FINANCING SMALL-SCALE INDUSTRIES IN BAUCHI STATE

By

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CERTIFICATION

This Project report entitled FINANCING SMALL SCALE INDUSTRIES IN BAUCHI STATE by Isa Baba Abubakar meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION (M.B.A.) of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I hereby declare that this project research has been written by me and is an effort of my own research, and all material used from other researches have been fully acknowledged.

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Abstract

While it is generally accepted that small-scale industries have a very vital role in the economic and industrial development of any nation, yet the financing of these industries especially in a developing country like Nigeria; and a newly created Bauchi State in particular, has always been difficult.

The objective of this study is to investigate the various sources of finance for these industries, and the specific objective is analyse the roles played by institutional sources and pinpoint problems associated with them.

In this study the importance of small-scale industries have been discussed. But particular attention is given to industries in Bauchi State, where various facets of their operations such as types of ownership, nature of business, sources of finance, market, current problems facing them and a host of other issues have been fully diagbnised through a questionnaire analysis.

The inherent problems associated with these industries are small-amount of capital, poor management and inability to present viable projects to financial institutions for assistance.

On the basis of the above factors a conclusion that, the small-scale industries not only lacked sufficient access to institutional finance but also lacked prudence in the

application of their scarce resources.

Finally suggestions were made aimed at solving these problems.

CHAPTER ONE

1:1 - Introduction:

Small-scale industries play a very vital role in the economic and social development of any country. Needless to say therefore these institutions have so much impact in our day to day affairs to the extent that we consider them as part of life, because for example, in the twenty fours hours of a day almost every citizen either buys bread for breakfast or go to a nearest tailor for his or her dress, without even knowing that these types of products and services are mostly provided by the small-scale industries.

Also of some importance is that one can say without caution that the small-scale industries determine the direction and subsequent growth of both economic and industrial sector of any country, because virtually all the so-called big manufacturing industries started as a small-scale bases before reaching their present status. And these small-scale institution will continue to contribute to their development, because of the fact that they provide the basic raw materials and also act as distributors for the big business. Therefore one can safely say that the big businesses cannot exist without these small institutions to facilitate them.

More importantly in a developing economy like Nigeria, where due to poor saving, leading to low capital for investment, and technological development still in its infancy, it becomes pertinent that special attention has to be geared towards the development of these institutions for a sound

industrial base, since they require less amount fo capital and technological know-how, making it very easy to operate.

However in spite of all the necessities for their development, these industries in Nigeria and in Bauchi State in particular seemed to lack prominance in the economy.

It is in the light of the above consideration, that the researcher decided to make some investigation into the area.

The theme of the research is "FINANCING SMALL-SCALE INDUSTRIES IN BAUCHI STATE".

1:2 - Objectives of the Study:

The main objective of this research is to investigate the various sources of finance for the small-scale industries in Bauchi State and the problems associated with these sources.

The specific objectives are:

a) To determine the roles played by institutional sources in giving financial assistance to the small-scale industries.

b) To pinpoint their short-comings, and

c) Make feasible recommendations aimed at reducing the financial problems facing these particular industries.

1:3 - Hypothesis:

The hypothesis of this research is that there is a shortage of institutional fund to small-scale industries in Bauchi State and that this shortage is the greatest impedement towards their development.

1:4 - Scope of the Study:

The research covers Bauchi State in general, but special attention is given to small-scale industries located in Bauchi, Gombe and Azare towns of the State and is specifically concern with the problems of institutional financing in the State. However, where other problems came into focus they will be highlighted.

1:5 - Methodology and Research Design:

To facilitate the collection of data for the research, a questionnaire was developed. However due to poor educational background of the respondents, personal interviews aimed at collecting more information and aid in filling the questionnaires were adopted so that where the respondent answered the questions, the interviewer fill the appropriate space.

In addition to the questionnaire administered, the researcher conducted personal interview with all the institutional sources about their roles and problems they encountered in financing small-scale industries in Bauchi State.

Finally published data from other research, journal and library documents were used and acknowledged as secondary data.

1:6 - The Sample:

Though the State Ministry of Trade and Industry registered a total of 249[1] small-scale industries as at June, 1985, it is estimated that there are about 300 of such industries. Based on the total of these 300, one hundred questionnaires were distributed on purely random sampling, among all the industries located in the three major towns of the State. However only 50 responses were recieved, of which two are found to be useless. Therefore the sample stood at 48, which is believed to be a fair representative of the whole.

1:7 - General Background of the State:

Bauchi State of Nigeria was curved out of the former North Eastern State of Nigeria in February, 1976 by the then military administration under the leadership of General Mohammed Murtala.

The State has a population of 3,926,679[2] in 1981, it covers a total area of 66,510,045[3] square kilometers, representing 7.2% of the land area of Nigeria. The population density is 59 to square kilometers. It boarders with Borno and Gongola States to the North East, Kano to the North, Plateau and Kaduna to the North-West.

The State climatic condition is generally mild with April as the hottest month and January to February being the coldest month.

The State has its administrative headquarter in Bauchi town which has a population of 1.3[4] million as at 1981, and it is divided into sixteen local governments which are:

1. Alkaleri
2. Akko
3. Bauchi
4. Gombe
5. Katagum
6. Dukku
7. Darazo
8. Shira
9. Gamawa
10. Ningi
11. Jama'are
12. Misau
13. Tangale-Waja
14. Tafawa-Belewa
15. Dass
16. Toro

The State is predominantly an agricultural state which employ about 70%[5] of the total population, therefore the main occupation of the people is the production of food and cash crops. The major cash-crops produced in quantities are cotton, groundnut and beans.

1:8 - Commercial Activities:

However, because agriculture provides a seasonal employment, most of the people take to some commercial activities to supplement their activities in the agricultural sector, so in this respect the following occupations are undertaken generally by the people in the state, notably among them are:

Peotry
Hand-Weaving
Tilting
Block-making
Blacksmitting
Various kind of repairs
Selling and buying of various consumer goods.

Most of the products of these occupations are traded or exchanged normally on the market days of each town or village. Each town or village has a weekly market in which people from all parts of the state bring their goods and services to the market and buy goods which they don't have in their areas. The system is just like the modern trade fairs.

1:9 - State Government Industrial Policy:

Until the state was created in February, 1976, the Industrial Policy in Bauchi was that of the then North-Eastern State of Nigeria.

However immediately the state was created the then military administration in the state appointed in 1977 a Committee of experts to formulate a policy for the development of industries generally in the state. Based on the investigation and recommendations of this Committee, the government came out with policies aimed at boasting the industries in the state.

In the light of the above the government clearly stated its intention to promote purely those industries that are engaged in manufacturing and those identifies are:

1. Bread Bakery
2. Block Industry
3. Black Smitting
4. Candle Industry
5. Corn Mill
6. Drug Manufacturing
7. Furniture Industry
8. Laundry and Dry Cleaning
9. Leather Work
10. Metal Work
11. Mechanical Workshop
12. Polythene Bag
13. Poultry Farming
14. Pomade Making
15. Printing Press
16. Rice Mill

17. Stone Crushing
18. Saw Mill
19. Tinkering
20. Tailoring
21. Tin Mining
22. Brown Sugar.

To ensure even distribution of above industries, government encouraged those industrialist that are willing to go remote areas of the state that don't have industries, by way of giving them priority in granting loan, free land and tax inceptives.

Also where the government feels individual industrialists are not in a position to establish these industries alone, due to low capital and technological know-how, the government either establish the industries, operate them for some time and when it fully takes off, then sells it to individuals or group of individuals or alternatively the government entered into some form of partnerships with the industrialist and gradually, the government sells its shares to private individuals.

1:10 - National Development Plan:

The third and forth National Development Plans (1975 - 1980) and (1981 - 1985) of the state emphasized the importance the small-scale industries. Also the forth National Development Plan made a provision of ₦6.2 million[6] for the provision of loan for the small-scale industries.

So because of the Federal Government encouragement to these industries, industrial development centres in all the state of the federation were to be established. So the State Government in 1981 secured the establishment of the industrial development centre in the state. Then in addition to Federal Government allocation of fund to the centre, the Bauchi State Government made a quarterly allocation of ₦25,000(7) to the centre to help achieve the purpose of its establishment in the state.

1:11 - Functions of Industrial Development Centre:

The main functions of the Industrial Development Centre as mentioned in the second National Development Plan are as follows:

i) Technical appraisal of loan applications.
ii) Provision of Industrial extention services.
iii) Training of entrepreneurs and staff, including management training.
iv) Applied research into industrial products involving design of products for small-scale industries.

The third National Development Plan mentioned that the industrial Development Centres are to provide facilities for managerial and skill training as well as consultative and extention services for proprietors and managers of small-scale enteprises. The Industrial Development Centres are also expected to help small-scale entrepreneurs to purchase and install machinery and to assist the State Government to grant and supervise small industry loan.

1:12 - Services of Industrial Development Centre:

In order to discharge their functions properly, the Industrial Development Centres have been organised to render the following types of technical and management services for the rapid development of the small-scale industries:-

i) Installation and starting up operation of machinery and equipment.

ii) Quality control and improvement of the end-product.

iii) Repairing and maintenance of the machinery and equipment of small industrialists including repairs of broken components.

iv) Training of small industry technicians and artisans in the handling of improved machines and their maintenance.

v) Manufacturing of parts and components to restore machinery and equipment rendered idle for non-availability of spare parts.

vi) Improvement of product design and manufacture of prottypes.

vii) Adaptation of technology and process improvement for small industries.

viii) Production planning and control.

ix) Book-keeping, Accounting and cost analysis.

1:13 - Limitation of the Study:

The conduct of this research has not been an easy one, quite a number of problems were encountered.

The greatest problem encountered was the administration of questionnaire, because over 80% of those given questionnaire do not know how to read and write, and where the researcher or somebody is made to fill the questionnaire for them data like amount of capital employed, profit and other relevant information are not available due to poor documentation on the part of the industrialist. As a result some of the information supplied are nothing more than mere guess.

Another problem encountered was inability of the respondents to fill the questinnaire in time, therefore so much time was wasted to travel only to be told that the questionnaires are not ready.

Lastly there was poor co-operation from the institutional sources, because the managers and workers are not willing to release data necessary for the success of the resarch.

1:14 - Scheme of the Study:

To achieve the stated objective of the research, the research is divided into seven chapters.

Chapter one looks at the general introduction of the research. It include the objectives of the study, hypothesis, methodology, limitation, general background of the state and the Government Industrial Policy.

Chapter two gave a general overview of small-scale industries. In that, the definitions of small-scale industry was given, classification of small industries in the state, types and mode of operation, importance and a review of related literature.

Chapter three and four look at the general financing of small-scale industries in the state. However for a start, chapter three discusses the financial requirements and various types of capital while chapter four discusses the various institutional sources and their contributions and problems associated with these sources.

Chapter five analysed the responses recieved from the questionnaire.

Chapter six looks at the problems of financing small-scale industries in Bauchi State.

Finally chapter seven summarised the whole chapters, concluded and make recommendations aimed at partially solving the problem of finance.

Summary:

This chapter introduces the whole purpose of this research by clearly specifying things like the objective, research methodology and problems encountered. In addition it gave a brief background of the state and the government industrial policies.

The next chapter will then focus on the small-scale industries in which definition, types and importance will be discussed. Finally a review of related literature will then be looked at.

Foot Notes:

1. Ministry of Trade and Industries, Bauchi.
2. "Bauchi State Stride" - P. 3.
3. Ibid - P. 3.
4. Ibid - P. 5.
5. Ibid - P. 5.
6. "Industrial Development in Bauchi State" - P. 16.
7. Ibid - P. 37.

CHAPTER TWO

AN OVERVIEW OF SMALL-SCALE INDUSTRIES:

2:1 - Definition of Small-scale Industry:

Unfortunately there has never been any concensus or universally acceptable definition of small-scale industries. But rather many definitions have been forwarded for different purposes. That is while some defined a small in terms of the number of people employed, other look at it from the capital employed or sales volume, still others defined it for the purpose of giving assistance. Infact in some places small-scale industries are defined in terms of their area of operation, or even on the basis of type of product manufactured.

However, in order to understand the concept of small-scale industries, we have to look at some features which are very much common to them.

This include the following:

a) Most of them employ very little amount of capital.

b) Normally owned by a single proprietor or family owned.

c) Employ little or no hired workers.

d) Their areas of operation is normally the local environment.

Having given some of their common characteristics we can now look at the definition of various countries or organisations.

The Small Business Administration of the United States of America defined a small-scale industry as any concern whose annual turnover is between 1 - 15 million Dollars[1]. So one see that the definition of the United is reflected by its level of development, because in a country like Chad and Niger a company with annual sale of $1,5000,000 can't be classified as a small-scale industry. In terms of capital employed also, India defined an undertakings having investment in fixed assets, plant and machinery not exceeding Rs. 20 lakhs[2] as small-scale industry. While in Britain a developed country defined a small-scale in the same line as a concern privately owned with net asset of less than 250,000 pounds[3]. Japan defines such industries as those industries with less than 10 million Yen in capital[4]. Italy classified small-scale industries as manufacturing plants investing not more than ₦1,600,000 - ₦2,000,000 and which do not dominate the market[5].

