. Small retailers are to be found in every area of products and services we can imagine. Perhaps this is because many people feel competent to attempt independent firm ownership in this field. All retail firms buy their products from wholesalers or other distribution in financial form for use by the consumer. The function of the retailers is to give these products place utility that is to make them available to the consumer where he desires them. Certain of this place utility and provision of other services to the consumer are the economic justification of the retailers profits.[8]

SERVICE

Service firms in Kogi State are numerous and varied. They are engaged in rendering an essential service to their customers. Pure services are not tangible products, which may be inventoried, but they are in great demand by many people in many areas of the State. Doctors and dentists provide services. Many common types of services are supplied by firms which do work on products that are owned by their customers, for example, repairing TV sets, repairing cars, dry-cleaning clothing for customers. Other services firms performs such services as barbering of hair dressing.

2.6 EMPLOYMENT GENERATION

Although Kogi State economy is basically agricultural, manufacturing activities are Increasing steadily. The number of people employed in the small scale industries in the State was estimated to have increased from 400 in 1992 to 5,500 in 1998.

This compares favourably with the large and medium scale

8. Park Chapin and William R. Park 1983, small Scale Business Management Fundamentals, Prentice Hall, New Jersey, P.14.

9. Kogi State second Development Programme 1995 – 2000 Ministry of Economic Development Lokoja, P.4.

Industries in the State with an estimated number or people employed of about 900 in 1992 and 6,500 in 1994.

The small scale industries assist the Government in reducing unemployment in the society. Since most of these industries operate in semi-urban and the rural areas, they are better able to provide means of livelihood to the inhabitants of such areas by way of employment. This role they played contributes greatly in checking rural-urban migration.

It is hoped that most of the people currently retrenched from the civil service who has been able to see the opportunity provided for them to start their own business in the small-scale industry sector since, starting a small scale business does not require a large amount of initial capital. With these more people will be employed in the small-scale industries sector.

Though the contribution of the small-scale industries sector is small relative to the other sectors as at now what is important is the potential contribution which the small industries sector can and is capable of making to output and employment at cheaper cost to the State's economy.

2.7. USE OF LOCAL RESOURCES

In Kogi State the small industries sector is still heavily weighed towards the Production of simple tradition consumer goods. A lot of industries in the manufacturing lines such as weaving, tailoring, shoe-making, black-smiting, corn milling etc. makes heavy use of local resources.

Also the fact that may of the small industrialists cannot afford to place orders for outside material, because of financial constraint and problems of custom clearance and collection at the port which involves a long procedure, makes it mandatory for them to use resources that are obtainable locally.

2.8. EXPORT

The contribution of small scale industries in Kogi State in this area has been the conservation of foreign exchange through import substitution. Most of the time the total product of the small-scale industries were hardly adequate to meet the needs of the local consumers, as a result of they do not export. However, the products of the small – scale industries sector serve as a substitute for those that might have been imported with a large amount of foreign exchange.

Small-scale industries also provides raw materials to vital industries for their production. Large industries prefer to buy their inputs from small-scale industries rather than making or importing raw materials, spare parts and essential technical services. Due to cost consideration, such large establishment fined it cheaper to use inputs produced by specialized small-scale industries.[10]

2.9. DEVELOPMENT OF ENTREPRENEURSHIP

The small-scale industries provides a training ground for many entrepreneurs and business owners. The personnel services sector (in particular) whose structure and operation are such that they are always likely to provide opportunities for the creation of small businesses which enables individuals to experiment on their own, in their spare time and, possibly during periods when they are unemployed. This enables them to test the market, acquire rudimentary business skills and to accumulate a small amount of capital, which can be used for the purpose of setting up a full-time business. The strategic significance of the small-scale industries sector is that it services as an outlet for enterprising and independent minded people.

In Kogi State there is a branch of the Industrial Development Centre (IDC) established by the Federal Government to provide adequate managerial and technical advice to small-scale entrepreneurs.

10. Konto, N.M. (1983), "Small business in Bauchi State
A study of their problems and viability"
Unpublished M.B.A. Project, A.B.U. Zaria, P.18.

They are to provide facilities for managerial and skill training as well as consultative and extension services for proprietors and managers of small scale enterprises.

2.10 DISTRIBUTION OF WEALTH AND ECONOMIC POWER

The locations and development of small scale industries in Kogi State spreads Through the seventeen local government areas of the State. Each area also has several types. As a result, any facilities or incentives provided by the government will be equitably distributed.

The development of small industries, which is not concentrated in a particular part of the State, have therefore ensured an equitable distribution of income wealth and economic power in the State.

2.11 ENCOURAGEMENT TO TRADITIONAL CRAFTMANSHIP

A great number of small-scale industries exist in Kogi State that uses traditional skills In carrying out their manufacturing activities. Example include traditional rural occupations such as pottery , weaving, basket making, cloth dying and black-smiting. This offers a substantial opportunity for the intensive development and improvement of traditional craftsmanship as an effective means of product.

This type of industries are however on the decline and as such they need to be supported and reviewed for if properly developed, this sector can serve as conservators of foreign exchange through import substitution or complement other industries in their production by serving as input suppliers. Hence the development of this sector will give further encouragement towards the development modernization of traditional craftsmanship as an effective production process.

2.12 PRESERVATION OF CULTURAL HERITAGE

Small-scale industries exist and operate within societies, they import inputs from the Society and export outputs to the society. And as such they study the needs of the society and try to satisfy this need by producing goods and services bearing in mind the social and cultural background of the particular society within which they operate in mind. For example, the type of hoes produced by the blacksmiths differs from place to place; shoes produced by shoe makers also differs from place to place; the style of dresses designed by tailors differs from place to place.

By putting the needs of the society in the fore-front in their production decision, the small entrepreneurs ensure preservation of the cultural heritage of that society. Most of the time, rather than producing a standardized product on a large-scale for use by communities with different cultural background, the production decision is made bearing in mind the social and cultural background of a particular community. Many small-scale industries particularly in the manufacturing sector uses production methods as passed down to them by their predecessors and this is a sign of preservation of cultural heritage.

The importance of the small scale industry vis-à-vis their role in the economic development of Kogi State can be summarized by looking at their advantages over large firms. All large firms were once small. The grew because they were well managed with dynamic leadership. Many of today's small firms will become big in tomorrow's business world. Some of the situation in which small firms have distinct advantages are the following:

1. When new products or ideas are being tried out. The freedom to attempt new types of business ventures is one of our cherished rights, and when one is engaging in such a business, it is such better to start with a small firm. Growth can always come with

success. The acceptability of the new product or idea may need market testing. It is often better to check market reaction before involving too much money in a new product or idea. Management requirements may be uncertain and financial needs unknown in the starting period of the new firm.[11]

2. When the personal attention of the owner is essential to daily operations. The owner of a fine restaurant is an example. If the owner's presence is lost or as executive, is important to the growth of the business, unit will be more successful if it is small enough for one to supervise.

3. Small firms offer professional or non-professional or skilled, services of their employees of the public. Here they have a distinct advantage by remaining small. Any possible advantages of large size in these areas are usually offset by greatly enlarged overhead, less efficiency on the job, and lose of the personal touch of the smaller firm. Medical and dental services are usually rendered by small firms.

4. When the market for the product or services, is mainly local. In some type of firms, it just is not economical to attempt a scale of operation, which exceeds the local market demand. The making of bricks or concrete blocks for the construction industry is an example. Transportation costs for moving such products are prohibitive.

1. Dan Steinhoff, (1983), Small business management fundamental Halt international New York, P.14

5. Small firms are also very important in dealing with perishable material or product.

6. When only a limited market is available or sought. One example is custom failure.

And neighbourhood groceries with alert managements have successfully competed with the trend toward large super markets.

7. The small business is usually in closer touch with its employees customers, and Suppliers with excellent human relationship.

However, small firms suffer from some disadvantages or problems as a result of their being small. These problems retard their growth potential and most of the time lead to their failure. These problems include lock of management ability, lack of proper planning and control or the fact that the type of firm established did not have a chance in the first place.

Small firms also labour under such problems as inability to secure competent employees, limited vendor goodwill, inability to cope with monopolistic practices, lack of time for the small proprietor to handle multiple assignments lack of research facilities and the problem of making a new firm or product known in its market. It need be said of course, that many of these problems are a direct result of improper planning and operation.

Apart from the above problems, other problems like inflation, difficulties in obtaining import licenses and the constraints of our defective infrastructures as in communication, power supply etc. also contribute to the lack of success of many small firms.

Small scale industries are also characterized by inadequate accounting records, lack of budgets, cash flow projections and performance appraisal systems. Because of the inadequate records maintained by many small enterprises and their lack of qualified personnel, they find it difficult to obtain loans and where the loans are granted the administration of the loans rests mostly with the banks who have to ensure, for instance that term loans are utilized on the acquisition of fixed assets while overdrafts are reserved for working capital.

Small scale enterprises are sometimes vulnerable to market fluctuation as a result of their lack of contact and co-ordination with similar firms in the industry while collectively they may represent a quick and effective response to changes in market situation individually they tend to be very vulnerable.[12]

Summary: The role of small-scale industries

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11. Anonymous: Business times June 1, P.7.

In the economy of Kogi State has been examined in this chapter. The structure and administration of Kogi State, Agriculture and Natural Resources and the industrial sector of the economy of Kogi State have been examined to provide a background. Also examined are the types of small scale industries in Kogi State and their contribution in terms of employment generation, use of local resources, export, distribution of wealth and economic power, development of entrepreneurship, encouragement to traditional craftsmanship and preservation of cultural heritage. The chapter was concluded with a brief look at some of the advantages of small-scale industries over the large industries as well as their problems.

Chapter three will examine the existing institutional financing of small scale industries in Kogi State. Specific aspects to be examined include the financial requirements and the existing institutional arrangement for small-scale industry financing in Kogi State.

CHAPTET THREE

INSTITUTIONAL FINANCING OF SMALL SCALE INDUSTRIES

In chapter two, the place of small scale industries in the economy of Kogi State was critically examined. In this chapter, both the financial requirements of small scale industries and the existing institutional arrangement for financing small scale industries in the state will be examined with a view to identifying certain obstacles in the structure and evaluating their effectiveness in giving financial assistance to small scale industries.

The institutions to be discussed in details include (1) The small scale industries credit scheme (2) The Nigerian Bank for Commerce and Industry and (3) Commerce Banks.

3.1 FINANCIAL REQUIREMENTS

The financial requirements of small scale industries can be separated into short term Financial needs and long term financial needs.

Long-term Financial Needs: The long-term financial needs of any small business is related to the needs of the company which depends on the type and nature of the business. This includes all payments made for acquiring fixed assets like building, machinery and equipment either for expansion or for setting up new factory, fixtures and fittings etc. Also included is the need to meet up the working capital requirements of the business. The type of capital equipment to be purchased depends on the nature of the business operation.

SHORT-TERM FINANCIAL NEEDS:

The short-term financial needs of small scale industries are, most often, common and easy to identify. These include the need to pay wages and a salaries of staff, payments for purchases of materials and meeting other overhead expenditures such as rent, electricity and

water bills. Other short-term financial requirement include the need to repay some outstanding loans or trade credits in order to obtain fresh financing.

The small scale industries can meet up the financial requirements in two ways, either Through owners funds – mostly savings or through loan financing. The institutional arrangements for financing small scale industries in Kogi State is discussed in detail.

3.2 SMALL SCALE INDUSTRIES CREDIT SCHEME

Small scale industries have some common problems in all countries and perhaps the most basic problem is the lack of adequate capital and credit facilities for sustaining their growth and development. Credit is no doubt a creditical input for industries in general, but more so in the case of small scale industries which have a weak capital base.

Adequate institutional credit is not available to small-scale enterprises as they are generally considered high credit risks by commercial banks and other financial institutions. An over-whelming majority of small scale industries are either proprietary or partnership concerns and, therefore cannot also draw money from the capital market. As a result, these industries are either served for finance or have to turn to sources other than the institutional ones to borrow money on extremely unfavourable terms. This makes it almost impossible for them to operate profitably in a competitive market.

SMALL SCEL INDUSTRIES CREDIT

Having regard to the essentially similar and difficult situation faced by small scale industries in Nigeria, the second National Development Plan (1970-1975) incorporated the Small Scale Industries Credit (SSIC) schemes in the State programmes in line with the government policy of giving effective aid to indigenous small industrialists. The S.S.I.C.

scheme was set up by each State Government to give loans to small scale industries on liberal terms. The state contributions to the credit fund were augmented by matching federal contributions to supplement the lending operations[1].

SCOPE OF THE CREDIT SCHEME

The small scale industries credit schemes have been set up by each State Government to give loans to small scale industries carrying on manufacturing, processing or servicing activities with a capital investment not exceeding N150,000.00 in machinery and equipment only. The loan is to be given for the expansion and modernization of existing small scale industries and also for the development of new small scale enterprises of the mechanized type of manufacture relatively sophisticated consumer goods as well as simple producer goods. The credit scheme is thus meant for giving financial assistance and support not only to the small scale industries in the upper investment ranges, but also the conventional small scale industries, particularly for their process improvement.