In Nigeria for the purpose of assistances the Federal Ministry of Industries defined a small-scale industry as any manufacturing, processing or service industry with capital investment not exceeding ₦150,000 in machinery and equipment alone[6]. However there is no lower limit of capital investment prescribed, so as to allow not only

mechanised and semi-mechanised small-scale industries, but also conventional small-scale industries including the enterprises of self employed artisan, petty traders and others to be brought within the scope of the definition.

2:2 - Classification of Small-scale Industries:

Bauchi State is however more specific and precise in its definition of small-scale industries. In line with the Federal Ministry of Trade and Industry's definition and for the purpose of the State Government assistance, it classified the following industries operating in the state as small-scale industries are:

a) Bread Making Industry
b) Block Industry
c) Black Smitting
d) Candle Making Industry
e) Corn Mill
f) Drug Manufacturing
g) Furniture Industry
h) Laundry and Dry Cleaning
i) Leather Works
j) Metal Works
k) Mechanical Waorkshop
l) Polythene Bag Making
m) Poultry Farming

n) Pomade Making

o) Printing Press

p) Rice Mill

q) Rubber Stamp

r) Stone Crushing

s) Saw Mill

t) Tinkering

u) Tin Mining

v) Tailoring.

However, for the purpose of this research, the Federal Ministry of Trade and Industry's definition will be adopted but special attention will be given to manufacturing concerns in the state as classified by the State Government.

2:3 - Types and Mode of Opereration

Generally speaking, there are various types of small-scale industries in Bauchi State, and infact the government policy of assistance dictates the proportions of various types.

Out of the 249(7) registered as small-scale industries throughout the state, Bakery Industry tops the list with 124 Bakers spread throughout the state, or 38.75%, followed by Block making Industry with 54 or 16.88%. Corn Mill has 48 or 15%, Black Smitting 15 or 4%, Poultry Farming 15 or 4%, then all others (see Table) takes 21.33%(8).

All of the above are owned by either single individual or family as whole so their mode of operation is the production of finished products and selling ehem at their immediate locality. However there is very little effort or none to establish branches elsewhere or even to sell the goods, but products like canles, drugs, furniture and polythene bags are being exported to other parts of the states.

2:4 - Importance of Small-scale Industries

As earlier mentioned in the Introduction, Small-scale industries play a very vital role in the economy of any country and its contribution in the various sectors of the economy will now be highlighted.

1. Foundation for Sound Industrial Take Off

Infact for any country to develop it has to start from the bottom and even the present industrialised nations reached their industrialisation through development of their small-scale industry, therefore small-scale industries are the foundation stone for any meaningful industrial growth. So it is only through an articulated policies by which these small-scale industries which are easy to start, since they require less amount of capital, technology and labour, and it is these industries which a country developed which

through time and experience, generate profit and technicalities of doing business, start expanding gradually and become a very large organisation.

2. Vast of Employment Opportunities

In a country like Nigeria or any other developing country in which the government is the largest employer of labour, and since it is impossible for the government to employ everybody. Infact the Government in Nigerial employ less than 20%, then it become obvious that the remaining 80% have to find a mean by which they can earn their daily bread. Therefore since there are no many big industries that will supplement government and the fact that agriculture does not provide an all year round employment, therefore small-scale industries seemed to be the only servior under such circumstance. Hence increasing not only the standard of living of the people but also increase the Gross National Product of the country economically and socially employment reduces the inflation, crimes and adds the propensity to consume which in turn increased government tax.

In Nigeria for example, the small-scale industry sector of various house hold units carrying on diverse types of industrial activities in the traditional manner and those organised on the factory types and at present the traditional weaving, blacksmithing,

poultry and other household units employ about 250,000 - 400,000[9] people while manufacturing concern like Bakery, Block making and related activities employ about 350,000[10] Nigerians, these figures greatly reduced the percentages of unemployed people in the Country. And infact as a result of the present Retrenchment in the country many retrenched workers are now engaging themselves into self employment. In order to maintain themselves and members of their family. Hence small-scale sector provids the greatest opportunity here.

3. One of the greates problem facing this country today is the question of Rural-Urban migration. Therefor this problem can be minimised by a concerted development of small-scale industries in the rural areas, since these industries will provide not only employment opportunities to the people but other amenities like water, electricity and good roads will also be provided which the local people can benefit.

4. Generation of Saving and Resources Mobilisation

One advantage associated with development of small-scale industries, is the fact that local fund and resources which could have been left idle are employed for the production of goods and services.

For example, a small amount of money which is not adequate to start a big business could be used to start small business and since the business will continue generating profit which in turn is then saved and through continues saving, enough fund could be generated for future investment elsewhere. Equally resources which are not commercially viable for a big venture, can be used on a small-scale basis for the production of some finished product instead of living the resources to stay idle or become useless.

5. Foreing Exchange Savings

Substantial amount of Foreign Exchange can be saved through the establishment of small-scale industries to manufacture consumer goods which can easily be produced using available local raw materials, instead of importing them from other countries, thus reserving the much needed foreign exchange for other purposes. Also small-scale industries can be established to process local raw materials like Hides and Skin for export which will generate foreign exchange and reduce deficit balance of payment for the country. It can also be used for the production of raw materials for big manufacturing concern, for example, before, the Peugeot Automobile of Nigeria (PAN) used to import 100% of its raw materials for the production of cars from abroad but because of the current foreign exchange problem facing the country, the company had

to negotiate with small indegenous manufacturers for the manufacturer of components like seats, safety belts, bumpers and others which can be produced locally using the available raw materials, thus refucing their import by 30%[11]. Also before most Brewries in the country used to import Berly from abroad for the production of beer but now get supply of maize and sugar from small manufacturers to substitute the large imports they make. So all these help in preserving the available foreign exchange the country have.

6. Development of Managerial Experts and Entrepreneurship

Systematic emergence of small-scale industrialists afford them the opportunity of developing their entrepreneurship talents who will mobilise alot of capital for future investments into other sector of the economy. Also because of the development of small-scale industries the Federal Government established Industrial Development Centres with the aim of providing technical and managerial experts for the small-scale industries and through experience and further training these people will not only served the small-scale business but rather provide the necessary managerial experts the country needs in various sectors of the economy.

7. Preservation of Gultural Heritage

In Nigeria and most other countries small-scale industries have their origin from traditional occupation or heritage which reflect the societal cultural values. Such Industries like the cottage, weaving, pottery and others were designed according to traditional values therefore these industries continue to reflect these values even though they have been developed in the modern way.

2:5 - Review of Related Literature

A theme which runs through most writings on small-scale industry in Nigeria is that the small entrepreneurs lack adequate funds of their own to establish enterprises on a proper basis, to expand or modernise as this become appropriate, or to maintain their enterprise intact through periods of temporary adversity.

Therefore, the intent here is to examine the existing work done by different authors on this subject, that is the financial problems of small-scale industries, thereby pointing out their strengths and weaknesses.

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

Moreover, the study of Davenport focuses attention in finding better ways to meet the financing problems of small-scale manufacturing units. At the same time he discovered factors which stand in the way of financing the development of small factories into two - risks and costs.

This obstacle was more stressed, particularly by lenders, than risk problems. Therefore, the general view as regards the risk itself constitutes a major obstacle to small industry financing. The financing of small-scale factory involve somehat greater risk than major alternative financing opportunities open to lenders.

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

1. Nature of management - management is mostly exercised by one or two owners. Becuase most of small-scale firms are predominantly sole proprietorship there is the problem that death, illness and changes that come with age or shifting family interests of the sole proprietor drastically.

2. Vulnerability to environmental pressures - The small-scale manufacturing unit is highly vulnerable to environmental pressures, such as competition, shifts in supply position, and changing government policies.

3. Financial Risk - The risk in financing small factories are difficult to evaluate and control. For instance small-scale industries are not always able to provide sufficient collateral to completely assure repayment.

Cost and Profitability Obstacle

Cost also constitute another hinderance as regards the extention of the types and amounts of financing required for the healthy development of small manufacturing units. Davenport categorised cost problems into two. Firstly, there is the high lending costs which may push lending rates to such a level that small-scale enterprises cannot afford to utilize borrowed funds or will be at a serious competitive disadvantages with larger firms in the same line. Secondly, costs - together with governmental ceilings on lending rates, may result in it being less profitable, or even quite unprofitable to lend to small manufacturers in preference to alternative lending opportunities, have meagre owned capital and command poor crdit rating compared to their own counterparts in the large-scale sector. The reinvestible funds generated by these enterprises are meagre and their ability to self finance their growth is limited.

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

a) Lack of Initial Capital to Start Business. In most countries, small-scale units are predominantly proprietorship and or partnership establishments. Therefore, the small-scale unit make use of proprietors or pertners' own resources to finance the unit; initial capital is just sufficient to give a start to the venture. Because of their peculiar status, the small-scale industrialist find it difficult to enter the market and raise capital. As such they start with a feeble base which, in general, continues to be weak.

Thus, a fairly large number of small-scale units have inadequate capital. They started with an initial capital which, as the business expands, turns out to be inadequate. For these enterprises these is no question of raising equity capital from the market or from other sources. However, this is as a result of the fact that small-scale industrialist do not themselves welcome equity capital from outside for it involves sharing of management and control.

b) Lesser Facilities to Avail. These number of institutions catering to the requirements of small-scale units are only of recent origin. There are several procedural difficulties involved in securing loans which the small industries cannot easily overcome. Want of adequate security generally inhibits the flow of institutional finance to the small sector. There is not only the question of adequacy of security but also the acceptability of a particular type/types of security which stands in the way of small industrialists. Above all, there is the reluctance on the part of institutional agencies to finance small-scale units. They takes small industries to be unstable. The requirements of such units being small, they are not enthusiastic about advancing funds both from the view point of safety as well as probitability.

c) Smallness of Their Size. Becuase of their size and inadequate holding capacity, small-scale industries are incapable of facing the jerks of jolts which are familiar in business operations. During periods of fluctuations when their need for finance is compelling, financial institutions do not cater to them. Hence, mortality rate among them is higher than in large establishments.

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

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

According to Broom and Longenecker[15], the problems discussed above are those generally recognised as being of outstanding importance and peculiarly troublesome in the small business field. This does not mean that there are no other serious problems. As is true with all businesses, there are problems and decision to be made in all phases of business operations.

Schtz in[16] a study, considered the impediments which stands on the way of small business in Nigeria. He, therefore, categorised these impediments into three:

1. The most important and the one which needs much attention is the inadequacy of capital. Despite the viability of projects, business men are not opportuned to execute them due to insufficient capital.

2. Shortage of enterpreneural ability which results in the paucity of viable projects.

3. The inherent difficulties in the economic environment which constitute severe obstacles to business success.

Hence, the general reason for the inability of firms to expand has been inadequate financing. There is however, a need to identify the types of financial requirements. Fundamentally, a firm needs short-term finances to meet its short-terms obligations which are expected to be net within a year.

Konto[17], in a study of small business in Bauchi State of Nigeria, maintained that the working capital base of small businesses in this area was extremely poor.

However, taking a critical look at these, it would be found that the weak working capital base has not been purely the fault of entrepreneurs but atimes it is the manifestation of the general economic condition, which in turn - influences and determine the conditions laid down by banks. He sees the difficulty of obtaining credit facilities as being dependant on the personal attributes of the entrepreneur.

Many small-scale industrialists lack capital not necessarily or principally because they are unable to generate sufficiently "feasible" projects but for other more fundamental reasons, the most important of which is that they themselves are not regarded by many prospective commercial lenders as what one might call "feasible projectors" - education is a vital determinant of a projector's feasibility.

The scarcity of working capital is prone to be a major factor hindering expansion since it is widely held that commercial credit is not a source for innovational activity, but also for financing general expansion.

Schatz is however, of the opinion that the extent to which capital shortage interfere with private investment is over exaggerated. He believed that even if there was an abundance of finance, it will not result in a dramatic expansion. Hence, he maintained that finance alone does not constitute the reason for the none expansion of businesses.

Thus, Schatz sees the elements in the economic environment constitution themselves as impediments to small business expansion. No matter the opportunities available, he see private businesses in Nigeria reaining small. Schatz proceed and classify the economic environment into:

a) Capital equipment problems;

b) Human Resources;

c) Raw Materials and Intermediate Goods;

d) Problems with Government Officials;

e) Infrastructural Problems;

f) Other Problems.

However, Drucker[18] sees the problem of growth and expansion as going for beyond the economic environment. He sees growtn as a reward for achievement whereby the requirements include:

1. Planning - The entrepreneur should enticipate his requirements ahead of time; anticipating the financial structures that will be needed of time; anticipating the financial structures that will be needed three years ahead of time and anticpating future information needs.

2. The entrepreneur should concentrate on technologies, products and markets.

3. The management of the business should be dynamic.

Alhaji Adamu Ahiroma in a Seminar on the problem and prospect of Industrial Development in Nigeria[19]. In his opinion he traced the problem of industrial financing of small and medium sized inudstries to the colonial leaders, in that he said that during the colonial era, the economic policies and strategies applicable to our country was those designed in London.

Understandably those policies and strategies assigned to us a role which made good sense in a world wide imperial economic tapestry and the only role industries play was achievement of imperial objectives, in otherwords the production of basic raw materials to feed Europeans factories and provide market for the manufactured goods. So maintaining this pattern the then colonial government deliberately denied fund for small-scale development in Nigeria.

However Abubakar Abdulkadir[20] (Manging Director - NIDB= look at the problem as the usual characteristics of underdeveloped economies, which include on one hand the predominance of primary production characterised by primitive technology and underemployment and on the other hand, the relative insignificance of modern industrial production and the tertiary sector coupled with this basic structure are the problem of low income, low savings and inadequate investment.

He went further to attribute the problem to under-developed capital issue market which could have a major source of finance for an economic venture.

Finally he ended up by condemning the Nigerian's preference to invest in quick yielding distributive and real estates rather than industrial projects which were a

relatively long gestation period. Moreover, the proprietory attitude of many business men in the country and their unwillingness to share ownership with others inbibit the folling of resources in equity capital and limit the amount of loan such ventures can attract.

Alhaji Lawal Tuden-Wada[21] also in a Seminar tittled "problems facing Industrialist in Nigeria" attribute the whole problem to inadequate financial resources in Nigeria and inability to secure foreign loan at a favourable term.

In conclusion it is important to note that while different authors look at the problems from either the nature of the industries or attitude of financial institutions. The main problems could be attributed to in Nigeria to poor management on the part of the industrialist and the general economic situation of the country.

Summary

The chapter starts by looking the various definitions of small-scale industries, though it was found that alot of contraversy exist in these definition, but certain factors were found to be common among all the definitions.

The importance of small-scale industries in the development of any nation have been fully highlighted and the last part of the chapter look the view of authurs about financing of small-scale industries in Nigeria, however the conclusion pinpoint the neglect of poor management and economic situation of the country which limit the finances of not only small-business but every business in the country.

Chapter three will now focus on the need and various methods of estimating the financial requirement as a pre-requisite of starting businesss. Finally the various types of capital will be discussed.

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CHAPTER III

Financial Requirement of Small-scale Industries

3:1 - Introduction

The kind and amount of financing that any business should havw will probably be the most crucial decision that one will make in the course of his business, other than the decision to which the business in the first place. When to get the money from and in what form will probably run a close second.

Moany would be "business men" scrap together a few amount of capital that they have saved up or borrowed from relatives or friends and plunge into a new businee venture with great enthusiasm. However, they often have little idea of where they are going and even less about how they are going to get there. The mortality rate for small business is frightening: the statistics showomg business failures will amply attest to this sorry fact of business life. In most small businesses, there is simply no room for error, no second chance.

First of all one has to ask the question "How much money will my business need"? Unfortunately there are no easy answers to this important question. For example, a conbination of cash-and-credit business of whatever variety will require half as much capital as the same kind of business operated on a strictly cash-and-carry basis.

In the food area to give another example, one needs 15 to 20 times the capital to open a dinner restaurant than you would require to start a road side snack stand. And by extention much more capital will be needed to embark upon a full-fledged restaurant venture.

Money is the fuel that makes a business run. No matter how hard one is willing to work, or how much time you commit to the business or how knowledgeable you are about your choosen business, a lack of caiptal or the wrong kind of capital or even too much of capital can seriously impair the ability of your business to survive and prosper.

To finance a new business properly or to inject new financial blood into a fattering one requires more thought and planning and positive action than simply withdrawing money from a bank or taking out a personal loan. Determining the correct amount of capital for the circumstances is a critical factor in your success or failure. For too much borrowed capital can impede progress and threaten the staying power of a business and of course too little capital can slowly strangle a new business or one on the ropes. It may be your best interest to take out a loan when the time is right or in your worst interest when the time is wrong. The better financial approach might be to take a new equity capital.

But you might not care to relinquish even the small sharing of ownership in the business that this would entail. These are crucial considerations that demand careful thought and correct decisions.

There are also a number of pitfalls, obvious ones, that one will have to avoid. Give a wide berth to loan sharks and other usurious lenders, no matter how desperate your financial plight might seem and how unproductive your efforts to secure access to the more conventional lending sources. The loan sharks excessively high interest rates will bleed you white before too long. Beware, too, of promoters who promise to raise capital for you for a free, often payable in advance.

There is no question that taking over your money problems with your bankers will prove a valuable first step in your attempt to secure a sound financing program for your business. Your banker will determine right from the very start whether you and your business qualify for a loan from his institution.

In order to qualify, you will have to prove to his satisfaction that you are a good credit risk, that you already have placed substantial personal resources in the business or have additional resources that you could draw upon, that you demonstrate the basic management skill necessary to operate a

business, that your product is saleable, that your planned location is in a market area that will generate sufficient demand for your product or service to sustain the business and make it profitable, and that market area is relatively free of excessive competion that could hamper your growth. You will have to be ready to produce financial documents to support your arguments that the money is really needed and that the business has the capability to repay the obligation in due course.

3:2 - Kind of Capital

Kind of capital here refer to the uses to which this capital is put in the business and the lenght of time they will be working. In most case, the job the capital has to perform dictates the lenght of time it will be used.

It is extremely important that one makes the correct decision about the kind of money his business needs. For the wrong kind of money is almost as bad as no money at all. If you need money on a permanent basis and get it on a short-time bais, you will be living hand to month and flirting with disaster. If you need 30 day's money and you borrow on long-term basis, the business will be saddled with needless expenses and repayment problems.

In-sufficient money and the wrong kind of money rank with poor management and inability to collect accounts recievable as the leading cause of business collapse.

Basically there are three kinds of capital:

a) EQUITY CAPITAL

For a small businessman equity capital represent the personal investment in the business. In other words, it is the ownership capital invested by the prospective industrialist with perhaps contributions from relatives and friends.

b) WORKING CAPITAL

As the business grows, the amount of money needed to make it run efficiently grows too, because inventories will get bigger and bigger, payroll will increase and account receivables expand. Such growth to remain healthy, demand fresh working capital because, typically, a business does not generate cash in advance of the need for it. That is to say larger inventories must be bought and increased payrolls must be met before the higher level of business translate into higher profit. There are are many different source of short-term capital which include bank overdraft, trade credit and crdit unions.

c) CAPITAL EXPENDITURES

This is money used to purchase fixed assets, it represent long-term investment.

3:3 - Estimating Financial Needs

Financial requirements vary from company to company and infact it is influenced by the following factors:

A. Types of Business

Fundamentally the type of business one involved in it will to some extent determine the financial requirement, because the amount needed to start a complex manufacturing concern will be much more greater than amount needed to start a simple service operation like a barber shop. In order to determine accurately how much money the business will require for the most effective generation of profit and when it will be needed one will need correctly prepared, timely and well organised financial records.

B. Size of the Business

This also determine the need of capital because at the beginning when the business is small the amount of capital required will definitely be less than when the business grows. So the smaller the business the smaller the capital requirement.

C. Location of the Business

The area of operation should affect to some degree the capital requirement of a firm, because a business located in a densely populated area will need for money for paying rents and perhaps less for labour but those located in sparsely populated area will need less money for rents.

D. Prevailing Economic Conditions

During tough economic times, industries need more capital than in good times partly because it may take longer for a business to catch on during a slack economy.

And also because during recession purchasing power of the people reduce drastically, so industries should need more capital than boom time.

E. Credit Selling or Cash Selling

If the intention of the industrialist is to boast sales through credit selling then he will need more working capital at hand than if he sells strictly on cash.

3:4 - Forecasting Capital Requirements

There are various tools used in estimating the financial requirements of the industries, and some of these include:

1. Cash Budget

Fundamentally, the cash budget is simply an outline of expected cash receipts and cash expenditure over a given period of time. If prepared with thought and care, cash budget will place at your fingertips your cash needs and cash resources well ahead of time that you will have to do something about your cash situation.

The knowledge will put you in a good position to:

a) take care of seasonal financing needs;

b) take advantage of money conserning situation such as cash discount, volume buying and the like;

c) pinpoint funds generated by the business or will be generated, that could possible be used for expansion purposes and, in general enable you to make most efficient use of cash flow.

d) help develop a workable borrowing program, as well as program a sound repayment schedule of outstanding loans based on your estimated cash flow.

3:5 - Preparing the Cash Budget

Cash budgets should be prepared to cover a specific length of time. The decision governing the time frame of cash budget depends in very great measure upon the character of the business and the regularity or irregularity of cash flows.

If there are radical seasonal fluctuation one should prepare cash budget so that the time period of the budget encompanses sales peak and froughs. If on the other hand, your cash comes with a high degree of regularity, a three month cash budget will probable be sufficient.

The first order of business in preparing a cash bedget is to estimate carefully based on past experience and future goals your cash receipts and cash expenditures.

The sum of your expected cash receipts less the sum of expected cash expenditure will give you the expected cash balance at the end of the period. If expected cash receipts exceed the expected expenditures, and the difference to the expected cash balance at the beginning of next period. If expected cahs outflow exceeded expected cash inflows (if you expect to spend more than you take in), substract the difference from the expected cash balance at the beginning of the next period.

In either event, the result of this final computation will be the expected cash balance at the end of the period.

If you have already decided how much cash it would be necessary for you to confortably maintain in your business, the propected cash balance will give you a good handle on the nature of financing you will need if any. A series of cash budgets - say, covering a twelve month span of operation will provide a long-term panorama of your operations. It may disclose that there are certain period during your operating cycle when cash balances typically fall below comfortable levels. This kind of situation indicate that short-term borrowing could be used to good advantage to carry the business pass the tight spots. On ther hand if the budget shows a pattern of consistently low cash balances, longer term borrowing may be in order, to cure a basic cash deficiency.

Of course, cash budget may disclose that your business on occasion generates cash in excess of normal business requirements. This excess of cash should not be permitted to lie dormant but be put to productive use, perhaps by investing them into short-term marketable securities.

TABLE 3.1

CASH BUDGET

(An Illustration)

Expected Cash Receipts

1. Cash Sales
2. Account Receivables Collection
3. Other Cash Incomes
4. Total Cash Receipts

Expected Cash Payments

5. Inventory
6. Payroll (Including Owner)
7. Other Expenses
8. Advertising
9. Selling Expenses
10. Administrative
11. New Equipments
12. Other Payments
13. Total Cash Payments
14. Expected Cash Balance (Beginning of the Month)
15. Cash Increase or decrease (4 - 13)
16. Expected Cash Balance
17. Writing Cash Balance needed
18. Short-Term loan needed (16 if 17 is larger)
19. Cash available for capital expenditure and short-term investiment (16 - 17 if 16 is larger)
20. Capital Cash
21. Cash Available (19)
22. Desired Capital Cash (11)
23. Long-Term Loan needed (21 - 20 if 21 is larger)

3:6 - Estimating Starting Cost

For a meaningful analysis of financial requirement and subsequent financing an intending businessman should with maximum objectivity and precision be able to estimate his starting cost.

And in estimating the starting cost, the most i important element is the starting inventory and to get that one should have a pretty good idea of the kind of sales volume one expect to achieve during a particular period and this should be divided by the estimated turnover will give the starting inventory.

After inventory one should estimate the money needs for furniture, fixtures and equipments. However, the estimates of these can be got through quotations, soliciting quotation will also give a firm handle on such things as decorating costs, proffessional fees and insurance costs.

TABLE 3.2

ABC LIMITED ILLUSTRATION
ESTIMATED STARTING COST

Inventory	₦45,000
Fixtures and Equipment	5,000
Decoration	10,000
Legal and Proffessional Fees	2,000
Utility Deposits	100
PreOopening Promotion	1,500
Cash Contingency Fund	2,000
Insurance	500
Supplies and Equipment	1,000
Rents	2,000
Others	500
T O T A L	₦69,600

Summary

This chapter consider the necessities of estimating the financial requirements and cost before starting your business, because without doing that a business can find itself bogged down half way and may lead to prematured liquidation. It has also discussed the various kinds of capital and the factors to be considered while estimating the financial requirements.

The next chapters will look at the various sources of finance for the small-scale industries in Bauchi State and their conditions of issuing the loan.

CHAPTER FOUR
SOURCE OF FINANCE

4:1 - Personal Savings

For a small-scale industrialist expecially in Bauchi State, personal savings plus loans from friends and relatives is the most important source.

Infact about 50% of small-scale industries in Bauchi State get their fund through this source.

The fund from this source is derived from past profit of an existing business and also personal contr contribution from friends and relatives. However, the availability of this source depend partly on the or profitability of the industry and amount of tax it has to pay. Moreover, the degree to which a small firm can finance itself may be measured in two ways.