TYPE OF ASSISTANCE

Under the scheme, both fixed and working capital loans can be given to small industrialists. Working capital loan can be given up to 50 percent of the requirement, subject to a maximum of N10,000.00. The fixed capital loan for machinery and equipment can be given up to 75 percent of the cost of machinery and equipment to be purchased.

1. Small Scale Industries Credit Schemes (1972)
   Small Industries Division, Federal Ministry of Industries, Lagos P.9

However, the total fixed and working capital loan should not exceed N80,000.00 in any single case.

SOME RESTRICTION

The loans advanced under the small industries credit scheme can in no case be used for meeting outstanding loan commitments. A special objective of the credit scheme is to encourage a new class of educated and technically qualified, entrepreneurs; but certain categories of persons, e.g. civil servants, statutory corporations and local authority employees and members of the Armed Forces will not be entitled to receive any loans under the credit scheme for setting up small scale industries.

PROCEDURE FOR THE GRANT OF LOAN

The small scale industries credit scheme in Kogi State as in every other state of Nigeria is operated by a loan Management Committee specially constituted for the purpose by the State Government. Any small industrialist desiring to have a loan under the small scale industries credit scheme of the state where the industry is already functioning or is to be situated, will have to apply to the Secretary to the Loan Management Committee for the loan in prescribed forms. Only persons who are ordinarily resident in the State will be eligible for loans under its S.S.I.C. scheme. The loan Management Committee shall before processing the loan application, satisfy itself as to the technical/managerial ability of the applicant and also his integrity and credit standing

The loan management committee will have a project feasibility study prepared for each project prior to the consideration of the loan application. The feasibility report will be

prepared with the help of the industrial development centre serving the State and will give estimates of the total project cost, machinery and equipment cost, working capital requirements scope of marketing the product, expected profitability and breakdown point. The committee shall decided whether the loan is to be granted, based on the techno-economic feasibility of the project.

TERMS AND CONDITIONS OF LOAN

The terms and conditions which are generally applicable to all loans granted by the committee are as follows:[2]

(a) The borrowers shall use the loan solely for the purpose for which it was sanctioned.

(b) The borrower shall pay interest on the loan at such rates as the committee may determine. Ordinarily, the rate of interest will be 5 percent on reducing balance that is on the outstanding loan.

(c) The loan will be repayable over a period of 5 to 7 years on a quarterly, half-yearly or yearly

2. Small Scale Industries Credit Scheme (172) Small Industries Division, Federal Ministry of Industries, Lagos P.11.

basis, as the loan management committee may determine, with a suitable period of moratorium of 1 to 2 years, depending on the nature of the project.

(d) The borrower shall execute such documents as the committee may require for securing, by means of legal mortgage guarantee or any other manner acceptable to the committee, the repayment of loan and interest thereon.

(e) The borrower must agree to the supervision of the loan in such manner as may be determined by the Loan Management Committee. He shall at all time maintain proper records to show the financial position of the enterprise. He shall permit inspection of his business and accounts by the designated official of the Loan Management Committee.

(f) In all matters involving proper control, operation and maintenance of the assets created by the loan, he shall seek and act upon the advice of the Industrial Development Centre and the small industry division of the State's Ministry of Industries.

DISBURSEMENTS

The loan is to be disbursed in accordance with the schedule of disbursement approved by the Loan Management Committee at the time of sanctioning the loan. As far as possible, payments are to be made to the suppliers direct and ordinarily prior to the delivery of machinery requirement for setting up the enterprise.

SECURITY

The loan management committee may accept as security for the loan such assets as land and building, machinery, equipment and other fixed assets including those created out of the loan, provided movable assets like livestock and household effects, etc. shall not be deemed to be acceptable security. All assets used to secure S.S.I.C. loan must be insured

against loss by free with an insurance company acceptable to the loan management committee.

INVESTMENT BRIEFING

In Kogi State, the secretariat of the small industries credit scheme not only supplies the loan application forms, but also provides information on investment priorities and guide the applicant in the selection of promising small scale industries. The secretariat also gives assistance in the filling up of the loan application forms. The prospective investor can also consult the Industrial Development Centre serving the state for similar advice and guidance. Prior consultation with the S.S.I.C. secretariat or the I.D.C. concerned will enable the apllicant to avoid the production lines which have very limited scope for expansion and to choose one of the prospective small scale industries with good scope for expansion in the area.

COMPOSITION OF THE LOAN MANAGEMENT COMMITTEE

In Kogi State, the S.I.C. is a section in the Ministry of Commerce and Industries. There is a full time secretary who is heading the section and there are 5 other senior professional officers with a supporting secretarial staff of seven senior and junior officers.

The loan management committee in Kogi State comprises of the following:

(i) Permanent Secretary, Ministry of Commerce and Industries (Chairman).

(ii) Permanent Secretary, Ministry of Finance and Economic Development.

(iii) Solicitor-General and Permanent Secretary, Ministry of Agriculture, Forestry and National Resources.

(iv) Permanent Secretary, Economic Affairs Division, Governor's Office.

(v) Permanent Secretary, Ministry of Works, Land and Housing.

(vi) Director, Industrial Development Centre, Federal Ministry of Commerce and Industries, Ilorin.

(vii) Manager, Bank of the North Ltd., Ilorin.

(viii) Representative of the Ministry of Commerce and Industries.

PROGRESS UNDER THE SCHEME

In Kogi State, about 121 small scale projects have so far been assisted by the scheme between 1972 and 1982. Table 3.1. shows the number of applications received and number awarded or rejected between 1972 and 1982.

Table 3.1

APPLICATIONS PRECESSED BY S.S.I.C. IN KOGI STATE BETWEEN 1972 – 1982

YEAR	NO. OF APPLICATION RECEIVED	NO. OF APPLICATION AWARDED	NO. OF APPLICATIONS REJECTED & PENDING	% OF REJECTED TO TOTAL
1992	91	20	81	89%
1993	88	22	66	75%
1994	144	-	144	100%
1995	68	-	68	100%
1996	122	24	98	80%
1997	115	27	229	77%
1998	229	-	229	100%

SOURCE: S.I.C. Section, Ministry of Commerce and Industries, Lokoja, Kogi State.

As indicated, in Table 3.1, there was no awards made in the years 1992, 1993, 1994, 1995, 1996, 1997, 1998. The number of applications received. In 1992 and 1993, 89% and 75% of the applications received were respectively rejected or pending.

In 1997, 77% of the applications received were rejected. And in 1998, 100% of the applications received were also either rejected or pending.

In Table 3.1, the financial assistance rendered by the scheme since inception is presented.

Table 3.2.

FINANCIAL ASSISTANCE RENDERED BY S.S.I.C. SINCE INCEPTION

YEAR	AMOUNT AWARDED ₦
1992	80,000
1993	3,000
1994	6,000
1995	N.A
1996	49,000
1997	2,000
1998	57,000
TOTAL	197,000

SOURCE: I.S.C. Section, Kogi State Ministry of Commerce and Industries, Lokoja.

As shown in table 3.2., the total amount of financial assistance rendered by S.S.I.C. since inception up till 1982, to small scale industries stands at N2,180,000. There were no assistance rendered by the S.S.I.C. in the years. The amount of financial assistance approved during the years as indicated in Table 3.2 is considered not adequate, taking cognizance of the financial needs of the small scale industries.

The financial assistance granted on Local Government basis is shown in Table 3.3:

Table 3.3.:

FINANCIAL ASSISTANCE GRANTED ON
LOCAL GOVERNMENT AREA BASIS 1991 – 1998

L.G.A.	AMOUNT AWARDED (₦000)
Ankpa	45
Dekina	62
Olamoboro	101
Bassa	68
Ijummu	229
Kabba	485
Idah	121
Ajaokuta	65
Okehi	150
Okene	160
Ofu	366
Mopa	328
Total	N2,180,000

SOURCE: S.I.C. Section, Kogi State Ministry of Commerce and Industries, Lokoja.

Table 3.4. indicates the types of industries assisted by the S.S.I.C.S. in Kogi State between 1966 and 1982.

Table 3.4:

INDUSTRY-WISE ASSISTANCE 1966 – 1982

INDUSTRY	AMOUNT APPROVED (₦000)
Poultry	405
Furniture	351
Block Making	428
Bakery	233
Mills Rice, Gary, Yam Flour	338
Auto Mechanic	37
Printing	212
Manufacturing	118
Others	58
TOTAL	N2,180,000

SOURCE: S.I.C. Section, Kogi State Ministry of Commerce and Industries, Lokoja.

The effectiveness of the scheme is reduced for a number of reasons. There is the problem is reduced for a funds for disbursement. As a result of this inadequacy the committee feels obliged to spread the loan resources over as many applicants as possible. In this situation, deserving ones obtain finance but on a scale that is not commensurate with their needs and clearly so inadequate that it renders what they obtain ineffective.

The rate of loan repayment is very poor and the default rate alarming.

This could mean that the investigation and appraisal of the projects for which funds are sought are perfectory. The applicant is expected to submit some study of the project

illustrating the expected cash flow and an objectified assessment of the project viability. If the committee has to be haunted by defaults by borrowers in a regime of rationing, the position would, in all probability, have been much worse if the committee had more money to disburse. The presence of the bank representative and the director of the IDC does not seem to mitigate the poverty of judgement frequently reached by the committee.[3]

Furthermore, since the committee provides finance mainly for equipment, the entrepreneur may find his work frustrated if the banks fail to provide the necessary working capital. If effect, therefore, the committee's work seems to be doomed to a high failure rate from the beginning. Another problem is that since members of the committee are ex-officio, the fluctuations in membership through transfers and postings will rob the committee of continuity of personnel, of experience, of information, and of decision procedures and processes. The existing system is proof enough that financing it best managed by

3. Okigbo P.N.C., (1981), Nigeria's Financial System:
Structure and Growth, Longman Group, London P.229

professionals and that the bureaucracy of the civil service is not organized well enough to serve the needs of the small scale industrialists.[4]

3.3 THE NIGERIAN BANK FOR COMMERCE AND INDUSTRY

The promulgation of the Nigerian Enterprises promotion (Indigenization) Decree (1972) which transferred to Nigerians certain enterprises from non-Nigerians, made more acute the problem of financial capital which had along been identified as one of the greatest problems of most Nigerian Entrepreneurs. To mitigate the problem of

scarce financial capital, the Federal Government established the Nigerians Bank for Commerce and Industry (NBCI) by Decree No. 22 of April, 1973. However, the Kogi State branch of N.B.C.I. was established in September, 1981.

Function: The functions of the NBCI range from

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4. Okigbo, P.N.C. (1981), Nigeria's Financial System: Structure and Growth, Longman Group, London, 1981, P. 229
5. Anonymous (1985), Files from SIC section Kogi Ministry of Commerce and Industry, Lokoja.

the provision of equity and loan funds to indigenous persons, institutions and organizations for medium and long-term investment in industry and commerce to the performance of all aspects of commercial and merchant banking business. The bank, therefore is constituted to support industrial, Agro-based, commercial and service projects by providing for them both equity and loan finance and by giving a whole range of allied financial service such as loan syndication, guarantees, letters of credit, and bills for collection business, feasibility studies, management Consultancy, etc. It is also a member of the Nigerian Stock Exchange. In spite of these unique set of functions, there are certain principal limits which are currently in operation, though subject to review from time to time.

The bank may NOT:

(i) Finance
- (a) residential accommodation or such real estate business which is not part of other major bankable business venture.
- (b) infrastructure for general public use such as roads, schools and hospitals.

(c) mining business

(d) Pure agricultural plantation not intended to support primary processing business.

(e) Scientific and other education or research activities not directly related to a potential specified bankable business.

(ii) give financial assistance less than N20,000.00 to a new client.

(iii) give financial assistance to any single company in excess of 10% (ten percent) of NBCI's) paid – up share capital and reserves.

(iv) make investment in the share of any company (other than companies promoted by NBCI) in excess of 40% (forty percent) of that company's paid-up capital.

(v) Provide financial assistance to anybody (e.g. State Government) for unspecified projects.

(vi) Provide financial assistance to any project, which it has not appraised and adjudged viable for its purposes.

(vii) Make investment in non-corporate bodies i.e. in partnership and sole businesses.

(viii) Support any business unless 60% of its ownership capital carrying voting rights is owned by Nigerians or Nigerian institutions or organizations.

(ix) Provide loan in excess of the projects' acceptable mortgageable fixed assets unless collaterals are available to provide a security value of more than the amount of the loan.

SHARE HOLDING

From inception to date, NBCI ownership capital has been provided by the Federal Government and the Central Bank of Nigeria in the ratio of 60% and 40% respectively. The funds of the Bank have been provided mainly by its shareholders by way of contribution to its share capital and by way of loans. The Bank has special fund-borrowing access to the general funds of the Federal Government for the development of business projects in Nigeria. It is also quite free to borrow within and outside Nigeria. The bank's ownership capital, dominated in 'shares', is made up of 500,000 shares of N100 each and the total capital has bee fully paid up.