1. Ratio of gross company savings (retained earnings plus depreciation) to material investment in fixed assets and stocks.
2. Ratio of gross company savings on operating assets.

However there are many reasons why small firms rely heavily on their internal source of finance:

a) Most small business start with the intention of expansion, therefore they have more propensity to save in order to generate the fund for expansion within the shortest possible time.

b) Commercial banks and other lending institutions put conditions for loans too difficult for the small-scale industrialist to meet, therefore this result into his dependence on personal savings.

c) Many small business considered their business as part of their family affairs. In other words most of them inherit the business from their parents and as a result they want to pass the same to their children, therefore to ensure that, they have to avoid looking for external finance outside, since it may entail sharing the ownership or controlling the business, hence they rely on their finance to man the control of the business.

4. Small firms pay little or no dividends, less tax and negligible long-term interest, therefore fund for reinvestment.

In most cases, how much to save and what proportion of earnings to put depends on the circumstances of firm, which could be in terms of strenght of the firm, desire for growth, the speed at which it grows the sort of resource, the excellence or otherwise of the market possibilities as well as host of other factors.

Finally the only way which small industries could overcome the financial problem associated with this source is to become more profitable, saving resources and actually retaining the profits when earned.

4:2 - Institutional Sources

Institutional sources of finance may be defined as financial accommodation of short, and long-term nature, obtainable from conventional lending institutions such as commercial and specialised banks(2). Non-Institutional financing would then largely refer to financial assistance from traders, money-lenders, friends and relatives.

However, the non-institutional source of fund is not dependable either as regards the elasticity of the funds that are available with it or the uneveness with which credit flows. These disadvantages, nonetheless do not constitute the strongest argument for institutionalisation of credit(3). In the case of both commercial and co-operative banks, the standerdisation of lending norms and the replacement of a strong personal element with a greater weithtage to a more proper and objective appreciation of the financing prospect is a strong advantage.

There are also certain barriers to institutional financing. For example it is a common place observation that most small borrowers do not maintain proper accounts which make the job of credit evaluation by an institution more difficult.

Many small industries also lack the necessary collateral to guarantee the loan in event of any default or death of the loanee and even where they posses

adequate collateral, there is a deep distrust to pledge, them, out of fear of lossing the proprietorship over the assets and a reluctance to disclose the type of information or their financial status which a bank must have before it can lend money.

Most small businessmen in Nigeria, commenced their business operation in a very small way, from feddling one commodity to another and through that process they were able to save for expansion until they reached a point where their source of fund is grossly inadequate. These small industrialists creat some sort of resistance to borrow from financial institutions mainly because of two influences working on each other.

First, their initial dependance on internally generated funds severely limit the rate of expansion possible for them. Secondly, their horizon of possibility possibilities open to them is circumscribed by the limits of funds they consider if possible to accumulate from internal sources. Therefore as a result of the fact that personal savings and internally generated fund constitute the bulk of investment finance for small-scale industries, their dependance on that source inhibit their growth. It is responsible also for the skewed size distribution in which they are relatively very few in the larger of the size spectrum and a legion of small operators at the time(3).

This is inspite of their considerable experience as owners - managers of their enterprises for quite a long time meeting common and specialised problems concerning the business and using every thing possible to over-come them.

4:3 - Commercial Banks

There are two categories of commercial banks in Nigeria:

a) Indegenous Banks which are 100% owned by Nigerians.

b) Mixed Banks - those banks which are owned by Nigerian Government (normally 40%), Expatriates (40%) and Nigerian public (20%). In addition to the two above, there are State banks call co-operative banks and joint ownership of States and all categoriesed under indigenous banks.

One major characteristics of commercial banks in Nigeria is the fact that they are found in only major cities of the country[4] and infact if not because of the Central bank compulsory directive to open branches in the rural areas most of the rural branches would have been non-existed.

The traditional role of any commercial bank as regards industrial development is to issue loan for a project that is economically viable. However, commercial banks in pursuance of that objectives put the procedure as follows:

First of all as basis for loan the bank has to assess the character of the applicant to find whether or not he is somebody they can rely upon. Other considerations are the managerial ability of the applicant or his company, productive nature of the loan as evidenced by the past records for an established business or the bankers appraisal of profit for a new venture, then lastly collateral offered to issure repayments, in case the expected profit do not materialise or to protect the lender whenever the borrowers reputation has not been well established.

In addition to the above conditions when considering an applicant's application for loan, the bank may need reliable facts such as balance sheet, profit and loss statements for a going concern or in a case of a new venture a prospectus stating estimated sales, expenses and anticipated profit.

Even where all the above are given the loan contract may still impose some other difficult conditions.

a) Such as lenght of loan period and schedule for repaying instalments.
b) Interest and other charges.
c) Provision that the entire balance of the loan be made due and payable immediately if any default is made in repayment.
d) Any warrntee that may be necessary.
e) Requirement to maintain working capital at the proper level.

f) Restriction on other borrowing during the life of the loan.

g) Description of assets, if any pledged to secure the loan and the term under which they are pledged.

h) Restriction on the payment of salaries and dividends or distribution of earnings during the life of the loan.

It should be noted however that though the mixed or multinational banks control the banking industries and has the largest resources, their main pre-occupation was to exploit the best possible avenue for maximising their profit. As a result most of them found, (with the exception of compulsory rural penetration into local area) in large cities like Lagos, Kano, Ibada, Enugu, Benin and Kaduna, they tend to give more priority to areas where return justifies the cost of maintaining the office.

As regard financing, the commercial banks conditions and hectic procedure of granting loan is to ensure investments in projects economically and commercially viable and as much as possible they avoid investing in projects whose expected return do not well compensate for the risk involved.

From the above, ti could be safely said that the small-scale industrialist will not meet the lending requirements of commercial banks.

It was in the realisation of this situation that the Federal Government directed all commercial banks in 1979 to allocate a minimum of 10% of their total loans and advances to Indigenous small-scale industrialist located in their area of operation. And in 1981, the Federal Government raised the percentage to 16%.

As a result between 1980 and 1982 the commercial bank loans and advances to small-scale entreprises amounted to ₦504.8 million(5) as per Table 4.1.

Table 4.1

TOTAL	1980 ₦113.4 Million	1981 ₦185.00	1982 ₦206.4
A Category	12.1	20.5	26.3
B "	16.2	21.4	18.8
C "	16.0	25.8	22.0
D "	22.3	24.7	32.0
E "	46.8	92.6	107.3

Source: Central Bank of Nigeria:
Bullion (News from Central Bank) volume 8 No.2, April - June, 1983.

It is clear from the above table that about 50% of all commercial bank loan from 1980 - 1982 went to category E companies and since these various categories are fefined in term of turnover and category E with a turnover between "200 - 500,000 clearly shows it belong to larger scale industries since by definition small-scale are in range of ₦150,000 and the real small-scale who

needs a lot of fund to expand get slightly less than 12% of the total loan given.

The conclusion one can reach here is that commercial banks in Nigeria gave loan to compnaies that have enough money and deny loans to needy compnaies.

However, commercial banks loan to small-scale industries in Bauchi State between 1979 to 1984 look like this.

Table 4.2

Commercial Banks Loans & Advances to Industries ₦(000)

Year	Small-scale Business	%	Large-scale Business
1979	2,018	8	23,376
1980	1,809	6.5	27,176
1981	Not Available		20,376
1982	823	6.7	12,236
1983	Not Available		6,768

Source: Ministry of Trade and Industries, Industrial Development Centre, Bauchi.

Also from the above Table it is also clear that the commercial bank do not care much about the small-scale industries. And even these little loan provided are those who are in a position to provide concrete collateral for the loan.

However, the failure of Nigerian commercial banks to serve as major of fund for the small-scale industries be attributed to many reasons.

First of all, while loan is desirable for small-scale industrial development for any nation, the essence of the loan is to ensure prudent utilization, so that the lender is assure of repayment and subsequent revolving of the fund. But unfortunately majority of small-scale industrialist lacked management and technical skills to ensure proper utilization of the fund, and to worsen it most small-scale industrialist have higher propegsity to consume so they end up using the loan for ostententious living, hence commercial banks' fear is that regard, prevent them from giving loan.

4.4 - Small-scale Industries Credit Scheme

Having regard to the essentially similar and difficult situation faced by small-scale industries in Nigeria, the second National Development Plan (1970 - 1975) incorprated the small-scale industries Credit (S.S.I.C.) 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 sent up by each state government to give loans to small-scale industries on liberal terms. The state contributions to the credit fund wwer augmented by matching Federal contributions to supplement the lending operations.

It was apparent towards the end of the Second Plan that Government would have to be the main source of finance for small-scale industries during the Third Plan period as well (1975 - 1980), inspite of efforts being

made to stimulate lending to this sector by commercial banks and other institutional financing agencies. The Small Industries Credit Schems have, therefore, been continued under the Third Plan and substantial allocations of funds have been made to the Credit Schemes by both State and Federal Governments to meet the growing credit needs of the small industries sector. The allocation of additional funds is of the order of ₦50.00 million to meet the estimated envestment requirements of small-scale industries during 1975 - 1980(6).

4.5 - 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 ₦150,000.00 in machinery and equipment only. The loan is to be given for the expansion and modernisation of existing small-scale enterprises of the mechanised type to manufacture relatively sophisticated consumer goods as well as simple producer goods. The credit scheme is thus meant for giving financial assistance as support not only to the small-scale industries, particularly for their process improvement.

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 ₦10,000. 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. However the total fixed and working capital loan should not exceed ₦80,000 in any single case.

Normally, no loan is to be granted for the erection or expansion of the work-place. Only in special cases where the present work-place is considered unsuitable for the process to be carried on, or, where the applicant is being compelled to move from a non-conforming to a conforming area under Town Planning Regulations, a part of the loan can be granted for the construction or modification of the work-place or the factory-shed.

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 to set up modern small-scale enterprises; but certain categories of persons, e.g. Civil Servants, Statutory Corporation 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(7).

4.6 - Procedure for the Grant of Loan

The Small-Industries Credit Scheme in every state is operated by a Loan Management Committee specially

constituted for the purpose by the State Government concerned. Any small industrialist desiring to have a loan under the small industries credit scheme of the state where the industry is already functioning or is to be started, will have to apply to the Secretary of 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 in question and will give estimates of the total project cost, machinery and equipment cost, work capital requirements, scope of marketing the product, expected profitability and break-even point of the project.

The Committee shall decide whether the loan is to be granted, based on the techno-economic feasibility of the project.

4.7 - Terms and Conditions of Loan

In addition to any specific conditions which may be imposed by the Loan Management Committee, the following

are the terms and conditions which are generally applicable to all loans granted by the Committee:

a) The borrower 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-hearly or yearly 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.

4.8 - 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, no part of the approved loan should be paid in cash to the borrower prior to the delivery of the machinery required for setting up the enterprise.

4.9 - Security

The Loan Management Committee may accept as security for the loan such assets as land and buildings, 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 a S.S.I.C. loan must be insured against loss by fire with an Insurance Company acceptable to the Loan Management Committee.

4.10 - Investment Briefing

The Secretariate of the Small Industries Credit Scheme not only supplies the loan application forms but also provides information on investment priorities and guides the applicant in the selection of promising small-scale industries. The Secretariate also gives assistance in the filling up of the loan application forms. The prospective investor can also consult the Industrial Development Centre serving his state for similar advice and guidance. Prior consultation with the S.S.I.C. Secretariate have very limited scope for expansion and to choose one of the prospective small-scale industries with good scope for expansion in the area.

4.11 - Supplementary Information

The following documents are required to be attached to the loan application forms at the time of submission:

i) Three copies of passport-size photograph, certified by a Divisional Officer, District Head or a person of Standing.

ii) Photostat copies (not original) of the right of occupancy of land owned and layout plans for the proposed project.

iii) In the case of partnership concerns or limited companies, photostat copies of the registration certificate, partnership agreement, memorandum and articles of association.

4.12 - Loans and Advances

So far a total of 206 projects have been assisted by the scheme involving the sum of ₦2,216,512[8] of which a sum of ₦2,006,000 already disbursed in Bauchi State.

However the source, though the largest institutional source of assistance have not been very successful due to the following reasons:

a) Inability of the scheme to secure enough fund from the state and federal government for onward disbursement to loan applicants.

b) Poor repayments by beneficiaries who consider the loan as part of their share of the Nationa Cake.

c) Lack of qualified manpower to assess loan applications and monitor projects.

However in spite of all the problems some successful industries got their assistance from the scheme.

4.13 - The Nigerian Bank for Commerce and Industry

Financial capital has long been identified as one of the greatest problems of most Nigerian entrepreneurs. This problem became more acute with the promulgation of the Nigerian Enterprises Promotion (Indigenisation) Decree (1972) which transferred to Nigerians certain enterprises fron non-Nigerians.

To mitigate the problems of scarce financial capital, the Federal Government established the Nigerian Bank for Commerce and Industry (NBCI) by Decree No 22 of April, 1973.

4.14 - Functions

The functions of the NBCI range from 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 Bannk, 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 services such as loan syndication, guarrantees, 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:

1) 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 orocessing business.

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

2. Give financial assistance less than ₦20,000.00 to a new client.

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

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

5. Provide financial assistance to anybody (e.g. State Governments) for unspecified projects.

6. Provide financial assistance to any project which it has not appraised and adjudged viable for its purposes.

7. Make investment in non-corporate bodies i.e. in partnerships and sole businesses.

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

9. Provide loan in excess of the project's acceptable mortgateable fixed assets unless collaterals are available to provide a security value of more than the amount of the loan.

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% to 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, denominated in 'shares', is made up of 500,000 shares of ₦100 each and the total capital has been fully paid up.

It should be noted that Article (vii) of the Bank's limiting functions clearly probibits investment in non-corporate bodies such as partnerships and sole businesses. Therefore, the bank could only deal with businesses which have been incorporated into limited liability compnies. Table 4.3 shows the size structure of NBCI commitments in the period 1973 - 1975.

Table 4.3

Size Structure of NBCI Commitments 1973/75

Activity	Under ₦150,00	₦150,000 to ₦300,00	₦300,000 to ₦500,000	Over ₦500,000	Over ₦1 m.
1. Food and Beverages	6	3	2	-	4
2. Textiles			1	1	1
3. Wood & Wooden Products	1	1	-	2	1
4. Pulp and paper	-	2	-	2	1
5. Chemical	-	2	-	2	-
6. Non-Metalic Minerals	1	2	1	-	3
7. Machinery, Basic Metal	-	3	1	1	2
8. Electronic, Electrical	-	2	-	1	-
9. Other Manufacture	-	2	-	-	-
10. Tourism	1	2	-	1	1
11. Other Services	2	1	3	-	-

Source: Nigerian Bank for Commerce & Industry.

It is clear from this table that participation under ₦500,000 (₦0.5 million) represented 39 out of 61 projects (64%) wich the concentration within this size group in terms of number of projects in the ₦0.15 million to ₦0.3 million category (20 projects).

As a result of this neglect, of the 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.

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 ₦500,000 are eligible.

According to this scheme, the maximum amount to be loaned would be ₦250,000 depending in the type and special requirements of each project. There is no lower limit. Generally, loans will carry a low interest of 6% p.a. (this has recently been increased to 10% p.a.). Disbursement of funds to successful applicants will only commence after the Loan Agreement has bee duly signed by the applicants and their guarrantors. Similarly to the S.S.I.C.'s payment 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 is commissioned.

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 guarrantors 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 e encountered during its implementation. So far, a total sum of ₦54,229,000 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 nineteen states of the Federation.

4.15 - NBCI and Bauchi State

In Bauchi State since the opening of a bank branch in 1979 it has approved and disbursed a total sum of ₦1,879,000 to 46 projects as per Table 4.4.

Table 4.4

Loans and Advances by NBCI to SSIS in Bauch State

	No.	Amount ₦(000)
1. Agro Based and Food Processing	17	₦716,956
2. Building Materials and related projects	9	345,094
3. Electrical and Machanical Workshops	3	180,000
4. Textile Projects	2	80,000
5. Transport Projects	3	135,000
6. Printing Service	1	65,000
7. Furniture and Woodwork	8	207,600
8. Others	3	150,000
T O T A L	46	₦879,650

Source: Nigerian Bank for Commerce and Indusry.

The aboved projects were distributed among the local governments as follows:

Table 4.5

Local Govt. Area	No. of Projects	%
Bauchi	12	26%
Gombe	8	17%
Katagum	6	13%
Misau	6	15%
Tangale Waja	2	4%
Tafawa Balewa	2	4%

Table 4.5 (contd)

Local Govt. Area	No. of Project	%
Gamawa	1	2%
Shira	1	2%
Toro	1	2%
Darazo	1	2%
Ningi	1	2%
	46	100%

The projects based on local government distribution were unevenly distributed throughout the state because four local governments out of the 16 took almost 70%.

However, sources in the bank attributed this to many factors which include:

a) Inability of entrepreneur in the other local governments to present a viable proposal that meet with the requirement of the bank.

b) Lack of adequate fund to finance projects to all the applications from various sections of the state.

c) No adequate collateral present to secure the loan.

4.16 - The Nigeria Industrial Development Bank Limited

The Nigeria Industrial Development Bank Limite (NIDB) was established in 1964 as an industrial development finance company through the reconstitution of the Investment Company of Nigeria Limited (ICON).

Functions

ICON was incorporated in 1959 with the objective of assisting industrial, commercial, and agricultural enterprises in Nigeria generally by:-

i) assisting the creation, expansion and modernisation of such enterprises;

ii) encouraging, sponsoring and facilitaing participation of internal and external capital in the ownership of investment, shares, and securities;

iii) creating, expanding and stimulating investment in shares and security markets;

iv) and in particular by providing finance in the form of long-and medium-term loans or shares, participation and sponsoring and underwiring the issue or conversion of shares and securities;

v) by furnishing managerial, technical and administrative advice and services to Nigerian industry, commerce and agriculture.

ICON operated for five years between its formation in 1959 and 1964 when it was reconstituted into the present NIDB. One of the reasons for the reorganization was the need for an institution which had the full backing of all the government of Nigeria without being under their direct control and commanded and enjoyed the full confidence of local and foreign investors.

Such an institution would be in a position to promote Nigeria's economic development effectively because it would be independent of political or other influences. This was the rationale behind the establishment of the NIDB on 22nd January, 1964.

The NIDB commenced operations with an authorised share capital of ₦10 million out of which ₦4 million was issued and fully paid at once as ordinary shares and ₦500,000 in non-voting preference shares. ₦2,040,000 of the ordinary shares or 51% of the company's voting capital was designated 'A' ordinary shares, and reserved for Nigerians and international organizations such as IFC, of which Nigeria is a member. The remaining ₦1,960,000 ordinary shares, classified as 'B' shares, may be subscribed by any interested investor, whether Nigerians or foreign. In addition, the Federal Government gave NIDB an interest-free long-term loan of ₦4 million repayable in equal annual instalments during the period 1980 - 1984.

The Bank was also empowered to borrow up to 3 times its issued share capital, reserves and subordinated borrowings. By 31st December, 1977, the total resources of the NIDB stood at ₦148 million. This constituted ₦113 million in borrowed funds in local currency from the Federal Government and ₦10 million in foreign currency from the World Bank(8).

However it should be noted that though Nigerian Industrial Development Bank was established to facilitate the Industrial Development in Nigeria, its assistance is limited only to medium and large scale Industries.

Summary

This chapter discussed in detail the various sources of finance for the small-scale industries, their procedure and conditions was fully discussed.

The next chapter will then look at the extent to which these sources have played in financing the industries, through the analysation of the responses received.

Footnotes

1. Questionnaire.
2. JEGA, M.I., "Institutional Financing of Small-scale industries in Nigeria: A case study of Sokoto State" Unpublished M.B.A. Project, Ahmadu Bello University, Zaria, 1984, P. 86.
3. Ibid - P. 87.
4. Ibid - P.88.
5. "Bullion" Volume 8 - No. 2, April - June, 1983.
6. "Small-scale Industries Credit Scheme" A pamphlet of Federal Ministry of Trade and Industries - Lagos, P. 9.
7. Ibid - P. 10.
8. NIDB.

CHAPTER FIVE
DATA ANALYSIS

In an efforts to get an indepth investigation into the nature, problems and financial structure of small-scale industries in Bauchi State, one hundred questionnaires were distributed to the various industries using purely random sampling. However, only a forty eight responses were received and it is on the basis of information received from the respondents that the analysis is based.

5.1 - Ownership Pattern

In order to ascertain the ownership pattern of small-scale industries, a question was incerted and the responses are summarised in Table 5.1.

Table 5.1

Type of Ownership	No.	Percentage
Sole Proprietorship	42	88
Partnership	5	10
Private Limited Liability	1	2
T O T A L	48	100

Source: Computed from Questionnaire.

From the above table one can clearly see, sole proprietorship form of ownership as the most common in the small-scale sector of Bauchi with about 88% of the total number of units.

However, the nature of this pattern could be attributed to historical background where businesses where organised on the basis of family and individual ownership, and even with changes of time entrepreneurs still prefer to maintain the same pattern rather than going into partnership or registered private company.

In an interview also to find the reasons for this, some entrepreneurs maintain that the business was either inherited from their grandfather or father and that selling some shares to somebody outside means bringing an outsider to share the property of their deceased father, which is contrary to their religion and in most cases not acceptable to all members of the family. However, it has been observed that the predominance of the sole proprietorship in the state has resulted in the low output, inefficiency, high incidence of failure and above all shortage of fund, since an individual or family contribution tend to be very small as compared with partnership or private limited. Infact is is the more reason why financial institutions are aversed to providing assistance in a form of loan and advances to this kind of business. It also explain why the Nigerian Bank for Credit and Commerce is not very effective since its area of assistance covers only small-scale industries with private limited liability ownership pattern.

However, though the proportion of sole proprietorship is still high, but if we compare it with a research

conducted in 1982 by Hamid Abdul Hamid (where sole proprietorship constituted 96% of the total sample).

We can see that there are some departure and some attention is given to the private and partnership pattern of ownership and it is expected that with the realisation of the need to pool resources together and make businesses more efficient, and also the need to benefit from Nigerian Bank for Credit and Industry and other financial institutions more entrepreneurs will come together and form partnerships and private limited liabilities companies, which will also help towards an accelerated development of the small-scale industries and make them more financially solvent.

5.2 - Nature of Business

The nature of small-scale industries in Bauchi State can be seen from Table 5.2.

Table 5.2

Nature of Business	No. of Units	Percentage
Bakery	18	38.00
Block Making	14	29.00
Machanical Workshop	3	6.00
Poultry	6	12.00
Furniture Making	3	6.00
Stone Crashing	2	4.00
Candle Making	1	2.00
Leather Work	1	2.00
Others	2	4.00
T O T A L	48	100.00

Source: Same as Table 5.1.

As earlier stated all the sample population are randomly selected, therefore there was no intention to establish any kind of homogeinity among the industries selected.

The Table show a clear preference for the manufacturing sector, notably block making, Bakery and Poultry farming which take about 80% of the total small-scale industries in Bauchi State. This result is in comformity with finds from a similar research conducted in Sokoto State with over 60%(2) and Kano State with over 70%(3). However, it contradict a similar study of industries in Bendel, Kwara and Lagos States, because in that study, the manufacturing industries has less than 1% while service industries such as motor vehicle repairing and filling stations has a higher percentage of 6.5%, 5.5%, 4.5% in each of the States respectively(4). However, the contradictions can be attributed to the higher number of vehicles in these states, predominance of big business engaged in the manufacturing sectors in these areas.

But in the case of Bauchi State the predominance of the manufacturing concern could be due to the fact that the government clearly expresses its intention of favouring the manufacturing concern in terms of loan, free land and tax concession than the service industries.

The predominance of others like block making could also be due to the reasons which include the fact that Bauchi State is newly created therefore a lot of building projects are undertaken for offices, residential accommodations and various industries, which provide a ready made market for the products of these industries. It could also be due to the availability of cement in the state.

Another explanation of the predominance of these industries is the fact that they provide a quick return, in other words, the business man does not have to wait long before revenue starts coming and require a simple technology to operate, unlike filling station which take time and money to build the station and a very hectic process of acquiring dealership or a mechanical workshop which takes time to learn the technicalities of mechanics before one becomes an expert.

Finally with government preference for manufacturing concern it is hoped that this pattern will continue to grow to provide employment opportunities.

5.3 - Use of Labour

The question pertaining to the use of labour tries to find out the number or percentage of small-scale industries that use the three basic categories of labour notably the skilled, semi-skilled and unskilled.

However for the purpose of this classification the following definition is given for the various categories of labour. A skilled worker is one who has acquired both the theoritical and practical aspect of his work, through training, apprenticeship and other form of education, in other word he is expert on his job.

A semi-skilled worker on the other hand is one who is on the process of learning the technicalities of his work while an unskilled worker is one who lack the knowledge or whose work does not require any technicality.

The responses from the various industries given the questionnaire are shown in Table 5.3.

Table 5.3

Type of Labour used	No. of Industries	Percentage
Skilled	1	2.0
Semi-skilled	12	25.0
Unskilled	35	73.0
T O T A L	48	100.0

Source: Same as Table 5.1.

From the above table it has clearly shown that out of the 48 industries visited, 35 or 73% of them used the unskilled labour, then 12 or 25 of them use the semi-skilled labour and only 1 or 2% use the service of the skilled workers.

The above pattern could be attributed to various reasons which include an inherent shortage of finance which make the small-scale industries not in a position to pay for the service of the skilled workers or it could be due to the fact the nature of their operation does not require the service of a skilled worker. It could also be explained to the fact that since most of these businesses are of the family type they tend to depend on the members of the family for all their operation, due to their distrust of an outside qualified worker. Another reason could be attributed to failure by skilled workers to work in these small-industries.