FINANCIAL ASSISTANCE:

It should be noted that article (vii) of the Bank's limiting functions dearly partnerships and sole businesses. Therefore, the Bank could only deal with businesses, which have been incorporated into limited liability companies. Table 3.5 shows the size structure of NBCI commitments in the period 1973 – 1975.

Table 3.5

SIZE STRUCTURE OF NBC COMMITMENTS
1973 – 1975

S/NO.	ACTIVITY	UNDER N150,000	N300,000 TO N500,000	N300,000 TO N500,000	OVER N500,000	OVER N1m
1.	Food and Beverages	6	3	2	-	4
2.	Textiles	1	1	1	1	1
3.	Wood & Wooden Products	1	1	-	2	1
4.	Pulp and Paper	-	2	-	1	1
5.	Chemical	-	2	-	2	-
6.	Non-metallic Minerals	1	2	1	1	3
7.	Electronic, Electrical	-	2	-	1	2
8.	Other Manufacture	-	2	-	-	-
9.	Tourism	1	2	-	1	1
10.	Machinery, Basic Metal	-	3	1	1	2
11.	Other Services	2	1	3	-	-
	TOTAL	11	20	8	9	13

SOURCE: Nigerian Bank for Commerce and Industry.

It is clear from this table that participation under N500,000 (N0,5million) represented 30 out of 61 projects (64%) with the concentration within this size group in terms of number of projects in the N0.15 million to N0.3 million category (20 projects). As a result of this neglect of small-scale industries sector, particularly the sole businesses and partnerships, the Federal Ministry of Industries established a special line of credit for small scale industries to be administered by the NBCI.

SPECIAL-LINE OF CREDIT

The major objective of this special line of credit is to make soft loans easily available to deserving small-scale industrialists all over the federation to enable them undertake new projects or to finance on-going projects. In general all small scale projects whose total assets

(including working capital but excluding land) do not exceed N500,000.00 are eligible. However, Appendix 11 shows the type of projects where preference will be given.

OBJECTIVES

According to this scheme, the maximum amount to be loaned would be N250,000.00 depending on the type and special requirements of each project. There is no lower limit. generally, loans will carry a low interest of 6% per annum (this has recently been increased to 10% per annum). Disbursement of funds to successful applicants will only commence after the loan agreement has been duly signed by the applicants and their guarantors. Similarly to the SSICS, payments will normally be made direct to suppliers (on the basis of invoices) or contractors or consultants (based on the certificate of work done). The repayment period will normally not exceed five years from the date the project it commissioned.

ELIGIBILITY

Small scale enterprises which are eligible for this loan are those who are either wholly or majority owned by Nigerians and whose sponsors are ordinarily resident in the State of application. Other criteria are:

(a) a minimum age of 21 years

(b) ability to provide two guarantors of repute for the loan (including interest and other related costs).

(c) applicant must have valid business registration or certificate of incorporation.

It is significant to note that the implementation of the Federal Ministry of Industries' small scale enterprises loan scheme, being administered by the NBCI on behalf of the Federal Government, has made some remarkable progress in spite of numerous problems

encountered during its implementation. So far a total sum of N54.2 million for 1,469 number of projects has been provided under the scheme out of which as much as 88% has been disbursed to approved projects. The scheme is very popular among Nigerians and well spread throughout the thirty six States of the Federation.

NBCI and Kogi State: In Kogi State a total sum of N2.2 million has been approved to forty-six projects, since its establishment in 1982.[6] This amount covers only 1982 and 1983 with N1.7 million

6. Anonymous: (1992), files from Nigerian Bank for Commerce and Industry, Kogi State Branch, Lokoja.

These problems are still very much with is because the general economic recession in the country has not yet abated while the government's economic stabilisation policy is still in force. Moreover, the general attitude of Nigerians towards loan servicing still remains poor.

3.5 COMMERCIAL BANKS

Another institutional arrangement for financing small scale industries in Kogi State are the Commercial Banks. Commercial Banks generally try to invest in projects, which are economically desirable, technically feasible and commercially viable. Before 1972, Commercial Banks, most of which were foreign owned, only assisted businesses that promotes the interest of the metropolitan headquarters of the colonial administrators. And most of these businesses were owned by foreigners as well. As a result, the government had found it necessary to direct financial institutions through the CBN's credit guidelines to extend a certain percentage of their total loans and advances to indigenous borrowers, i.e. business in which Nigerians equity participation is not less than 50 percent. The percentage

allocation increased progressively from 35 percent in the late sixties to 90 percent for fiscal year 1984.

With the promulgation of the Nigerian enterprises promotion decree. In 1972, most businesses became at least, 60 percent owned by Nigerians. It was therefore possible for banks to achieve full compliance with the directive on lending to indigenous borrowers without necessarily extending facilities to small scale enterprises which were wholly owned by Nigerians and for which the policy was originally designed. Based on this and the government" believe that a sizeable number of small and medium enterprises is an essential ingredient of a competitive economy, some modification had to be made. In 1979, therefore banks were directed to extend at least 10% of their lending to indigenous borrowers for small scale enterprises. From fiscal year 1980, the percentage allocations was increased to 16 percent. Table 3.6 shows the percentage for the past 10 fiscal years.

Table 3.6

COMMERCIAL BANKS LENDING ALLOCATION
TO SMALL SCALE INTERPRISES AS PERCENTAGES
LENDING TO INDIGENOUS BORROWERS

	1991/92	1992/93	1993/94	1994/95	1995/96	1997	1998
Percentage of total lending reserved for indigenous borrowers	40%	40%	50%	60%	70%	70%	70%
Percentage of lending to indigenous borrowers reserved for small scale enterprises	Nil	Nil	Nil	10%	10%	16%	16%
% of total loans and advances reserved for small scale industries	Nil	Nil	Nil	6%	7%	11%	11%

SOURCE: Central Bank of Nigeria Monetary Policy Guidelines.

The 16 percent reserved for small and medium enterprises must also be shared on the following basis: Business with annual turnover up to N25,000, 1.6%, over N25,000 – N50,000 – 2.0% over N50,000 – N10,000 – 3.2%, over N100,000 – 200,000 – 4% over N200,000 – N500,000 – 5.2%.

Although loan finance may often not be the most appropriate form of external capital for small business, particularly during times of high nominal interest rates, for many of them it is the best that is available. The dominant suppliers of finance are the commercial banks. The mainly takes the form of over drafts which are more flexible and convenient than term loans and are usually cheaper.

While most banks have over the years been able to meet the required levels of lending to indigenous borrowers, they were unable to meet the prescribed percentage reserved for small scale enterprises. Table 3.7 shows commercial banks actual lending to small scale enterprises and their aggregate loans for the fiscal years 1981, 1982 and 1983.

Table 3.7

COMMERCIAL BANK ACTUAL LENDING TO SMALL SCALE ENTERPRISES AND THEIR AGGREGATE LOANS FOR 1981, 1982 AND 1983

	1992	1993	1994
Commercial Bank aggregate to loans and advances	N8.6b	N10.36b	N11.1b
Actual lending by commercial banks to small scale enterprises	N185m	N206.7	351.3m
Percentage allocation to small scale enterprises	2.15%	2.0%	3.16%

SOURCE: Central Bank of Nigeria, Annual Reports.

As shown in Table 3.7, actual lending by commercial banks to small scale enterprises in Nigeria for the fiscal years 1981, 1982 and 1983 were N185 million, N206.7 million and, N351.3 million respectively. These compared with commercial banks aggregate loans and advances of N8.6 billion, N10.3 billion and N11.1 billion for 1981, 1982 and 1983 respectively representing percentage allocations to small scale enterprises for the 3 years of 2.15 percent, 20 percent and 3.16 percent respectively.

PROBLEMS IN FINANCING SMALL SCALE INDUSTRIES

The broad picture of the insignificant role played by commercial banks in the financing of small scale industries in Nigeria presented above also holds true for Kogi State. In order to really understand the reasons for the inadequate bank credit to the small scale

industry sector, we have to consider two main aspects of the bank's relationship with their existing or potential small enterprises customers. These are the availability of finance and the terms on which it is offered.[8] Banks are often alleged to be too cautious on both.

Their attitude towards risk is said to make them unnecessarily restrictive in their lending policy, particularly towards never rapidly expanding small firms. In addition, the terms on which the make facilities available are sometimes criticised as being too severe. This, of course, is far from the truth.

The truth is that banks are expected to do everything in this country. Everybody including even the

7. Anonymous, (1985), Business Times, March 25, P. 15

Authorities have come to believe that finance is the only problem for the development of any enterprise, and have therefore identified the banks, being the known custodians of finance, as the scape-goat for the numerous failure of the society in promoting any endeavour.[9]

If we address our minds to the real cause of the failure, one finds that such causes range from management deficiencies, inadequate staffing, poor marketing, to problems of inflation, difficulties in obtaining import license and the constraints of our defective infrastructures as in communication, power supply etc. Certainly the problems of the development of small scale enterprises go beyond finance; and where finance posses a problem, it is for factors other than the way the financial institutions operate.

For example, many small scale entrepreneurs approach their bankers with ill-conceived projects in which they have no stake except the land on which the protects are to

9. Anonymous (1985), Business Times March 25, P. 15

stand. What is more on the land is often ridiculously valued. A banker has a duty to protect his depositors funds and ensure that they are invested in well digested viable projects that will be able to guarantee the repayment of the loan and interest.

There is also the communication gap between small businesses and the banks. Proprietors of small businesses, whatever their technical skills, often do not possess the necessary financial expertise to put together bankable propositions. It is rare to see such customers coming to the bank with cash flow projections, projected balance sheets and so on. They usually have a good idea of their needs based on their experience but then if it comes to putting everything on paper, that is where the problem starts. Even where they seek the advice of outside consultants, it is common experience that such consultants prepare the reports and projections to suit their clients requirements and earn their fees.

Consequently, the proposals get rejected by the banks or whereas in some cases, the facilities are granted the business proprietors soon find themselves in trouble when they are faced with real life situations as distinct from the rosy picture painted by the initial projections. Here only the close involvement of the banks themselves in the initial development of projects by small-scale entrepreneurs can solve the problem.

Another problem is that once loans have been obtained, some entrepreneurs divert the funds into other uses while avoiding the banks and resisting any investigations into their activities. Where the loan has been obtained against a charge on the assets proposed to be acquired with the funds, the bank's interest is immediately jeopardized if the client fails to apply the loan for purpose for which it was obtained. Not only is loan misapplied, it is often not rapid resulting in huge accumulation of arrears and bad debts.

Because of the inadequate records maintained by many small scale enterprises and their lack of qualified personnel, the administration of the loans rest mostly with the banks who have to ensure, for instance that term loans are utilized on the acquisition of fixed assets while overdrafts are reserved for working capital.

Another reason for the insignificant role played by commercial banks in the financing of small scale industries is the involvement and interference of the government and the Central Bank of Nigeria in Banking operations.

A committee set up by the Federal Government to review the structure of the Nigerian Financial System in 1977 was of the opinion that indigenous banks have made a relatively larger contribution than the expatriate banks in the finance of agriculture, housing and small and medium sized industries. Yet the effort of these two groups of banks cannot be said to have made any significant impact on the problem.[10]

In this chapter, the existing institutional financing of small scale industries in Kogi State have been examined. The financial institutions examined includes the small-scale industries credit scheme, Nigerian Bank for Commerce and Industry and Commercial Banks.

In chapter four, an assessment is made of the information provided by sample of small-scale industries in Kogi State.

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10. Nwankwo, G.O., (1980), The Nigerian Financial System, Macmillan, London, P.67

CHAPTER FOUR

ANALYSIS OF THE QUESTIONNAIRE

In this chapter is presented an analysis of the Questionnaire. Most of the data used in this chapter was obtained as a result of the responses to questionnaire, by a sample of the small scale industries existing and operating in Kogi State.

4.2 PATTERN OF OWNERSHIP

The ownership pattern of small scale industries can be classified into sole Proprietorship, partnership and private company. The ownership pattern of the sample result is provided in Table 4.1.

TABLE 4.1.

PATTERN OF OWNERSHIP

TYPE	NO.	%
Sole Proprietorship	30	75
Partnership	4	10
Private Company	6	15
Total	40	100%

SOURCE: The Questionnaire

Table 4.1 reveals that the organisation of small scale industries in Kogi State is based mostly on sole proprietorship. As many as 75% of the enterprises are proprietary and another 15% have been recorded as organised on a private company basis. Only 10% of the

enterprises were found to be organised on the basis of partnership. This indicates the small businessman's dislike for joint ownership and desire for independence.

The desire for independence is a powerful reason why so many small firms set up, and continue even though the owner may make no better a living than they would under some-one else's employment. For this too, many firms stay small rather than expand by bringing in partners or other outsiders, they feel that the price of expansion is too high. Another reasons is that a high proportion of the firms in the state are run on a family basis using the unpaid or underpaid family labour (underpaid in the sense that they could earn more for doing the same job outside); and such firm may well remain small from a sense of family pride and a desire to keep the firm in the family.