However whetever may be the reason the use of unskilled workers by small-scale industries in Bauchi State has contributed in no small way to their inefficiency, wastages, low quality products and easy failures.

5.4 - Number of Persons Employed

To determine really whether or not the small-scale industries help in the provision of employment in the state, a question as to the number of people these industries employed and the responses was summarised in Table 5.4.

Table 5.4

Number of Workers	No. of Units	Percentage
1 - 5	16	33
6 - 10	22	46.5
11 - 15	10	20.5
16 - 20	-	-
Over 20	-	-
T O T A L	48	100

Source: Same as table 5.1.

The above table clearly shows how small the number of workers small-scale industries in Bauchi State employ. Infact almost 80% of them employ 1 - 10 people.

The explanation of the above could be due to the fact most of the industries are very small in nature or still in their infacy or it could also be due to the fact that they don't have the money to pay workers especially if we consider the 1982 minimum wage coupled with the expulsion of illegal aliens who used to provide very cheap labour.

5.5 - Source of Raw Material

Table 5.5 below shows the various places by which small-scale industries in Bauchi State get their supplies of raw materials.

Table 5.5

Source	No.	Percentage
Local	20	42.00
Imported from other states	24	50.00
Imported from Abroad	4	8.00
T O T A L	48	100.00

Source: Same as table 5.1.

Basically there are three sources of raw materials for small-scale industries in Bauchi State which include:

i) Local or within Bauchi State.

ii) Imported from other states of the Federation.

iii) Imported from abroad.

However the result shows that about half of the total industries import their raw materials from other states of the Federation. Infact this is in comformity with the nature of the industries in Bauchi State with Bakery having the largest number of units and since their basic raw materials is flour and sugar all of them depended on Kano, Borno and Gongola States for their raw materials, but as stated earlier, Block industries which constitues the second largest get their supply from Ashaka cement factory located in Bauchi State.

5.6 - Amount of Capital Employed

Infact this is one area which the researcher put the greatest emphasis on his research, but unfortunately it is the area where it has been extremely difficult for the industrialist to answer with some precision, because as the questionnaire asked them to write their total investment in the industries most of them due to poor record keeping and problems of valuing land and an existing building, their responses tend to be not very accurate. However to allow for some deviation the researcher put their responses into some kind of range as in Table 5.6.

Table 5.6

Amount (₦)	Number	Percentage
5 - 50,000	29	61.00
51 - 100,000	15	31.00
101 - 150,000	3	6.00
Over 150,000	1	2.00
T O T A L	48	100.00

Source: Same as table 5.1.

The above table clearly show that over 60% of small-scale industries in Bauchi have a total investment of between 5,000 - 50,000, now since nature of business in table 5.2 show an over 80% predominance of manufacturing concern like Bakery, Block making and Poultry farming, it shows majority of these industries have a total investment of between the above range.

However, if we take a typical investment requirement by Dr. Kayode A Olomu in Business Concord's issue of 3rd, 10th and 17th May, 1985 which shows the following requirement.

Table 5.7

Block Making Estimated Project Cost	
Capital Cost	
1. Land and Building	₦20,000
2. Plant and Equipment	45,000
3. Furniture and Fittings	5,000
4. Delivery Vehicle	15,000
5. Preliminary Expenses	5,000
6. Working Capital	20,000
T O T A L	₦110,000

Table 5.8

Poultry Farming Estimated Project Cost	
1. Land and Building	₦60,000
2. Plant and Equipment	30,000
3. Furniture and Fittings	5,000
4. Delivery Van	10,000
5. Preliminary Expenses	5,000
6. Working Capital	40,000
T O T A L	₦150,000

Table 5.9

Bakery Estimated Cost	
1, Land and Buildings	₦150,000
2. Plant and Machinery	75,000
3. Furniture and Fittings	15,000
4. Delivery Vehicle	10,000
5. Preliminary Expenses	15,000
6. Working Capital	50,000
T O T A L	₦315,000

Source: Business Concord - Friday 17th May, 1985.

If we compare the estimated project cost of all the three projects above and compare it with the total investment of the Investors in Bauchi State, one finds that there is a gross shortage of fund which make the industries operate at an estremely low level using only the fund available to them.

However, to understand some of the cause of this shortage the researcher try to find the amount of loan granted by the small-scale industries credit scheme which is the largest Institutional source of finance for the small-scale industries in Bauchi State and the finding is summarised in table 5.10.

Table 5.10
Amount of Loan Granted by SSIC

Type of Project	Amount
Block Making	₦40,000
Bakery	14,000
Poultry	45,000
Furniture Making	17,000
Mechanical Workshop	60,000
Stone Crashing	46,000

Source: Small-scale Credit Scheme, Bauchi.

In an interview to find how the amount granted was reached with the officials of the scheme, it was stated that, the amount was based on the cost projected by the Industrial Development Centre which is the centre concerned with feasibility and costing of projects of the small-scale industries.

However, a typical estimate by the Industrial Development Centre, Bauchi in respect of Abdulkadir Y. Wanka for a nail factory for which a sum of ₦46,000.00 was approved look like this in table 5.11.

Table 5.11

Capital Investment	
a) Land (Right of Occupancy)	₦275.00
b) Building and Cost of Land	₦50,000.00
c) Machinery and Tools	75,000.00
d) Furniture	3,000.00
e) Motor Vehicle	9,000.00
f) Premiminary Cost	5,614.00
g) Working Capital	18,632.00
Total Investment	₦161,521.00

Source: Small-scale Credit Scheme, Bauchi.

From the total of table 5.11 and the amount approved as loan, it is clear that there is some kind of contradiction between the assertion of the small-scale officials and amount of credit granted to the small-scale industrialist.

Therefore, one can say that, the shortage of fund could be attributed to inadequate loan given by the small-scale credit scheme and poor contribution on the part of the owners.

Table 5.12
Capital Structure

Type of Ownership	Owner's Contribution(%)	Borrowed Fund (%)
Sole Proprietorship	22	88
Partnership	38	52
Private Limited	40	60
T O T A L	100	200

Source: Same as table 5.1.

From the above table, it is clear that the sole proprietorship type of ownership has a personal contribution of just 22% of the total fund invested in the business while the partnership and private limited liability company has a more higher percentage of 38% and 40% respectively.

The explanation for the above pattern could be attributed to the fact that while the private and partnership companies have more hands to contribute to the total financial requirement of the industry, the sole proprietor depended on his own saving alone.

The effect of the above is that the partnership and private limited liability are more financially sound and more efficient and has less risk of bankrupcy from creditors.

It also shows why financial institutions are not willing to grant loan because the owners contribution is so little and in case of loss they tend to bear the greatest burden.

Table 5.13

Source of Initial Finance

Source	Number	Percentage
Self Contribution (Savings)	22	46
Small-scale Grant Scheme	22	48
N.B.C.I.	3	4
Commercial Banks	1	2
T O T A L	48	100.00

Source: Same as table 5.1.

The above table shows clearly that the government sponsored credit scheme is the largest source of finance for small-scale industries in Bauchi State, closely followed the self contribution of individual owners which include loans from friends and relatives. However, the commercial banks and Nigeria Bank for Credit and Commerce provide a small percentage of only 8%.

Therefore, if we classify the sources into institutional and non-institutional source, we find that the institutional source provide 54% as compared with 46% for non-institutional source.

However, this result contradict a similar but earlier studies in Sokoto and Kano States. For example in Sokoto personal saving provide the single largest source of 49%(8), Kano 58%(9).

Still if we take the contribution of the government sponsored credit scheme, we find that while Bauchi State have a total of 48%, Kano State has 16% and Sokoto has only 7.2%.

Morever, one thing to note that even though institutional financing has a higher percentage than the non-institutional source, it should be understood that the small-scale credit scheme takes the highest percentage of 48%, showing that the main institutional source notably commercial banks and development banks are not established in the state unlike Sokoto and Kano States,

or it could be due to the fact, the small-scale industries in the state rarely meet the requirement of these banks therefore, the state government has to come to their aid in terms of financing.

However another explanation for the higher percentage of government assistance in the state government deliberate policy of encouraging the development of these industries as a basis for industrial development.

But one thing is that the continued government assistance for loan can only be in the short-run since the government itself has many other obligation to the people like water, education and medical care which are more important than giving loan to businessmen and women. Another factor that could hinder the financing of the small-scale industries by the government as explained by an official of the scheme is the inability of loan beneficiaries to pay back since most of them consider the loan as part of their share of the national cake.

5.9 - Further Capital Requirements

By further source of finance, it means a situation where the business has already stated but some more opportunities such more market, requres an expansion of the existing capacity by adding a new machine or the establishment of a new factory or service station in a different part of the state. Therefore, the source of this finance is summarised in table 5.14.

Table 5.14

Source	No.	Percentage
Self Contribution	14	29
Loan from friends	16	33
S.S.I.C.	7	14.5
N.B.C.I.	8	16.5
Commercial Banks	3	6
T O T A L	48	100

Source: Same as table 5.1.

From the above table there seemed to be a clear departure from the source of finance for initial taking off, because here the largest source for expansion is secured from friends and relatives who contribute more than one-third. Then the government sponsored small-scale credit scheme which was the largest initial source of finance has little contribution. And of prominance is the contribution of Nigerian Bank for Credit and Industry which at the initial stage has 4% but now rose to 16.5%.

However, the explanation for the above changes could be due to the following. First of all the small-scale credit scheme rarely provide further loan unless the previous one has been liquidated fully, and the fact that many people are seeking the loan it tends to give priority to fresh applicants.

In the case of NBCI, the reason is that, as business starts, through efficiency or other factors, it growth and perhaps attract more investors who were initially doubting the viability of the project, but once it successfully took off, they come and invest, thereby changing the ownerships from a sole proprietor or partnership to registered private limited liability companies which qualifies for assistance under the NBCI guideline.

Unfortunately one sad thing about the result is that retained earning which is suppose to be a good source is completely absent with zero percentage contribution, showing that the businesses are not making enough profit or owners are after short-run benefit by taking the whole profit as dividends.

5.10 - Knowledge of Institutional Source of Financing

Knowing the existance, particular services rendered by an organisation is an important factor in determing the efficiency of that organisation, and it is for that reason that question was put in the questionnaire to know whether or not small-scale industrialist know about the existances and services rendered by the various financial institutions in the state and the responses are summarised in tables 5.15 and 5.16.

Table 5.15

Institutional Sources	Number	%
S.S.I.C.	46	96.00
Commercial Banks	25	52.0
N.B.C.I.	5	10.0
	75	100.0

Source: Same as in table 5.1.

Note: Total number of responses exceed total respondents due to multiple responses.

From the above table, it is clear that almost all the small-scale industrialist are aware of the existance of the government sponsored credit scheme. This is due to the fact that it is the largest financer of small-scale industries in the state.

The commercial banks on the other hand are known by about 50% of the industrialist, but one thing to note is that almost all of the industrialist know of the existance of the commercial banks but only that they don't know whether they provide loan for small-scale industries. Infact this is due to less attention given to small-scale industries by these banks in the state.

However, the N.B.C.I. which is created purposely to facilitate the growth of small and medium scale industries is known by a negligible percentage of 10%, but the reason could be due the newness of the bank or lack of publicity by the banks officials about its existance and services.

Infact the source of knowledge is another factor which table 5.16 shows.

Table 5.16
Source of Knowledge

Source of Knowledge	No.	% to total
Through Friends	20	41.5
Employees of the Institution	12	25.5
Village/District Head	8	16.5
Official Source	8	16.5
T O T A L	48	100

Source: Same as table 5.1.

From the above table, it shows the unofficial source of information constituting a greater percentage with over 60;, while the official source notable district heads and official source by the bank account for less than 40%.

This nature contributed to poor patronage by the industrialist since a friend can only tell a prospective applicant about the existance but can rarely give detail about the nature of projects given priority, requirements, such as collateral and other things that are very necessary before the loan is applied. Hence the prospective applicant based on small information, apply haphazardly and his application ended up being rejected, then the news he spread is that this bank do not like financing small-scale projects and it will end up discouraging others from applying, especially from his local area.

5.11 - Procedure of Granting Loan

The procedures adopted by financial institutions in processing loan application are almost the same in Bauchi State. It include such things as filling application form, submission of documents like registration certificate, statutory certificate of occupancy of land, proforma invoices from suppliers of machinerry and equipments, feasiblity report of the intended project and actual cost. It also include things like owners contribution and host of other information.

To determine the satisfaction or otherwise of this procedure question was asked in the questionnaire and responses summarised in table 5.17.

Table 5.17
Loan Processing Procedure

	No. of Units	Percentage
Satisfactory	12	25
Unsatisfactory	36	75
	48	100

Source: Same as table 5.1.

From the above responses, 75% of the small-scale industries in Bauchi State express their dissatisfaction about the procedure. Personal interview with those respondent attributed their contention to the fact that it takes much time to process their application and that they have to call at these institutions frequently, which is not only costly, but prevent them from attending to other businesses they have.

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The second area of contention was the fact that most of them find it very difficult to meet these conditions and since these institutions are very rigid on these conditions, most of them who are not able to meet even a minor condition ended up being frustrated.

However, further investigation revealed that most of those that express dissatisfaction are those who are reluctant to either register their business or even do feasibility studies because they are entering the business on assuption that Mr. X is successful therefore I also should be, hence there wouldn't be any need for feasiblity studies. And still others do not even have anything to present as collateral and yet they want to get loan.

In conclusion while it is important for financial institutions to be more flexible and realistic in putting their condition and accelerate disposal of applications, prospective loan applicants should consider it necessary to meet these condition since no one would like to invest in any unviable project.

5.12 - Rate of Interest

The rate of interest charged by the various financial institutions in Bauchi State vary.

While the government financial source notable the small-scale credit scheme charged 5%, the commercial banks charged between 8 - 11%, depending on the nature of the project and period of repayment. So to ascertain the justification of these rate, question was asked ans responses summarised in table 5.18.

Table 5.18
Interest Rate Structure

	No. of Units	%
Reasonable	46	98
Not Reasonable	1	2
	47	100

Source: Same as table 5.1.

From the responses, 98% of those asked considered the rate of interest as very reasonable and justified. However, an effort to find why they think so, most base it on the smallness of the interest figure and when asked to say how much they pay as interest, most can not even say it since they pay it along with the capital repayment, showing they are not well educated about the interest rate because as one entrepreneur put it "only 5% for a loan of ₦40,000 is ₦2,000". Not knowing that this 5% is per year not for the total years he is paying.

5.13 - Maintenance of Proper Accounts

Keeping records of things like production figure, sales volume, profits expenses incurred in the business

is not only a pre-requisite for proper and effective management but also a statutory requirement for purpose of taxation. So to find whether the various types of small-scale industries are meeting this basic requirement, a question was asked and the responses tabulated in figure 5.19.

Table 5.19
Maintenance of Accounts

Ownership Type	No.	No. of Units Maintaining Accounts
Sole Proprietor	42	3
Partnerships	5	4
Private	1	1
	48	8

Source:

NOTE: Total number of responses exceed the number of respondents due to multiple choice.

From the above table, it could be clearly seen that sole proprietor type of ownership which constitute the greatest majority of the small-scale business in Bauchi State has the least number of units maintaining proper accounts of their business. The explanation for the above could be due to lack of money to employ competent manager to handle the accounts or it could also be due to the fact that the owners do not attach any importance to it.

The consequence of it is that the business are not in a position to control cost and even know whether or not they are making profit and if they know they are not making, the cause is difficult to know, talk less of ratifying it. It could also result to tax evasion.

5.15 - Nature of Problem Facing the Industry

Table 5.20 below summarised the nature of problem facing the small-scale business.

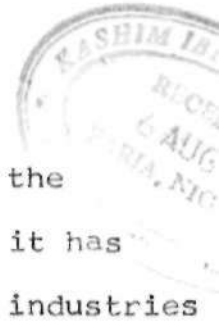
Table 5.20
Various Problems

Nature	No. of Units	%
Financial	35	73.00
Marketing	8	17.00
Management	3	6.00
Others	2	4.00
	48	100.00

Source:

From table 5.20, it could be seen clearly that 73% of small businesses in Bauchi State are faced by financial problems showing a gross inadequency to finance to this sector and the implication of it is that it deter their development.

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Summary

So far this chapter have analysed based on the responses received from the questionnaires, and it has shown clearly how the operations of small-scale industries in Bauchi State is being conducted.

Footnotes

1. Hamid Abdul Hamid, "Problems and Prospects of small-scale industries in Bauchi State". Seminar paper, Bauchi - P. 5.
2. JEGA. M.I., "Institutional Financing of Small-scale industries in Nigeria: A case study of Sokoto State". Unpublished M.B.A., Project, Ahmadu Bello University, Zaria, 1984 - P. 55.
3. ADO, B.K., "Financial Problems of Small-sclae Industries in Kano State", Unpublished M.B.A. project, Ahmadu Bello Unversity, Zaria, 1984 - P. 67.
4. Ibid - P. 67.

CHAPTER SIX

PROBLEMS OF FINANCING SMALL-SCALE INDUSTRIES

In spite of all the importance and vital roles small-scale industries had to play in the industrial development of Nigeria and Bauchi State in particular, there are various constraints that militate against their financinc.

6.1 - General Economic Condition of the Country

Though this may not be the root cause of the financial problem facing the small-scale industrial sector, but at the moment it is one of the main reasons why small-scale industries can not secure adequate finance.

Infact the economic problem of Nigeria can be traced right from 1958 when oil was first lifted and exported outside for foreign exchange, so since then the oil sector continued to get prominance over all the other sector, as a result, the production of cash crops and other source of foreign exchange for the country declined drastically and Nigeria continue to depend on oil for economic survival.

However during the early part of 1980's demand for oil all over the world decline with a concominant fall in its price, coupled with the era of a newly elected civilian administration in the country, who do not only opened the Nigerian market for all kind of manufactured goods but also embezzled the money and send them abroad.

Because of the above phenomena the then Federal Government in April, 1982 introduced what it called an Austerity measure aimed at revamping the economy and decrease the country's dependence on oil and reduce the country's imports.

However the Austerity measure banned not only the importation of luxury goods and services but also placed under licence the importation of basic raw materials for continued production, coupled with an increasing rate of inflation and other financial and monetry policies, makes it difficult for the various sources of finance for the small-scale industries to grant loan. Also the restriction on the importation of raw materials makes it very difficult for these industries to produce to capacity and get profit to substain the growth.

Hence the situation made many industries to close and many others to produce at skeletal levels.

6.2 - Commercial Banks and Small-scale Financing

Earlier analysis in chapter 4 show how commercial banks in Nigeria and also in Bauchi State committed a regligible percentage of their total loans and advances towards the small-scale sectors, and if we consider the fact that the commercial banks are suppose to be a n major source of finance to the small-scale industries one can then say that this vital source seemed to be not very helpful in this direction.

However, the inability of commercial banks to finance small-scale industries in Bauchi State could be attributed to the following factors:

i) The banks source of fund. Conventionally a bank's source of finance by which it gives loans and other advances is determined by the amount of deposit its customers lodged with them. Unfortunately in Bauchi the preference of people by keeping their money at home rather than banks where they get some return put the banks in a situation which it can't issue loans. And in most cases where accounts are opened, it is done only to meet the requirement of getting loan and as soon as the loan is granted the accounts becomes dormant.

ii) Collateral Requirements. It is a fact that financial institutions all over the world require some sort of security against ~~death~~ debt, default or insolvency for any type of borrower. Infact even in a traditional African society lenders look at financial or other assets of an individual before issuing loan to that person, and because of the risky nature of small-scale industries, collateral seemed to be a major decision factor for loan, especially long term ones. However investigation on the industries visited and requirements of commercial banks showed that most small-scale industries do not meet the collateral requirement to guarantee their loan.

Though collateral is very fundamental in deciding loan applications all over the world, but its conservative application by commercial banks in Bauchi State in particular, make the researcher to conclude that it is used as a sword against small-scale industrialist rather than as a shield to ensure comfirmity with loan requirements. For example it was discovered that most of the financial institutions require collateral in form of land, building, machinery and equipments etc whose value far exceed the amount of loan required. Unfortunately the only asset available to the small-industrialist is his farm, mostly located in the rural areas do not have certificate of occupancy, financial institutions reject them as collateral on the basis of lack of certificate of occupancy, knowing fully that most land located in the rural areas do not bear this documents (at least in Bauchi State) so the applicant is outrightly rejected through no fault of his or hers.

iii) Viability of Projects. Another factor that restrict the investments by commercial banks and other financial institution into the area of small-scale industries, is the inability of loan applicants to present projects or proposals that are viable. To be sincere no body would like to put money into project that do not guarantee a fair return.

Even though the investor's inability to present a viable project could be partially due to their inherent lack of fund to pay for a thorough feasibility research, quite a number of them do not see the necessity of conducting a thorough research before entering, while others just venture into the business on personal assumptions, simply because somebody has been successful, therefore he or she could be successful, while some infact enter into that line simply because they think it is the only area they can go.

6.3 - Small-scale Industries Credit Scheme

By far this is the biggest source of finance for the small-scale industries in Bauchi State but it has not been very successful in its functions due to the following reasons:

i) First of all like any other governmental parastatal, it is not an independent body that can secure loan from other sources for its functions, it therefore dependent entirely on allocation given to it by the Ministry of Trade and Industries which in turn dependended on the State Government. so because of this interdependences coupled with economic recession in the country, the scheme got a very small amount of money to grant loan. Infact between 1983 and 1984 the scheme approved loan totalling ₦1,872,960[1] to viable small-scale industrialist, but up to the time of writing this research the state has not been able to release fund due to poor allocation from the Federal Government.

ii) Poor repayment by Loanees. By far poor repayments has been a very big factor hindering the smooth financing of small-scale industries in Bauchi State. This is because loan beneficiaries do not in any way see the necessity of repaying these loans for the benefit of others, but rather most consider this loans as part of their share of the National Cake, therefore they rarely make any capital repayment talk less of interest due. And because the collateral requirement is more liberal than other institutions, such as piece of land or farm even in the village they hardly get buyers even if they want to dispose of it to recover their loans and where court cases are taken as a means of recovering the loan, it takes time, and some-times money paid to lawyers far exceed the benefits even where favourable judgements were given.

Hence most of the time, the small-scale industry credit scheme continued to be at the mercy of loan beneficiaries until when they feel like making some payments. Finally the essence of making the fund a revolving one is defeated due to poor repayments.

iii) Poor Monitoring of Loans Projects. In Bauchi State, loans are granted with an undertaking that the loan is going to be used entirely for the purpose by which it is given.

However, investigation by the researcher indicated that loan are used for other purposes which include such things as building houses, buying cars and even marrying more wives, at the expense of the business for which the loan is granted.

Even though the small-scale industries credit scheme gave only working capital in cash, but even the machinery and equipments given later found their way into the market and in some cases the entire business is sold to another person due to poor supervision on the part of officials of the small-scale unti. However in an interview with the secretary, small-scale credit scheme attributed the problem to lack of adequate fund and qualified manpower to provide proper monitoring.

6.4 - Development Banks and Small-scale Financing

As earlier mentioned in chapter four, in realisation the need for industrial development the Federal Government established various development with the sole aim of facilitating industrial development in the country. And in Bauchi State there are two of these development banks notably Nigerian Industrial Development Bank (NIDB) and Nigerian Bank for Commerce and Industry (NBCI).

However, the sole aim of the Nigerian Industrial Development Bank (NIBD) is to grant loan to medium scale industries with the range of ₦500,000(2) and above. It shows that the services or facilities of the NIDB is not within the reach of the small-scale industries.

But the Nigerian Bank for Commerce and Industry (NBCI), though grant soft loan to both small and medium range industries, its restriction to only private limited liability companies, and the fact that majority of the small-scale industries in Bauchi State are of the sole

proprietorship ownership (chapter five) makes it difficult to grant loan to these categories of industries even if fund is available. Unfortunately only a negligible percentage of them are of the private limited liability ownership type.

6.5 - Problems Associated with Small-scale Industrialist

Generally speaking the financial institutions could have enough funds to issue loan but unless the small-scale industrialist play their own part well there is going to be a lot of problems in successful financing of small-scale industries. There problems include the following:

1. Poor Saving. In Nigeria in general and Bauchi State in particular due to the economic recession little amount of capital is available for saving and subsequent investments. However the problem of savings in Bauchi State could be attributed partially to the folowing:

a) General Inflation in the country which make the cost of things like food, cloth and basic necessities of life very high to the extent that many people even live below subsistance level, therefore all the available money which could have been saved for investment is now used for the satisfaction of basic necessities of life thereby living little or none for saving.

b) Extended Family System. The Religion and Cultural norms of the peole in Bauchi State allows individuals to marry as many as four wives and in some areas even more, which result in the production of so many children and grand children. And since all the family members depended so much on the faily income, therefore much of the resources which could have been used to invest in business is now used to feed and cloth the family, pay for children education and marry the daughters which all involved a lot of expenses.

c) Ostententious Living. Generally speaking, most Nigerians have a high propensity to consume. Infact an investigation by the researcher revealed that as soon as these small-scale industrialist secure loans or make profit from an existing business, the tendency is to start building good houses, marrying more wives and buying flashy cars which they believed is a sign of prestige. Instead of investing it further into the business, so is very common to see an entrepreneur whose business is going in a snail speed at the same time he goes a head and buy a new mercedese, Honda Accourds and other expensive cars which as he think is more important to him than expanding his business. While others prefer to stop the line of production and put themselves as government contractors, suppliers, distributors and peddlers of big industries product which they think is quicker and better way of making money.

Hence they ended up abandoning the business they were originally engaged to a new line which may not last long.