Similar studies in Nigeria and some developing countries express the same result. A study of some small scale industries in Sokoto State indicates 95% of the enterprises were owned by sole proprietors.[1] Another study in Bauchi State of some sixty (60) small scale industries reveals that 86.7% of the entrepreneurs prefer the sole proprietorship type

1. Mohammed, I.J. (1984): Institutional Financing of Small-Scale Industries in Nigeria. A case study of Sokoto State, unpublished M.B.A Project, A.B.U. Zaria, P.54.

of ownership.[2] A similar study conducted in Bombay, India reveals that 78% of the industries are owned by sole proprietors.[3]

If we compare this result (75%) with the result of a similar study of a total of 8,357 small industries in Bendel, Kogi and Lagos States of Nigeria carried out in 1973, which indicates that 98% of such industries are sole proprietorship,[4] one finds that there is a gradual change in the trend and pattern of ownership. The problem of raising capital from personal

or family sources, coupled with the realisation that other forms of joint ownership appear better able to withstand environmental changes that may affect the nature of the business, have made some of the entrepreneurs to start going for the private company type of ownership. This explains the reason why the response as regard private company type of ownership is as high as 15%. There is hope that it will continue to rise.

4.3. INDUSTRY-WISE CLASSIFICATION

The study indicates that in Kogi State, small

2. Knoto, N.M., (1983), "Small Business in Bauchi State, A Study of their Problems and Viability", unpublished M.B.A. Project, A.B.U. Zaria, P. 31.

3. Hoselitz, B.F., (1968): The Role of Small Industry in the Process of Economic Growth, Mouton & Co., The Hague 1968, P. 170.

4. Aluko, S.M., et al; (1973): Small-Scale Industries: Mid-Western State, Kogi State, and Lagos State of Nigeria. The Industrial Research Unit, Department of Economics, University of Ife, Ile-Ife, 1973, P. xx.

Firms are strong in evidence in four main industrial sectors, block making, bakery, flour mills and poultry farms. The classification of the small industries which form the sample are as follows:

TABLE 4.2:

INDUSTRY-WISE CLASSIFICATION

TYPE	NO.	%
Block Making	8	20
Bakery	9	22.5
Flour Mills	8	20
Poultry	6	15
Furniture Makings	3	7.5
Filling Station	3	7.5
Auto Mechanic	2	5
Others	1	2.5
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.2. shows that the Bakery Industry dominates representing 22.5% of the firms. This is followed by block making and flour mills which forms 20% each and Poultry also forms 15% of the sample result. This result contradicts a similar study on about twenty-two (22) types of industries in Bendel, Lagos and Kogi States of Nigeria.[5] In that study businesses such as bakery, brick-making and leather works constitute less than 1% each in any of the States while motor vehicle repairing constitutes 6.5%, 5.5% and 4.7% in Bendel, Kogi, and Lagos State, respectively. However, the

5. Aluko, S.M., et al., op. Cit, P. xx

Contradiction is as a result of the recent influk into those sectors such as bakery, brick-making, flour milling and poultry, which have favoured entrepreneurs during the past years.

The construction boom during the political era 1978 – 1983 favoured the block-making industries whose outputs are used by the building and construction industries and this an increase in their number. The bakery industries came to be in the lead because of the important role played by bread in the menu of the State indigenes. The scarcity and increase in demand for bread. More and more bakeries are being set up to meet the need of the people. It is not surprising therefore that bakery industries forms 22.5% of the sample result. Flour mills also plays a significant role because they provide inputs for other industries like bakery and poultry industries.

4.4 NATURE OF BUSINESS

There exist in Kogi State many types of small scale industries, but for the purpose of our study they are divided into four broad categories; (1) Manufacturing (2) Processing (3) Service and (4) Others as presented in Table 4.3.

TABLE 4.3

NATURE OF BUSINESS

NATURE OF BUSINESS	NO.	%
Manufacturing	30	75
Processing	2	5
Service	7	17.5
TOTAL	40	100.0

SOURCE: Same as in Table 4.1.

Table 4.3. indicates that manufacturing industries (such as bakery, block making, flour mills and poultry forms) are more attracted to small businessmen than service establishment and processing establishment.

Thirty out of the forty firms (75% of the sample) were manufacturing establishments. This is a new trend in Kogi State, for service industries use to dominate (as revealed by a similar industries in Bendel, Lagos and Kogi States. This result is not however expected because government policies emphasize manufacturing for import substitution as well as export. Furthermore, financial institutions also give priority to manufacturing establishments in line with the policies of the government. As a result therefore small scale industrialists appear to have not much choice in the nature of their businesses.

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6. Aluko, S.M., et al, Op. Cit., P. xx.

However, the tendency will exists for the entrepreneurs to opt out for enterprises which are quicker to set up, easier to handle, and generate relatively quicker returns.

4.5 EMPLOYMENT GENERATION

In table 4.4. is presented the employment generation of the sample unit and Table 4.5. shows the status of the workers. For the purpose of this study the small-scale industries are divided into three groups according to the number of workers they employ. Group one are those which employ up to 10 workers, group two, those which give employment to between 11 and 20 people while group three represents those which employ 21 people and above.

TABLE 4.4

EMPLOYMENT GENERATION

RANGE	NO. OF FIRMS	NO. OF WORKERS	% OF WORKERS TO TOTAL EMPLOYED
Up to 10	14	112	17.2
11 to 20	18	307	47.2
21 and above	8	231	35.5
TOTAL	40	650	100.00

SOURCE: Same as in Table 4.1

Forty-seven percent (47%) of the workers engaged in the small scale industries as defined here are to be found in establishments giving employment to 11 – 20 workers. Those establishment employing between 21 workers and above accounts for 35.5% of the workers employed while those employing up to 10 workers accounts for only 17.2%. The aggregate number of people employed as revealed by the sample is 650.

The small scale industries plays a dominant role in the economic life of the people of Kogi State. Its role in the provision of employment for the people of the State is very significant and this is expected to be on the increase as more and more small scale industries are set up.

TABLE 4.5

NUMBER OF PEOPLE EMPLOYED AND STATUS

STATUS	NUMBER OF WORKERS	%
Nigerian	650	100
Expatriates	-	-
TOTAL	650	100

SOURCE: Same as in Table 4.1.

An encouragement of the small scale industries in Kogi State will lead to a greater utilization of our human resources.

4.6. USE OF RAW MATERIALS

Table 4.6. gives a detailed breakdown of the sources of raw materials for the small scale industries, which form the sample. These sources have been categorized into local and imported. Local sources refers to cases where the raw materials are available within the country and 'imported' refers to cases where the raw materials have to be imported.

TABLE 4.6:

USE OF RAW MATERIALS

SOURCE	NO.	%
Local	40	100
Imported	-	-
TOTAL	40	100

SOURCE: Same as in Table 4.1.

The study reveals as indicated in table 4.6, that all the forty industries contained in the sample uses raw materials which are available locally. As a result, the local markets have been the major source of raw materials for small scale industries. Similar studies in Nigeria and India also indicate that the bulk of the materials for small industries are acquired locally, except in cases of industries which engage in electrical, goods, general engineering, light engineering and the drugs.

However, many of the respondents in Table 4.6 have expressed their aversion for industries which uses imported raw materials, for many reasons. They complained of insufficient money to engage in such ventures; the tight control on the issue of import license by the government is another limiting factor. They also expresses feat of unnecessary delay

due to port congestion and clearance regulations and procedures, which are in most cases very cumbersome. The high use of local raw materials have lots of linkage effect as it indirectly provides employment for those engaged in the production of such raw materials. This also shows the necessity to further develop our own resources fully in order to develop the small scale industries in the State.

4.7. NATURE OF PRODUCT MANUFACTURED

The nature of products manufactured by the small scale industries are classified here into consumer goods and industrial goods as shown in Table 4.7:

TABLE 4.7

NATURE OF PRODUCT MANUFACTURED

NATURE OF PRODUCTS	NO.	%
Consumer Goods	37	92.5
Industrial Goods	3	7.5
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

As revealed by Table 4.7, 92.5% of the firms in our sample are engaged in the production of consumer goods, with the remaining 7.5% engaged in the production of industrial goods. Because of the heavy investment in machinery and equipment necessary for the production of industrial goods, majority of the small scale industries specialises in the production of consumer goods as indicated by Table 4.7.

4.8. SIZE OF FIRM ON BASIS OF CAPITAL EMPLOYED

Capital employed may be defined as non-current liabilities plus owners equity. Thus, It represents the "permanent capital" or long run funds entrusted to the firm by creditors and owners. In an equivalent way the term capital employed can be defined as working capital (net current assets) plus non-current assets.[7] The small scale industries in our sample unit were asked to indicate the amount of total capital employed in their business. The response is as recorded in Table 4.8.

TABLE 4.8:

SIZE OF THE FIRM ON BASIS OF CAPITAL EMPLOYED

CAPITAL EMPLOYED	NO.	%	AMOUNT	%
Up to N50,000	8	20	N322,000	8.5
N50,000 – N100,000	15	37.5	1035,000	27.2
N10,000 and above	17	42.5	2444,000	64.3
TOTAL	40	100%	3797,000	100%

SOURCE: Same as in Table 4.1

7. I.M. Panday, (1981), Financial Management, Vikes Publishing House PVT, New Delhi, P.517.

As indicated in Table 4.8., the total capital employed by all the small scale industries in our sample unit is N3,797,000. 64.3% of the total capital employed is accounted for by 42.5% of the firms and these firms are in the group of those with capital employed of N100,000 and above. 37.5% of the firms are those with capital employed of between N50,000 and N100,000 and they accounted for 27.2% of the total capital employed. 20% of

the firms have capital employed of up to N50,000 and they accounted for only 8.5% of the total capital employed by all the firms within the sample unit.

The total capital employed by all the firms within our sample unit, which is N3,797,000, is indicative of the amount of investment in small scale industries in Kogi State. However, this result should be interpreted with caution for many of the firms do not keep adequate accounting records and thus most of the figures they give were estimates and guess work.

4.9: INITIAL SOURCES OF FINANCE

Small scale industries have particular problems in the field of finance and this have assumed great significance in current discussion on small scale industries. Lack of access to capital is used as a factor to explain a host of other difficulties experienced by the entrepreneurs. Even when they are given some financial assistance through institutional arrangements they mostly complain that cash portion of it is not sufficient to meet their needs. For the purpose of this study the sources of finance is separated into initial and existing sources of finance. The sample result of the initial sources of capital is presented in Table 4.9 while Table 4.10 shows the existing sources of finance.

TABLE 4.9:

INITIAL SOURCE OF FINANCE

SOURCE	NO. OF RESPONSES	%
Savings	**34**	51.53
Family	**11**	16.66
Friends	**9**	13.63
Loan	**12**	18
TOTAL	66	100%

SOURCE: Same as in Table 4.1

It should be noted that total number of responses exceeds the sample size due to multiple choices. As indicated by Table 4.9, personal savings, constitute the largest source of initial finance for the small scale industries. Among the source of finance, personal savings accounted for 51.53%, loans account for only 18.18. Friends and family sources are usually combined with personal savings to start the business.

The problem of initial finance to start the business is a very great one to the small scale entrepreneurs. Any business, no matter how small it may be require some initial capital with which to start, but in Kogi State the small scale proprietors finds it difficult to start their business and as such they rely heavily on personal savings and whatever they can get from friends and family.

4.10: EXISTING SOURCES OF FINANCE

Table 4.10 gives the existing sources of finance of the small scale industries. In Kogi State, it is relatively easier for the established small scale industries to get financial assistance from financial institutions than those, which are just about to get into business. This is not

unconnected with the problem of providing the necessary securities with which to obtain loans. Table 4.10 indicates that 30

TABLE 4.10:

EXISTING SOURCES OF FINANCE

SOURCE	NO. OF RESPONSES	%
Retained Earnings	**30**	33.3%
Commercial Banks	**16**	18.0
SSICS	**12**	13.3
NBCI	**4**	4.4
Family & Friends	**15**	17.0
Others	**13**	14.0
TOTAL	90	100%

SOURCE: Same as in Table 4.1

Out of the 40 firms that forms the sample, responded that retained earnings forms part of their existing source of finance. As mentioned earlier small scale industries hunt about to source any available means of finance. Many of the firms claimed that they is no combination of sources that is available to them. 10% of the firms claim to have obtained loans from the commercial banks as part of their existing sources and family while 17.5% of the firms also have friends and family sources as part of their source of finance. However, only 4.4% of the sample have not loans or assistance from the NBCI. In fact many of the respondents claimed that they were not aware of the existence of NBCI.

This results indicates that there is an inadequate bank credit for the small scale industries sector. The banks are criticised over their attitudes towards risk, which is said to

make them unnecessarily restrictive in their lending policy, particularly towards new or rapidly expanding small firms. In addition, the terms on which they make facilities available are sometimes criticised as being too severe. The banks on their own side, argued that many small scale entrepreneurs approach them with ill-conceived projects in which they have no stake except the land on which the projects are to stand. Many proposals get rejected because the banker has a duty to protect his depositions finds and ensure that they are invested in well disgested viable project that will be able to guarantee the repayment of the loan and the interest. Also, the banker will require some degree of confidence in the project to be demonstrated by the investor through his equity participation.

There is also the communication gap between small businesses and the banks. Proprietors of small businesses, whatever their technical skills often do together bankable propositions. They find themselves in completely new environment when they come to the bank for assistance. It is rare to see such customers coming to the bank with cash-flow projects, projected balance sheets and so on. They usually have a good idea of their needs based on their experience, but where the problem starts. "Even where they seek the advice of outside consultants our (the banks) experience has shown that such consultants prepare the reports and projections to suit their clients requirements and earn their fees."[8] Consequently, the projects get rejected. Here, only the close involvement of the banks themselves in the initial development of projects by small scale entrepreneurs can solve the problem.

4.11 FUTURE CAPITAL REQUIREMENT

Every format one time or the other needs some additional capital with which to run the day-to-day activity of the business, maintain or expand the business as the economic condition may demand. However, each business had individual circumstances which make its requirement unique; the industry and markets in which it operates, its age and the stage of its life-cycle which it has reached, its ownership; the rate at which its owners wish to expand and a whole series of other factors mean that each decision about additional finance has to be made in the light of the particular circumstances of each case.

TABLE 4.11:

ADDITIONAL CAPITAL REQUIREMENTS

Yes	No	Amount
36	4	N1,700,000

SOURCE: Same as in Table 4.1

8. Anonymous (1985): Business Times, March 25, P. 15.

Table 4.11 shows that 36 out of the 40 firms indicated their needs for additional capital requirement. This is an indication that 90% of the firms wants to grow i.e. they pursue growth as one of their objectives. They are very conscious of their smallness and would want a change in the statuesque. At the other extreme are the remaining 10% of the firms who are content to remain as they are. They are satisfied with the present situation and as such do not need any additional capital within the next two to three years. It shows this

group of firms have no plans for expansion and replacement or mobilization and diversification.

The total additional capital required by 90% of the firms that forms the sample unit is N1,7000,000. There is no indication however that they will be able to meet this up from internal sources of funds (savings and retained earnings). As a result they may need external funds which may be raised in the form of loan or share capital. This has some structure of ownership of the firm may impose limitations. Some form of finance notably ordinary share capital, constitution a form of ownership, and the firm which attempts to raise funds in this way may have to face the risk that some degree of ownership and control (via voting rights) may have to go to outsiders. This may well be acceptable as one of the costs of growth, but may owners of small firms are reluctant to let any share of their business leave their own hands and the price of this independence may well be a failure to grow.

Reluctance to share ownership with outsiders may of course go hand in hand with a desire to borrow money; the cost of debt may appear to be lower when account is taken of the fact that interest on it qualified for tax relief, and it does not imperil ownership. But the debt versus equity problem, as it is known it not a simple one. Too much debt raises a gearing problem, since fixed interest payments may take too big a slice out of the profits; debt free enterprises may attract more new venture capital when it is need.

The large amount of additional capital requirement expressed by the respondents is hardly surprising because such industries are in constant shortage of long term capital.[9] Their limited access to the major source of finance further heighten their problem. This calls for extra effort on the part of financial institutions to face and solve these problems if they are to fully discharge their responsibilities in the economy.[10]

4.12 PURPOSE FOR ADDITIONAL CAPITAL REQUIREMENTS

There are many reasons for which firm could need additional capital. The responses of the small scale firms that forms the sample are recorded in Table 4.12. The purpose for additional capital requirement, from their response, includes expansion, modernization, diversification and replacement.

TABLE 4.12:

PURPOSE OF ADDITIONAL CAPITAL REQUIREMENTS

PURPOSE	NO. OF RESPONSES	%
Expansion	35	57.38%
Modernization	12	19.67
Diversification	8	13.12
Replacement	6	9.83
TOTAL	67	

SOURCE: Same as in Table 4.1

8. Aluko, S.A. et al., op. Cit., P. xvi

10. Anonymous (1981): Business Times, June1, P. 7.

Table 4.12 indicates that almost 57.38% of the small entrepreneurs would like to undertake an expansion programme in their industries if they are able to obtain the additional capital they require. As large as 19.6% plan to modernize their business so as to be able to acquire and use modern machines and techniques in their production. 13.12% of the responses indicate the need to diversify their business into areas, which they believe are

presently or potentially viable. 9.83% of the responses plan o make some replacements if they are able to acquire the need additional capital.

With as high as 57.38% of the firms wanting to expand their business it shows clearly that they all have growth as one of their objectives. They want to grow from small to may be medium or big.

The 19.67% responses that indicates modernization as a purpose for additional capital requirement shows that more and more educated people are getting into small scale business and as such were able to realise the need for modernization to use the modern and up-to-date technology.

4.13 INSTITUTIONAL PREFERENCE

There are various reasons for which proprietors may prefer to borrow funds from one Financial institution rather than others. This could be as a result of certain facilities present in one institution and lacking in others. It could also be as a result of their knowledge about a particular financial institutions.

The small scale industries in our sample were asked to state from who they would prefer to obtain loans if given the choice among major sources of institutional finance available in Kogi State. The response is as shown in Table 4.13.

TABLE 4.13:

INSTITUTION PREFERENCE

NAME OF INSTITUTION	NO. OF FIRMS	%
SSICS	20	50.00
NBCI	10	25.00
Commercial Banks	10	25.00
Others	-	-
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.3 indicates that 50% of the responses by the small enterprises prefer to obtain their loans from the SSICS. The NBCI and the commercial banks are preferred by 25% each of the industries.

Those who prefer the SSICS over commercial banks and NBCI is as a result of their awareness about the activities of the SSICS and the knowledge that it offers lower interest rates and simpler procedures. Moreover it is a government sponsored scheme and as such they believe they must have their own share of the national cake. There is also a common believe that it is earlier to influence the political heads of the ministries so to secure on SSICS loan than trying the same with the NBCI or the commercial banks. Those who prefer the NBCI to other financial institutions are of the view that NBCI is a development bank established purposely for granting soft loans to small scale industries in order to ensure the rapid industrialization of the economy. As a result of its rates are usually lower than those of other financial institutions. Other reasons given include the relatively quicker processing of applications of loans, and disbursements where such loans have been granted.

Though the interest rates charged by commercial banks is somewhat higher and the security required for such loans more comprehensive some people still express their preference for them because of the secrecy they maintain.

4.14 LOAN REPAYMENT

The problem of loan repayment is a very thorny one in the issue of institutional financing of small scale industries. In as much as they want financial assistance from financial institutions the small scale industries are also known to be loan defaulters. There are also cases of diversion of funds for purposes other than the loans were meant for. The small scale industries were asked to indicate how they repay the loan received from the institutions, whether out of profit or through other sources. Those who have received loan, (though net many of them), claimed that they make repayment out of profit and any other source they can get money. They all claimed that they make use of profit if any and also utilize any source they can get money from to pay the loan and these sources may include profit from any other business they have, money from family and friends and in fact it is not uncommon for some of them to raise new loan to pay and old one.

This is an indication that they are not making sufficient profit because the loans are supposed to be self liquidating. If the projects are viable, i.e. they should be paid out of profit. However, all the financial institutions claimed a very low rate of loan repayment by the small businessmen.

LOAN APPLICATION PROCEDURES

The financial institutions adopts various predures in the processing of loan application. They include such things as registration of a business name, submission of a statutory certificate of occupancy of land, up to date quotations from suppliers of machinery and equipment, technical agreement with suppliers of raw materials for continuous and uninterrupted supply, engineering drawings and a host of other requirements.

Table 4.15 shows the responses of the small scale industries forming the sample as to whether they are satisfied or not satisfied with the procedures adopted by financial institutions in the processing of applications for loans.

TABLE 4.15

LOAN APPLICATION PROCEDURE

RESPONSE	NO.	%
Satisfied	16	40
Not Satisfied	24	60
TOTAL	40	100%

SOURCE: Same as in Table 4.1

As may as 60% of the respondents express dissatisfaction with the procedure. Some entrepreneurs are very much dissatisfied over the rigidity of some of the procedures such that it is very difficult for them to cope. They also complained about the time it takes to process the applications which may be detrimental to the successful take-off of their projects. One finds that even after loan has been granted, such procedures hardly allow adequate room for

the small businessmen to operate their industries in the way they feel if best for them. Only 40% of the respondents expresses satisfaction with the procedures and these are mostly those who have secured the loan.

There is need for flexibility in dealing with matters of procedures as the bottlenecks involved in meeting some of the conditions of financial institutions are often beyond the control of entrepreneurs.

4.15: LOAN PROCESSING TIME BY FINANCIAL INSTITUTIONS

The processing time for loan application is very important for it affects the survival or even take-off of a business. Proprietors put their proposals with particular time period in mind and any unnecessary delay in the processing of the loan application might spell failure for the project right from the beginning. The respondents were asked to indicate the time of and experience with the financial institutions and the responses are as shown in Table 4.16.

TABLE 4.16

LOAN PROCESSING TIME

DURATION	NO.	%
3 – 6 Months	14	35
6 – 9 "	10	25
9 Months – 1 year	16	40
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.16 indicates that 40% of the responses were those who says the processing time of applications is between 9 months to 1 year. 35% are in the group of 3 – 6 months while 25% are those in the group 6 – 9 months. It is evident from this result that much time is wasted by the financial institutions in the processing of loan applications. Many of those who says it takes between 9 months and 1 year includes those who are still waiting for the loan and indeed not very confident of securing the loan. It is advisable that the financial institutions should be more serious with the processing of loan applications. Proprietors should be allowed to know on time whether their application are granted or not. The majority of those who complain of delay in the processing of loan applications were those who applied to the SSICS.

The bureaucratic protocols and administrative redapism that is so much of the life of the ministries should be removed when it comes to the processing of loan application as it concern business ventures.

4.16: RATE OF INTEREST

The rate of interest charged by the financial institutions usually depend on the nature of the financial institution involved. Credit schemes sponsored or assisted by government normally charge very low interest rates. On the other hand, commercial banks charge their rate according to the prevailing inflationary condition in the country. In the case of small enterprises, they charge higher than normal interest rates for many reasons which include

(1) the comparatively low credit potentiality of the borrowers;

(2) the greater risk involved;

(3) the smaller amount of loans involving complicated procedures and

(4) the comparatively longer duration of the loans.

The responses of the respondents as to whether they find the interest rates charged by Financial institutions reasonable are as shown in Table 4.17.

TABLE 4.17.

JUSTIFICATION OF INTEREST RATES

RESPONSE	NO.	%
Reasonable	28	70
Not Reasonable	12	30
TOTAL	40	100%

SOURCE: Same as in Table 4.1

As indicated by Table 4.17, 70% of the sample units are of the opinion that the interest rates charges by financial institutions are reasonable and therefore justified. It should be noted that out of the three major external sources of finance as expressed by the respondents, both the NBCI and the SSCS are assisted by the Federal Government as well as the state government in the area of special assistance to small scale industries. As a result of the rates of interest charged by them are as low as 5%. This is in great contrast to about 12% charged by commercial banks. In the light of this, the responses of the justification of the interest rates charges by financial institutions can be attributed to the low rates of the two government assisted sources of finance. And in the case of those who borrowed from the commercial banks, their responses can be attributed to their awareness of the present high rate of inflation and recession.

Those who express dissatisfaction with the interest rates indicate that such rates stifle their earnings and adversely affect their working capital base. It can be observed that their reasons are not in relation to the justification of interest rates charge by financial institutions but, rather, on the effects they have on their own enterprises.

4.17: SECURITIES REQUIRED BY THE FINANCIAL INSTITUTIONS

It is usual for the financial institutions to demand some type of securities from loan applications, so that in case of any subsequent default in the repayment of the loans they will have something to fall back to. These securities included fixed assets, land and building and any other thing of value that the financial institutions can convert to cash to clear the loans in the case of default.

The sample result reveals that all those who have secured loan from the financial institutions have used land and building as their security for getting the loan. However, the respondents are asked in the questionnaire to indicate whether they are satisfied or not with the kind of securities required by the financial institutions. The responses are as shown in Table 4.18.

TABLE 4.18:

KIND OF SECURITIES REQUIRED
BY THE FINANCIAL INSTITUTIONS

RESPONSE	NO.	%
Satisfied	2	5
Not Satisfied	38	95
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.18 indicated that 95% of the sample unit were not satisfied with the type of securities demanded by the financial institutions. Only 5% expressed their satisfaction. The small scale entrepreneurs are not of the time not in a position to provide the required collateral securities and as a result many of their proposals get rejected because of the lack of the necessary securities to back up their proposals. In their opinion the financial institutions are demanding too much in terms of collateral securities. However, the financial institutions are not entirely to blame, many people will take loan, use it for a different purpose and refuse to pay back. But in order to make the loans more accessible to the small-scale industrialists, the value of such securities should be lowered a bit to bring it to their reach.

4.18 LOAN REPAYMENT PERIOD

The length of time for the repayment of the loan depends on the purpose and amount of loan. It also depends on the financial institutions concerned. Table 4.19 indicates the response of the sample unit as regards their satisfaction with the repayment period.

TABLE 4.19

EXISTING LOAN REPAYMENT PERIOD

RESPONSE	NO.	%
Satisfied	0	-
Not Satisfied	40	100
TOTAL	40	100%

SOURCE: Same as in Table 4.1

As shown by table 4.19 all the sample unit responded that they are satisfied with the existing repayment period. According to them the period is too short and they will definitely like an extension of the loan repayment period, which presently puts them in an uncomfortable position.

4.19 REPAYMENT OF THE LOAN

The financial institutions have it as their policy to ensure that funds are invested in Well digested viable project that will be able to guarantee the repayment of the loan and the interest. As a result when loans are given out they expected regular repayment of the loan. But unfortunately this is not the situation as the sample result shows. Many of the few who have got loans from the financial institutions argued that it is not possible for them to make regular repayment of the loan and the interest because of the poor state of the economy. The proprietors said that they are not making enough profit out of which to repay the loans.

This is in conformity with the claim of the financial institutions that the rate at which the small scale entrepreneurs repay their loan is very poor.

4.20 EXISTING ARRANGEMENT FOR THE LOAN BY THE FINANCIAL INSTITUTUIONS

The small scale industries usually find themselves in different types of difficulties even after they have successfully obtained loans from financial institutions. Such difficulties involve the methods and various techniques used by these institutions in the administration of their loans. The period of grace granted or the maturity period of the loan itself is at most times hardly adequate to allow the small industry to be well on its feet before facing those obligations.

The small scale industries in the sample are asked whether they are satisfied with the existing arrangement for the loan by the institutions. The response is shown in Table 4.20.

Table 4.20 EXISTING ARRNAGEMENT FOR THE LOAN BY THE FINANCIAL INSTITUTIONS

RESPONSE	NO.	%
Satisfied	39	97.5
Not Satisfied	1	2.5
TOTAL	40	100%

SOURCE: Same as in Table 4.1

Table 4.20 indicates that 97.5% of the small industries which form the sample are not satisfied with the existing arrangement for the loan by the financial institutions. Only 2.5 (1 out of 40) expressed its satisfaction with the arrangement. Some of the entrepreneurs express the view that the installmental repayments required of them by the an adverse effect on their

working capital because the funds that should have been re-invested for more materials and other current obligations had to be surrendered to financial institutions.

Some of the respondents also give some other reasons which include the fact that the period of grace (moratorium) period) given to the small industries before the actual repayment of the loans given to them starts is usually unsatisfactory. They are also not satisfied with the system whereby interest charges on the loan begin as soon as the first disbursement of the loan is affected, such that by the time the final disbursement is made and the business comes into operation a considerable amount in interest charges has already accumulated. These charges coupled with the instalmental repayments which are due after the expiry of the grace period puts a heavy burden on the proprietors.

These findings gives a clear indication of the need for the financial institutions to streamline their repayment arrangements in such a way that too much burden will not be place on the small enterprise which could stultify their growth. The repayment period should be extended so as to reduce the size of the instalmental repayment to allow the industries a breathing space.

4.21: BEHAVIOUR OF OFFICIALS OF THE FINANCIAL INSTITUTIONS

The attitude or behaviour of officials of financial institutions towards small entrepreneurs and others who approach them for financial assistance is mostly professional. But as the result of this study reveals the entrepreneurs do not seem to think of it this way. The respondents are asked to express their views about the officials of financial institutions. The response is as shown in Table 4.21.

Table 4.21: BEHAVIOUR OF OFFICIALS OF THE FINANCIAL INSTITUTIONS

BEHAVIOUR	NO. OF RESPONDENTS	%
Arrogant	9	13.85
Unco-operative	25	38.46
Bureaucratic	30	46.16
Others	1	1.52
TOTAL	65	100%

SOURCE: Same as in Table 4.1

As a result of multiple choices, the total number of responses equals which is greater than the sample population which is 40, as shown in Table 4.21. 46% of the responses indicate the behaviour of officials of financial institutions as bureaucratic and 38.4% finds their behaviour as arrogant. This is not unexpected because the entrepreneurs are only concerned with the interest of their institutions, and therefore try to follow the official and laid down procedures. The officials cannot be expected to be cooperative when entrepreneurs go to them, for example, with ill-conceived projects in which they have no stake except the land on which the projects are to stand.

However, the officials of the financial institutions claimed on their own part that they try as much as possible to be helpful and cooperate with all their clients including the small scale entrepreneurs.

4.22: MAINTENANCE OF PROPER BOOKS OF ACCOUNTS

In order to meet the expectation or requirements of the owners of the business, there is need for profit planning. One of the first requirements for good planning is good information and a convenient starting point is the financial information about the business, which is normally kept in the form of accounting records. In any business whether big or small there is need to keep proper books of accounts. This is necessary in order for the businessman to know certain things about his present position. Such things he needs to know which could be revealed by the keeping of proper books of accounts includes the followings:

(i) What he is worth (i.e. the difference between what he owns – his assets, and what he owes – his liabilities);

(ii) Whether he is solvent (i.e. whether he can meet his short term liabilities from his readily reliable assets);

(iii) Whether he has been making a profit (i.e. the difference between his costs and the revenue acquired from his sales);

(iv) What he has been doing with the profit (i.e. how much he has been putting up to maintain his assets, how much for the taxman, how much for the owners of the business and how much for growth and security;

(v) How his money has been raised and used (i.e. the cash-flow in the business).

Among the records required for financial analysis by the small scale entrepreneurs are:

(a) the balance sheet

(b) the trading account

(c) the profit and loss account (or income statement);

the statement of sources and uses of funds. The respondents are asked in the questionnaire to indicate whether or not they maintain proper books of accounts and if yes, to indicate whether they employ qualified accountant or not. The response are as recorded in Table 4.22 and Table 4.23.

TABLE 4.22

MAINTENANCE OF PROPER BOOKS OF ACCOUNTS

RESPONSE	NO.	%
Yes	16	40
No	24	60
TOTAL	40	100%

SOURCE: Same as in Table 4.1

TABLE 4.23:

EMPLOYMENT OF QUALIFIED ACCOUNTANTS

RESPONSE	NO.	%
Yes	6	37.5
No	10	62.5
TOTAL	16	100%

SOURCE: Same as in Table 4.1

As indicated in Table 4.22, 60% of the respondents do not keep proper books of accounts and out of those who claimed to keep proper books of accounts, only 37.5% of them

responded that they engages the services of a qualified accountant. This is a great problem which needs immediate solution because of its consequences.

Many owners of small businesses are borrified by accounts of any sort, because they rarely seem to tell them very much and hardly ever seem to have much relevance to current operations. The terminology of the accountant is precise and meaningful to the profession, but it is frequently obsource and misleading to the layman and many owners of small businesses are simply over-awed.

62.5% of these respondents who claimed they maintained proper books of accounts indicated they do not employ a qualified accountant. The reasons ranges from lack of financial capacity to employ and pay a qualified accountant, to the fear that they do not trust accountants.

However, this trend has got to change. Some sort of education and enlightenment can make the entrepreneurs to realise the need for employing qualified accountants and maintaining proper books of accounts. For example, "because of the inadequate records maintained by many small enterprises and their lack of qualified personnel, the administration of the loans rests mostly with the banks who have ensure, for instance, that term loans are utilized on the acquisition of fixed assets while overdrafts are reserved for working capital. Without maintenance of proper books of accounts there can be no food financial planning which is so essential for the success of a business.

4.23 ENGAGEMENT IN MORE THAN ONE BUSINESS AND MAINTENANCE OF SEPARATE ACCOUNT FOR EACH BUSINESS

It is very common with small scale proprietors to engage in more than one business. Many of them engage in businesses like farming or trading, in addition to their main line of business. This may be as a result of the fact that they are not making enough profit from the major business. Others may just want to have their fingers in every pie around. If there is proper financial planning, a proprietor who engages in more than one business needs to keep separate accounts for each business so as to be able to assess the position of each business at any point in time.

The respondents were asked to indicate whether they engage in more than one business and if so, whether they keep separate account for each business. The responses are as shown in Table 4.24 and Table 4.25.

TABLE 4.24:

ENGAGEMENT IN MORE THAN ONE BUSINESS

RESPONSE	NO.	%
Yes	26	65
No	14	35
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

TABLE 4.25:

MAINTENANCE OF SEPARATE ACCOUNT FOR EACH BUSINESS

RESPONSE	NO.	%
Yes	3	11.5
No	23	88.5
TOTAL	26	100%

SOURCE: Same as in Table 4.1.

Table 4.24 indicates that 65% of the entrepreneurs of small scale industries engage in more than one business. The remaining 35% do not engage in more than one business. As also shown by Table 4.25 out of those who engage in more than one business (65% of the sample) 88.5% of them do not keep separate account for each business. These shows the inability of majority of small scale businessmen to distinguish between the financial management of each business. Prudent financial management demands the keeping of separate accounts for each business.

Without the maintenance of separate accounts for each business, it will not be possible to keep track of which of the businesses is making a profit or loss. Engagement in more than one business makes lots of the entrepreneurs jack of all trades and master of none. It will be better for some of them to concentrate on a business and bring it to success rather than maintain series of businesses on a subsistence level without knowing in which direction they are moving.

4.24 PROFIT

The most important source of funds for the typical small scale industry is its own Savings, derived from past products. There are two main function of profit in the modern business enterprise: There are two main function of profit in the modern business enterprise: the payment of rewards in the form of dividends and other drawing to the owners and directors of the firm; and provision of a source of funds, in the form of retained profits, for the maintenance and expansion of the business. The availability of this source of finance depends partly on the profitability of the firm, partly on the amount of tax which it has to pay and partly on policy with regards to distribution of profits.

Entrepreneurs are asked in the questionnaire whether they are satisfied with the profit they are making from their business. The responses are as shown in Table 4.26:

TABLE 4.26:

PROFIT

RESPONSE	NO	%
Satisfied	-	-
Not Satisfied	40	100
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.26 indicates that all the firms in the sample unit are not satisfied with the profit they are making from their business. This reflects the general picture of the small scale business scene in Kogi State. Most of them are not making enough profit which shows they

are still operating at a subsistence level. As a result they do not have enough savings out of which to plough back into the business.

Savings as said earlier is a very important source of funds for the small scale industries and hence there is need for the small scale industries in Kogi State to try to operate more effectively so as to make sufficient profit out of which part could be retained for the maintenance and expansion of the business.

4.25: SIZE OF MARKET

The small scale industries in Kogi State have the opportunities of selling their output either within the state (local market), neighbouring state or export. The amount to be produced is limited by the extent of the market, while the size of a firms market also depend on its production capacity. The respondents were asked to indicate where they sell their products and their response is as shown in Table 4.27:

TABLE 4.27: SIZE OF MARKET

MARKET	NO	%
Local Market	38	95
Neighbouring States	2	5
Export	-	-
TOTAL	40	100%

SOURCE: Same as in Table 4.1

As indicated by Table 4.27, 95% of the small scale industries within the sample unit sell their products within the State (Local Market), while 5% seal to the neighbouring state. None of them produce for export as revealed by the sample result. The

reason for this could be because of the small size of the firms involved which makes it impossible for them to produce on a large scale so as to be able to export some of their products.

The fact that none of the firm within the sample unit produces for export presently, gives a clear indication of the need for the development of the small scale industries so that they can contribute their on quota to the earning of foreign exchange through export.

CHANNELS OF DISTRIBUTION:

The major channel of distribution to the small scale industries includes: direct retailing, through middlemen and through co-operative or government bulk purchases. It is however possible to use a combination of one or more of the channels. As a result we have multiple response of 58 instead of 40 which is our sample population as shown in Table 4.28;

TABLE 4.28:

CHANNELS OF DISTRIBUTION

CHANNELS	NO. OF RESPONDENTS	%
Direct Retailing	**32**	55.17
Through Middlemen	**24**	41.38
Co-operative or Govt. Purchases	**2**	3.45
TOTAL	**58**	100%

SOURCE: Same as in Table 4.1

Table 4.28 indicates that 55.17% of the firms forming the sample unit uses direct retailing channel of distribution, while 41.38 sell their products through cooperative or

government bulk purchase. This shows that the small firms are very accessible to the consumers. The small scale industries are not localized. They are spread over all the local governments of the state and hence within the reach of the consumers. The consumers can buy directly from them.

However, as the size of their production increases more use will be made of the other two channels (middlemen and government or co-operative bulk purchases).

MARKETING PROBLEMS:

All the respondents in the sample result express the fact that they all experience marketing problems. Their problem is generally that of low or declining sales, which is as a result of the poor state of the economy. It is hoped that as the economy picks up again, the sales will be on an increasing trend.

ADVICE ON MARKETING FROM THE FINANCIAL INSTITUTE:

Those small scale industries which had received loans from the financial institutions were asked in the questionnaire to indicate whether they were offered any advice as regards marketing, by the financial institutions from which they received loans. They all indicated that they were not offered any advice as regards marketing by the financial institutions from who they had received loans. It is considered essential for the financial institutions to include advice on marketing as part of their service to the small scale firms to which they give loans. This is to increase their marketing knowledge and skill, which will make them to market their product products more efficiently.

4.26: LABOUR

Labour has not been identified as one of the problems of the small scale industries. There is an abundant supply of labour. As revealed by the sample result, the small firms do not experience any problem as far as availability of labour is concerned. The reason for this is the fact that most of the small scale industries are located in the rural areas where there is abundant supply of labour.

All the respondents also claimed that their employees were honest so there is no problem of dishonest employees.

4.27 MANAGEMENT PROBLEMS

In the field of ownership, control and management, the small firm may have special difficulties. Death causes special problems in family firms. There are frequently difficulties in ensuring adequate succession of competent ownership and control. Management may be trickily. When the founder dies it is often found that it was his particular ability (in one form or another) which was responsible for the success of the firm; the choice of someone to succeed him may not be easy and the firm may not be prepared to pay an adequate salary to an outsider.

Even in cases where no deaths or other changes of controller involved, a management presents special problems for the small firm. Big firms can employ specialist managers, and a great deal of work can be delegated through the administrative system; in small firms, not only are many proprietors completely unwilling to delegate but they frequently do not have any one to whom to delegate, and the owner of a small firm may well have to be a production

manager, sales manager, personnel manager and financial manager all rolled into one. In the very small firm this may not matter very much, though the combination of the qualities required for all of those jobs in one man is rare. When the firm starts to grow, however, it matters a great deal, and the inability to delegate decision to properly qualified subordinates may make the difference between success and failure in the attempt to grow.

The respondents in our sample were asked to indicate whether they experience any management problem or not. According to the result, none of the firms experienced any management problems. The proprietors claimed that they are capable of handling and managing the affairs of their business. This may be interpreted to mean their lack of understanding of what management problems means, for whether they agree or not it is obvious that one way or the other they experience management problems. None of them had any trained managers and more-so, some of the proprietors are not even educated. Their desire for personal control of their business had blinded them of the need to employ qualified managers who can utilize modern management skills and techniques. With trained and qualified managers at the control of the small businesses there are better chances for success.

4.28: MERGERS

At various stages in their business career, many owners of small businesses are faced with the prospect of a merger. A merger is normally defined as a marriage between equals where two companies join to form a larger stronger unit; there may or may not be an exchange of money.[12] There are many advantages to be gained when one small business merges with another to form a bigger one. These would include marketing prospects, both in terms of economics of scale, distribution facilities, and new markets, new products, new

sources of materials, financial resources, innovations and technological resources, management skills and general profit opportunities

The owners of the small scale industries forming the sample unit were asked to indicates whether they would like to merge their business with some

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12. James Bates, (1971): The Financing of Small Business
Sweet & Maxwell, London, P.163.

Other business to form a bigger company. The response is as shown in Table 4.29:

TABLE 4.29:

INTENTION TO MERGE WITH SOME
OTHER BUSINESS TO FORM A BIGGER COMPANY

RESPONSE	NO	%
Yes	2	5
No	38	95
TOTAL	40	100%

SOURCE: Same as in Table 4.1.

Table 4.29 indicates that 95% of the sample units have no intention of merging their business with some other business for a bigger company. Only 5% of the respondents have the intention for a bigger company. This is not surprising for a high proportion of the small firms in the state are run on a family basis. Also the desire for independence is a powerful reason who so many small firms set up and continue regardless of whatever advantages a merger will bring. Another reason why most of the small firms were not willing to merge was the fear of lost of identity, which a merger might bring.

In this chapter an attempt have been made to analyse the date obtained through the response to the questionnaire. Most of the analysis have been presented in tables for easy understanding. So many findings have been made through our analysis and based on this findings, some sort of conclusion would be presented in the next chapter. Also in the next chapter, an attempt would be made to make some recommendations with the aim of solving or reducing the problem of institutional financing of small scale industries in Kogi State.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSIONS

The financing of small scale industries have always been a problem both to the government and to the financial institutions concerned. Both the State and Federal Government have been trying their best to improve the financing of small scale industries through the provision of incentives and formulation of policies suitable for their development. The financial institutions however have been unable to meet the financial requirements of small scale industries. And this, coupled with inadequate facilities for marketing their products, place them in a very weak competitive position vis-a-vis the large scale industries. Added to this is the rise in regulations of the government as well as an acute shortage of raw materials.

This study have been carried out to examine the problem of institutional financing of small scale in industries in Kogi State, with the following specific objectives.

1. To examine the extent to which the existing financial institutions have been able to meet the financial requirements of small scale industries.
2. To pinpoint the short comings in the working of these financing institutions, and
3. To suggest improvement in their working and also to suggest a comprehensive scheme of financing small scale industries in Kogi State. The sample survey covers the seventeen local government areas of the state.

Chapter two of this study revealed that the growth and development of small scale

Industries helps in the creation of employment opportunities on dispersed basis thereby bringing about more equitable distribution of income and wealth. It also helps in the decentralization of industries, diffusing entrepreneurship as well as developing the local resources endowment. Its role in the encouragement of traditional craftsmanship and preservation of cultural heritage have also been highlighted. This chapter also revealed that certain problems are peculiar to small scale industries as a result of their being small.

In chapter three, we also observed that adequate institutional credit is not available to small scale enterprises as they are generally considered high credit risks by commercial banks and other financial institutions. An overwhelming majority of small scale industries were either proprietary or partnership concern and, therefore cannot also draw money from the capital market. As a result these industries are either starved for finance or have to turn to sources other than the institutional ones to borrow money on extremely unfavorable terms. This makes it almost impossible for them to operate profitably in a competitive market.

In examining the institutional financing of small scale industries we discovered that in the case of small scale industries, credit scheme (SSICS), the existing system is proof enough that financing is best managed by professionals and that the bureaucracy of the civil services is not organized well enough to serve the needs of the small scale industrialists. The effectiveness of the scheme is reduced because of some factors which includes: "inadequate funds for disbursement; delay in receiving technical reports, low level of education of applications, lack of managerial capability, acute shortage of raw materials and diversion of loans to personal needs. There is need for some reforms so as to make the services of the SSICS scheme more and readily available to deserving small scale industrialists.

The Nigerian Bank for Commerce and Industry (N.B.C.I.) as an institutional source of finance for small scale industries has not been very effective in Kogi State. Since its establishment in 1991, only a total sum of N2.2 million has been approved for forty six (46) projects. This amount covers the period 1991 and 1992, and no loan was granted in 1993 and 1994. We found that many of the small scale industrialists are neither aware of the existence of the N.B.C.I. nor the type of services it offers. However, also observed were some problems militating against their success, and these includes:

1) general poor state of economy
2) inadequate funding
3) acute shortage of new materials
4) lack of managerial capability on the part of the small scale industrialists and
5) diversion of loans to personal needs.

There is need for the government to publicise the activities of the Nigerian Bank for Commerce and Industries so as to make the small scale industrialists in the rural areas aware of the existence and the type of services it renders.

Also revealed by the study as discussed in chapter three is the insignificant role played by commercial banks in the financing of small scale industries in Nigeria and particularly in Kogi State. The small scale industrialists believe that the attitude of commercial banks towards risk makes them unnecessarily restrictive in their lending policy, particularly towards new or rapidly expanding small firms. They also claimed that the terms on which the bank makes the facilities available are too severe. But we found that there are many reasons for the insignificant role play by commercial banks in financing small scale industries. These includes:

1) many small scale entrepreneurs approach their bankers with ill-conceived projects in which they have no stake except the land on which the projects are to stand;

2) diversion of loans to other uses

3) many small scale entrepreneurs do not maintain proper and adequate records and they lack qualified personnel

4) the involvement of the Central Bank of Nigeria in banking operations.

Since the commercial banks have intimate knowledge of the people and the area, Hence they should provide term loans, working capital facilities and other technical advises. These banks should work as a guide philosopher and adviser to the small entrepreneurs in their respective areas.

In chapter four, we found that the small scale industries are characterized by lack of adequate funds for their day to day operation and for expansion. The major problem lies in the lack of access to sources of funds, especially financial institutions. Even where the funds are obtained, these institutions dictate and monitor the way in which their funds will be utilized. The loan is normally tied to a particular activity or project and no other use is to be made of it. However, small entrepreneurs prefer to utilize such loan in order to take care of numerous little problems, and not just one, and if this happens, the financial institutions accuses them of loan diversion. As a result therefore, they consider loan from financial institutions as unsatisfactory, since it does not solve many of their problems. In this case, the major source of funds for small scale industries is found to be personal savings of the entrepreneurs. This does not in any way ensure the rapid growth of any industry since it takes the entrepreneurs years to save before investing such funds into the enterprise.

Apart from the restrictive nature of the loan available from financial institutions we found that there are also other factors which further restrict access to those institutions by small scale industries. Such factors include the procedures adopted by the institutions in the disposal of loan applications, the interest rate charged on the loan, and the attitude of officials of financial institutions towards small entrepreneurs who approach them for financial assistance.

We found also that many of the financial problems of the small scale industries were due either to the fact that they were unsound commercial proposition or to the fact that their financial and operating management needs to be improved. A large part of business lending consists of backing the management, who must be able to demonstrate that they can use the money properly. Many small entrepreneurs fail in their applications because they have insufficient equity capital to satisfy the lender, or because they cannot offer good unencumbered security, or because there is too such loan capital from the proprietors; none of these on its own, however would deter a potential lender if the borrower could put up a well presented case backed by management potential. But small business are rarely very skilled at presenting soundly conceived financial plans. This is partly because they are not skilled accounting, or they may lack good financial advice. This is an area in which some financial help by way of a grant for advice might make a contribution to solving the problem at low cost. Much more important, however, is that the lack of such skills itself may reflect inadequate management. We found that most of the small scale industries neither employ qualified accountants to maintain proper books of accounts. Even where they engage in more than one business they do not keep separate accounts for each of the business.

Also in chapter four some other factors which were considered in the study as specially affecting the institutional financing of small industries were examined. These include pattern of ownership of the business, nature of business, employment generation, sources of finance, behaviour of officials of financial institutions, and attitude of entrepreneurs towards future development.

The result of the study indicates that as much as 65% of the industries in the sample are sole proprietorship type of business. When the total number of small industries in Kogi State as a whole is considered the percentage is virtually the same. This structure of ownership of the firm imposes some limitation. Some form of finance, notably and it has been observed that small firms are reluctant to let any share of their business leave their own hands. Because of their desire for independence and fear of diffusion of ownership, only few lenders of long-term capital are prepared to put money into a small and possibly little-known firm without some say in the running of the business. The price of such independence therefore may well be a failure to grow.

Most of the small industries that formed the sample unit have drown attention to the necessity of improving the supply of raw materials, despite the fact that most of these materials are obtained locally. The problem of organising supplies of raw materials as basic to the problem of marketing and organisation of the small scale industries. Progress in this regard lied along co-operative lines.

The small scale industries are also characterized by low demand. The necessity of measures that would lower costs and prices of the products of small scale industries cannot be over-emphasized in this context. This is particularly true since these products have close substitutes in the market. Besides measures to reduce costs the competitive position of the

small scale industries can be increased by better design, organisation marketing, effective salesmanship and product differentiation to cater to changes in tastes and consumers' demand.

As revealed by the study, finance seems to be the most serious bottleneck in the development and growth of small scale industries within the range of prevalent technology. Apart from other measures with regard to marketing and organisation of industry, reduction in costs depends substantially on improvement in productivity, with respect to the labour intensive nature of the small scale industries, productivity can considerably be increased both with reference to labour and capital. But to a large extent, this is dependent on the use of better type of tools, raw materials, improved technique of not new. For all this the small scale enterprises have no capital to invest, even if these be available in the market. Very often they have not even sufficient working capital. It is obvious that without a Programme of adequate finance on a larger scale to the small scale industries the growth and development is not practicable.

Another distinct feature for the unsuccessful nature of most small scale industries relates to the attitudes of small entrepreneurs to future development. Majority of these people prefer to run their business as a one man show. They prefer to remain small rather than merge with some other business or invite outsiders to buy shares in the business. This severely restricts the financial as well as the managerial potential of the enterprises. In addition, financial institutions consider it safer to invest in limited liability companies than in a sole proprietorship whose survival and growth depends absolutely on one person. There is therefore, a need for a drastic change in the attitude of the small scale entrepreneurs towards

future development or else, small scale industries are likely to remain starved of funds for their necessary growth and development.

5.2. RECOMMENDATIONS

In view of the nature of the problems of the small scale enterprises in the field of finance, it is hoped that the following suggestions and recommendations, if properly and promptly implemented, would help to alleviate their problems and bring about their rapid development and thus enable them to make a meaningful contribution to the industrial development of the state in particular and the country in general.

1. From the point of view of the small business, the lender and the economy as a whole, the long-term answer to the problem of small business lies in the improvement of management. The provision of adequate managerial and technical education to small entrepreneurs is not only necessary but long over due. It is of course a slow business, with few quick returns; it is also a perpetual problem as each new business which sets up will need to make good managerial deficiencies if it is to succeed. The small business is in a vicious circle, its management is rarely well trained, and it is difficult for it to take time off to be trained; it can rarely afford, neither does it usually need large scale Consultancy, and the larger consultants are not very interested in providing their services on a small scale. As a result, the small enterprises needs special treatment as regards advice, assistance and incentives in this field.

2. The establishment of Industrial Development Centres in various parts of the country with the aim of removing the major technical and managerial handicaps of the small scale industries is a step in the right direction. However, these centres needs to be better equipped in terms of both equipment and staff to serve the functions for which they were established. In addition, the government should establish more training centres for the training of technicians and management personnel. The small scale industries should be made aware of the Consultancy services available in the established centres and it should be ensured that these centres give their services when needed.

   The government should establish an industrial training school where training should be provided to technicians on various grades. This will help to ease unemployment of early school leavers and will provide trained technical staff locally, for the small scale industries.

3. The establishment of small business centres based on universities could help to solve many of the problems of the small scale industries. These centres when established could help in the preparation of feasibility studies in marketing, and financial appraisal which many small businesses are not very skilled at doing. Similarly, they are not particularly well equipped to do all of the work needed for the appraisal and feasibility study of innovations. So the establishment of such centres will be very beneficial to the small scale industries.

4. Alternatively, the state government should undertake feasibility studies into

several products and make reports available free of charge to the small scale industrialists through local government offices and ministry of commerce and industries.

5. The establishment of specialised institutions for the provision of financial assistance to small scale enterprises by the Federal Government is another step in the right direction. However, there is need for greater publicity of the assistance being offered by such institutions, so that the small scale centre entrepreneurs in the rural areas would be aware of their existence. Also some reforms are considered necessary so as to make their services more and readily available to deserving small scale industrialists.

   a) When a feasibility study have been conducted there should be no delay in awarding of loans.

   b) Loans should be advanced to those people who posses skills and experience rather than those we have got the money.

   c) The government should simplify all administrative procedures that constitute bottle-necks in the ministries and other government agencies with regards to the granting of finance to small scale industries, in order to eliminate or minimize such administrative bottle-necks.

6. The Federal Government should establish an effective information system and Extensively publicize all government policies about small scale industries promotion and development, and the publication nationwide of researches and technological reports concerning small scale industries.

7. Commercial banks should be further encouraged to re-orient their role as

development banks by not only giving financial assistance to small enterprises but also lending viability to their projects by providing the needed consultancy on techno-economic and financial matters. There is need for them to co-ordinate more closely with specialized institutions and other governmental agencies engaged in extension and service facilities. The system of joint appraisal and assistance at the different levels of growth of the units should be quickly adopted.

8. There is need in Nigeria to have a state level of N.I.D.B. like bank which will cater for financial needs of small scale industries within the state. The State Government should therefore seek the aid of the Federal Government to establish a development bank for small and medium industries, in Kogi State. Amongst several suitable names from which the government could choose to call the proposed state level financial institution includes:

   1) Development finance company for small and medium industries
   2) State financial cooperation for small and medium industries and
   3) State development bank for small and medium industries.

This financial cooperation when established should confine its activities within the administrative boundaries of the state. Without a state level financial institutions catering for the financial needs of small scale industries within the state, their development can not be feasible. This is because they presently have little access to the commercial and government industrial banks because of the banks stringent conditions with regards to the granting and disbursement of loans to the small scale industrialists. Moreso, monitoring of projects from headquarters is not always easy.

FUNCTIONS:

The state financial cooperation when established should perform the following functions:

a) Guaranteeing, on such terms and conditions, as may be agreed upon

   (i) loans raised by industrial concerns, which are repayable within a period not exceeding 20 years, and are floated in the public market;

   (ii) loans raised by industrial concerns from scheduled banks or state cooperative banks;

b) Guaranteeing on such terms and conditions as may be agreed upon, deferred payments due from any industrial enterprise in connection with its purpose of capital goods within Nigeria.

c) Under-writing of the issue of stock, shares, bonds or debentures by industrial enterprises.

d) Acting as agent of the Federal Government or the State Government or the Nigerians Industrial Development Bank (NIDB), or the Nigerian Bank for Commerce and Industry (NIDB) or any other financial institutions satisfied in this behalf by the Federal Government in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed, by any one of them.

e) Receiving in consideration of the services mentions such commission as may be agreed upon

f) Retaining as part of its assets any stock, shares, bonds or debentures of an industrial concern which it may have to take in fulfillment of its under-writing

liabilities, however that is dispose of the stock, shares, bonds or debentures so acquired as early as practicable, but in no case the stock, shares, bonds or debentures so acquired shall be retained beyond a period of seven years from the date of such acquisition, except with the prior permission of the Central Bank of Nigeria.

g) Granting loans or advances to, or subscribing to debentures of, an industrial concern, repayable within a period not exceeding 20 years from the date on which they are granted or subscribed, to, as the case may be.

Resources: Financial resources are said to be the life-blood of financial institutions and determine the extend to which the operation of a lending institution can extend. Since the primary object of the proposed state financial cooperation will be to develop the small and medium scale industries in Kogi State, the question of resources becomes important. The question of resources becomes still more important, because if a corporation is not having sufficient financial resources at its disposal, it can not operate in an effective manner.

As a result therefore, we recommend that financial resources of the proposed Kogi State financial cooperation should consist of:

i) Paid up Capital and reserves:
   a) Paid-up Capital
   b) Reserves
ii) Deposits
iii) Borrowing:
   a) from public and institutions
   b) from central bank of Nigeria

c) from Commercial Banks, Merchant Banks and Cooperative Banks and other financial agencies.

d) Re: finance from Nigerian Industrial Development Bank and Nigerian Bank for Commerce and Industry.

iv) Funds from the State Government.

The shares of the proposed Kogi State Financial Corporation could be distributed among:

a) the state government;

b) the central bank of Nigeria;

c) commercial banks, insurance companies, investment trusts, cooperative banks or other financial institutions;

d) parties other than those referred in (a), (b) and (c).

If a state level financial institution such as the one suggested is set up to cater for the financial needs of small and medium industries in Kogi State, it will be a long way in solving the financial problem of small scale industries.

9) An Industrial Credit Guarantee Scheme similar to that set up for agriculture should be set up by the government to cover the deficiencies in security which may hamper the borrowing power of small scale industries. Given a proper feasibility report, prospects of viability, a good management and evidence of sound integrity on the part of the proprietors together with a financial stake in the venture, the author believes that banks would readily come to the assistance of small scale industries, particularly if the government under-writers part of the risks of lending through a guarantee scheme.

10) The Association of small enterprises should be formed and they should strive to educate their members on the need to maintain proper books of accounts which are very essential in order to obtain loans from financial institutions. It should also strive to establish a forum whereby its members and representatives of financial institutions could meet constantly so as to enlighten small entrepreneurs of the requirements expected of them before they could be considered for financial assistance.

11) A change in the attitude of small scale industrialists towards future development can be brought about through the Ministry of Commerce and Industry in the /state. The ministry should strive to promote projects in which a number of small entrepreneurs could be brought together to finance and manage. They should constantly be enlightened on the need and necessity for partnership and limited liability companies so that their experience as well as problems could be shared rather than restricted to one person only. Through this, better and qualified management personnel could be employed so as to enhance the running of small scale industries more efficiently and effectively.

12) Nigeria is practically in the initial face of industrialization. There is a need to develop a sub-contracting system like prevailing in Japan. The small manufactures should have a direct relationship with medium and large manufactures regarding supply of materials, advance financing of products and should take immediately, the product of the small manufacturers. These will solve the small manufacturers financial, marketing and technical

problems and will ensure smooth change over from small to medium and from medium to large enterprises.

13) The Federal Government in consultation with the State Government should take a comprehensive survey of the industrial potentialities of the state and should indicate areas where small scale industries can be developed and also provide facilities and incentives for the development of small scale industries in the state.

14) The small scale industries should be provided finance at a concessional rate and a recovery period ranging from 5 to 10 years. This will help in solving their financial problem and will enable them to stand on their feet before repayment of the loan begins.

This study has been conducted to examine the existing institutional arrangement for financing of small scale industries in Kogi State and to identify the special problems encountered by both the financial institutions and the small scale industries in dealing with each other. This has been achieved to a great extent. It is important to point out that only the institutional arrangement for financing small enterprises has been examined. Further research is still needed to examine the technical, marketing and managerial problems of small scale industries in Kogi State.

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APPENDIX I

DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY, ZARIA

M.B.A. QUESTIONNAIRE ON INSTITUTIONAL FINANCING OF SMALL SCALE INDUSTRIES IN KOGI STATE

I will be very grateful if you could supply the information needed below by filling the blanck spaces provided or ticking the appropriate boxes which apply.

SECTION A

1. Name of the business .....
2. Location of the business .....
3. Type of ownership:- Sole Proprietorship [ ]
   Partnership [ ] Private Company [ ]
4. Type of Industry .....
5. When the business was formed .....
6. Nature of the business:- Manufacturing [ ]
   Processing [ ] Servicing [ ] Others [ ]
7. Is the business incorporated Yes [ ] No [ ]
8. If yes, state year of incorporation .....
9. Number of persons employed ..... Number of persons employed on hire ..... on permanent basis .....
10. Status of workers:- Nigerians [ ] Expatriates [ ]
11. Raw materials used:- avaialble locally [ ]
    Imported [ ]
12. Type of products manufactured: Consumer goods [ ]
    Industrial goods [ ]

SECTION B

1. Total capital employed: .....
   (a) Plant and Machinery: .....
   (b) Land and Buildings: .....
   6) Working Capital:- .....

2. What was your initial source(s) of finance? .....

.....

3. Your existing source of finance?

(a) SSICS ☐ (b) NBCI Loan ☐

(c) Retained earnings ☐

(d) Loan from Comm. Banks ☐ (e) From family ☐

(f) Others ☐

4. Do you need additional capital for another 2 or 3 years? Yes ☐ No ☐ Amount required .....

5. If yes, for what purpose? Expansion ☐

Modernization ☐ Diversification ☐ Replacement

6. Which of these institutions do you prefer to get financial assistance from:- SSICS ☐ NBCI ☐

Comm. Banks ☐ Others ☐

7. Reasons for your preference:

Easy to get ☐

Les formalities ☐

Secrecy ☐

8. How do you repay the loan received from the institution(s)? (a) Out of profit ☐

(b) Other sources ☐

9. Are you satisfied with the procedures followed by the institutions while granting loans?

Yes ☐ No ☐

If no, give suggestions how to improve the procedure

.....

10. How long does it take to process loan application by the institution(s)? .....

11. Do you think that the rate of interest charged by financial institutions is reasonable?

Yes ☐ No ☐

12. Type of securities demanded by financial institutions before granting loans:

Fixed Assets ☐ Land and Building ☐

Any other ☐

13. Are you satisfied with the kind of securities required by the financial institutions?

Yes ☐ No ☐

14. How long is the loan repayment period? .....

15. Are you satisfied with the existing repayment Period? Yes ☐ No ☐

If no, please state the reason: .....

.....

17. Are you satisfied with the existing arrangement for the loan by the institutions(s)?

Yes ☐ No ☐

If no, please suggest how to improve it .....

.....

18. Are you satisfied with the behaviour of officials of the financial institutions)? Yes ☐ No ☐

if nom what are your views about the officials of the institution(s)? Arrogant ☐

Unco-operative ☐ Bureaucatic ☐ Others ☐

Pleame specify .....

(You may chose more than one).

19. Do you maintain proper books of Accounts?

Yes ☐ No ☐

If no, what are the reasons? .....

.....

20. Do you employ qualified accountant?

Yes ☐ No ☐

21. Do you engage in other businesses like trading or farming? Yes ☐ No ☐

If yes, do you keep separate account for each business? Yes ☐ No ☐

22. Are you satisfied with the profit you are making from the business? Yes ☐ No ☐

SECTION C

1. Where do you sell your products?

Local Market ☐ Neighbouring States ☐

Export ☐ (You may chose more thano one).

2. Channels of distribution: Direct retailing ☐

Through middlemen ☐ Co-op. or Govt. bulk ☐

3. Do you experience any marketing problems?

Yes ☐ No ☐

4. Does the financial institution you received loan from offer you any advice as regards marketing?

Yes ☐ No ☐

5. Do you experience any labour problems?

Yes ☐ No ☐

6. Are your employees honest? Yes ☐ No ☐

7. Do you experience any management problems?

Yes ☐ No ☐

8. Can you suggest ways on how to overcome marketing and management problems?

(a) .....

(b) .....

(c) .....

9. Would you like to merge your business with some other businesses to form a bigger company?

Yes ☐ No ☐

10. What are your plans for the next 5 years?

(a) .....

(b) .....

(c) .....

APPENDIX II

Projects where preference will be given under the Federal Ministry of Industries' Special line of credit for small-Scale Industries:

a) Agro-based and food processing industries

b) Small-Scale pharmaceutical industries

c) Transport related industries

d) Rice mills

e) Grinding mills

f) Repair workshop

g) Tailoring Shops

h) Private tractor-hire units

i) Rural transportation

j) Small saw mills

k) Carpentries

l) Component parts manufacturing

m) Household and office furniture manufacturing

n) School and office equipment manufacturing

o) Electronic and electrical equipment and accessories manufacturing.

p) Photocopying and film processing

q) Ceramic industries

r) Metal working industries

s) Integrated refilling and vehicle services stations.