6.6 - Manpower Problems

An organisation may have a sound finance and potential market opportunity, but as long as there are no adequate and qualified manpower to ensure optimum utilization of resources, that organisation is going to be in a real mess. Unfortunatly this is the situation most small-scale industries found themselves in Bauchi State. Infact research into the management of small-scale industries in the state showed a very poor manpower situation and the research found that most of them are not willing to employ more than their close relatives or family, who do the work not as paid workers but as their contribution towards the family progress, while those who employ, mostly take unskilled and a little percentage of semi-skilled even where the job requires a lot of technicalities that requires the attention of an expert.

However, research into the course of the proble of manpower indicated the folowing reasons:

a) Shortage of fund to pay them. Employing skilled workers on various managerial positions requires a lot of money as salaries, medical cares, rents transport and other allowances and since most small-scale industrialist do not have the resources to employ and maintain them, they end up employing those unskilled ones whose services is relatively cheap and easy to maintain.

b) Competition from Big Business. Sometimes even where small-scale industries can afford to pay for the services of qualified worker, they find it difficult, because of their shortages and competition from big businesses who can afford to pay them higher salaries and other condition of service.

In some cases even where small-scale industries are willing to pay as much as the big businesses or even higher, some people especially at the managerial level look at it as a disgrace after all their education and training only to come and work in a small firm. Whith they can't beat their chest somewhere and say they work in such a place, others look at working in such organisation as a risky decision since the small business itself is very risky and the fact that the sole owner is the alpha and omega there, a small miunderstanding between him and worker can easily lead to the termination of his appointment even if he is going his work efficiently. Still others look at it that after working in a small organisation, if they fill changing job, other organisation especially big ones will not consider experience in these small-scale industries as any meaningful experience.

In some other cases prospective employees don't like working with small businesses because of their belief that there is no much work to keep them busy as a result they end up being redundant and unable to practice their acquired educationa and practical knowledge.

Others contention for not working in a small organisation especially sole proprietor, is the fact that people particularly the owner's sons relatives attribute whatever success or furtune one makes while working in that business to the owners, for example if a worker like manager of a sole proprietor firm bought a new car or build a house even if the source of his income is from somewhere, the sons or relative always think he embezzled their fathers money to do the purchases, some even go to the extent of calling him all names until he get intimidated and leave the job.

In conclusion though the industrial development centres are there to help them but poor publicity make its utilization less.

6.7 - Production and Marketing Problems

Poor or lack of proper technological base associated with production is another problem facing the small-scale industries in the country. Because the small-scale industries operate an old outdated technology, while other found themeselves operating an appropriate and modern technology but no trained manpower to ensure its operation. And still others operate technology that is inappropriate to the local needs. All the above problems make production and use of equipment very difficult, leading to a lot of wastage and production of inferior products.

Another problem associated with production to the small-scale industries is that of diseconomy of small-scale production making the cost per unit very high, consequently demanding higher selling price for inferior goods.

Finally difficulties in the acquisition of spare parts, raw materials and maintenance services cause a lot of problems to productive capabilities of enterprising industrialists.

6.8 - Marketing Problems

Infact this is one of the greatest problem facing the small-scale manufacturers in Bauchi State and Nigeria in general, for without good market, no business be it small or big can make enough profit and retaine part for further investment and expansion. However marketing problems of small-scale manufacturers can be attributed to the following factors:

a) Competition in the various Industries. Competition has contributed a lot towards the above problems, because in the first place, the easy enterance into that sector make many industrialist to enter leading to over-supply. Also competition with large-scale producers in the same industries put the small-scale producers into an uncomfortable position since the larger producers enjoy things like economies of scale, experience effect, better technology, and trained manpower all reducing to their cost of production hence less price for their products.

b) Preference for imported goods. Most Nigerians prefer buying the foreign goods than the home made goods, even in cases where the Nigerian goods are of higher quality, the fact that it is made in Nigeria people look at it as inferior.

Infact in some cases some dubious Nigerians put foreign lable to their products and get it through in the market because of their understanding of Nigerian phychology. So because of the above reasons, most small-scale producers found themselves holding large stocks of finished goods and at the same time survive, the small-scale manufacturers found themselves most of the time lossing their own investments.

c) Inaccessibility to foreign market. Foreign market in form of export is one of the good avenue by which manufacturers can dispose their suppose production. But unfortunately the small-scale manufacturers are not in a position to utilize this avenue due to the following reasons.

i) Competition in the foreign market is so tense that a minimum price at the same time with return is normally expected, and since due to the various problems earlier mentioned production cost is very high which means they can't afford to sell at competitive price in the foreign market and make profit at the same time.

ii) Inability of small-scale manufacturers especially in a developing country to meet quality standards, delivery schedule, provide after sale services and price standards of various countries, therefore since these standards can not be met, various foreign governments do not allow the importation

6.9 - Other Problems

a) Poor record keeping. Most small-scale industrialist in Bauchi State do not see the necessity of keeping records of their various transactions so because of this vital informations such as Balance Sheet and Income Statements which could be used by financial institutions to access the previous performance of the organisation before granting loans and other assistance is absent, leading to straight rejection of their loan application.

b) No research and development. Most small-scale manufacturers, because of their shortage of fund and lack of qualified manpower found it difficult to make any innovation into the area of production, new products that will comfirm with new taste and technology. Hence they continue producting goods whose usefulness have been outdated or not in comformity with new taste.

Summary

Financing small-scale industries is never an easy task. Inspite of all efforts by government and other institutions, still problems such as economic condition of the country, marketing and host of others still militates against the smooth financing of the small industries.

The next chapter will now summarise the whole work, conclude and make feasible recommendations aimed at solving the financial difficulties of these firms.

Footnotes

1. Small-scale industries credit scheme, Bauchi.
2. N.I.D.B., Bauchi.

CHAPTER SEVEN

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Financing small-scale industries, especially in a developing countries like Nigeria and Bauchi State in particular, has always been a difficult task both to the government, Financial Institutions and the small-scale industrialist themselves. The particular problems inherent in these industries make the task more onerous. Financial institutions and government agencies responsible for the financing, have been unable to meet even the minimum requirements of the small-scale industries. As a result the financing agencies have been unsuccessful to effect technical improvement in their products. Facilities for securing raw materials and marketing the products are inadequate, thus placing it in a weak position vis-a-vis the large industries.

The theme of this study is "financing small-scale industries in Bauchi State". The aim is to find the extent to which financial institutions within the state have succeeded or failed in developing these industries financially, investigate the problems associated with the financing and make recommendations for improvement.

Though the research focuses attention on small-scale industries in Nigeria but particular reference is given to Bauchi State and all the data collected and analysed are in respect of Bauchi State.

Chapter one of the study gave a general introduction of small-scale industries, objective of the study, research methodology and limitations. It also takes a background of the state and discuss the state Government industrial policy as it effects small scale industries.

Chapter two takes an overview of a small scale industries. In that though stresses the contraversy in the definition of small-scale industries, but some common characteristics exist in the various definitions and these include:

a) the employment of little amount of capital;
b) normally owned and operated by a single proprietor or family;
c) employ little or no hired workers;
d) their areas of operation is normally the local environment.

The chapter further reveals that growth and development of small-scale industries helps in laying a good foundation of a sound industrial take-off, provide source of employment for the vast majority of people, develop rural areas thereby reducing the exodus of people from the rural to urban areas. Equitable distribution of national resources for peaceful co-existance among various sections of the country or state, generation of savings and resource mobilization for future investment, source of foreign exchange, development of managerial experties and entrepreneurship and finally small-scale

industries help in preserving the cultural heritage of the people.

The second part of the chapter looks at various review of related literature.

Chapters three and four look at the issue of financing small-scale industries in Bauchi State However because of the realisation that for an effective financing the f financial requirement has to be estimated so that the industrialist has an idea of what he requires before making plans for acquiring the fund. Hence, chapter three looks at these issues. It stresses the necessities for a comprehensive appraisal of finances necessary for a project, it particularly specifies the need for taking the following factors before estimating the requirement, which include type and nature of business, size of the business, location, prevailing economic conditions and the nature of sales, that is credit or cash sales. Therefore once the above factors are considered the industrialist should prepare cash budgets and estimate starting cost of the project.

Chapter four looks at the various institutional sources of finance for the small-scale industrialists in Bauchi State. The small-scale credit scheme, commercial banks, development banks comprising Nigerian Bank for Commerce and Industries and Nigerian Industrial Development Banks.

In examining the roles played by these institutions, it was discovered that commercial banks, in spite of Federal Government directives to grant at least 16% of their total advances to small-scale sectors they only advanced between 2 - 4% showing a gross deficiencies in financing these industries. Among the development banks only Nigerian Bank for Commerce and Industry advance loan to small-scale industries and its operation is limited only to private liability companies, that also restricts its operation since majority of small-scale industries in Bauchi State are of the sole proprietor type.

Finally the only source is the small-scale credit scheme, though the largest financer but it is still i inadequate since the scheme itself depends on the state government for subvention.

In chapter five some factors which were considered specially affecting the institutional financing were examined, through data analysis and these factors include among others, pattern of ownership, source of fund, attitude of employees in these institutions and current problems facing the industries.

As a result of the analysis, it was found that as much as 88% of the industries in the sample are of the sole proprietorship type. Most of them prefer absolute control of their business, which to some extent effect their financing.

Since banks and other institutions found it risky to invest in one man business and others are not allowed to buy shares.

The research also shows that these industries have an uneasy and limited access to institutional sources of finance as well as raising fund from the public. The reson for this can be attributed to their size and also to the fact that suplus which could be utilized for repayment of loan is small and negligible. Small businesses also find it difficult to re-invest their earnings because of lower profit.

Most of the small-scale industries investigated also show the fiddiculty of getting raw material even though majority depended on local source showing a poor inventory management leading to avaoidable losses.

Another weakness discovered in the analysis is the issue of production and marketing. It is found that most small-scale industries in the sample produce according to the taste and need of the people in their immediate environment, hence they market their products within the local areas. Therefore in such cases, not much progress can be made and technological innovation can hardly occur, because the small business does not have the opportunity to consider wide variety of tastes and interest which will reflect in its products.

In terms of usage of technology, small-scale industries are far left behind. Also due to financial shortage they continue to relay on old outdated method of production with the same cadre of workers who are either illiterates or at best semi-literate.

The analysis also reveals that small-scale industries are characterised by lack of adequate fund for their day to day operation and expansion. The major problem here lies in the lack of access to sources of fund especially financial institution who usually monitor (in cases where loan is granted) the way the fund is going to be used. On the other hand small-scale entrepreneurs prefer to utilize such fund in order to take care of numerous problems and not one. Consequently they consider loan from financial institutions as unsatisfactory.

Another area considered in the analysis is the employment of capital for various projects. While for example a feasible Block making and Bakery project requires between ₦100,000 to ₦150,000. Over 60% of these industries in Bauchi State employ between 5,000 to 50,000 which ironically is in conformity with the amount advanced for such projects by the small-scale credit scheme showing that adequate fund is not invested in the business for a meaningful success.

Finally the current problems facing these industries is found that 73% of these industries are faced by financial problems, 17% marketing which also lead to financial problem.

Finally chapter seven looks at the problems of financing small-scale industries in Bauchi State. These problems are attributed to the following factors which include the general economic of the country characterised by recession and inflation, commercial banks' negligence of these institutions and their strick condition for loans, poor repayment of loan, where it is granted by the small-scale industrialist, ostententious living on the part of the owners and lack of qualified manpower to ensure optimum utilization of scarece resources.

Conclusion

The hypothesis as stated in chapter one is that, "There is a great shortage of institutional funds to the small-scale industries in Bauchi State and it is the greatest impedement to their development".

Though the research shows how small and negligible financial agencies, especially commercial banks have advanced loans to small-scale industries through their strict conditions, the two development banks only provide finance to limited liability companies. Therefore the small-scale industries are left with no institutional support.

In addition, the small-scale credit scheme which is the largest institutional source of finance has failed to provide the minimum amount necessary for successful small-scale financing. Other factors like the non-maintenance of accounts, preference for sole proprietorship and ostententious living on the part of the owners have further aggrevated the financial problems of the small-scale industries.

Therefore, based on the above factors the conclusion is that there is a real shortage of institutional fund to small-scale investors in Bauchi State, and the small fund available is poorly managed. Hence this conclusion support the hypothesis.

Suggestions

In view of the fact that the small-scale industries lack adequate fund coupled with the inability to ensure maximum utilization of the scarce fund, the following suggestions are aimed at improving the situation.

1. The Small-Scale Credit Scheme of the State Government which is the largest source of finance for these industries should be carved out of the Ministry and be made a specialised body like State Development Board, Water Board and others.

The proposed institution may be named as state financial corporation for small-scale industries. It should perform the same functions as the Nigerian Industrial Development does, but confirming its area of activities to state boundries. However, it is not just carving out that matters but rather qualified people vast in various areas of industries such as finance, engineering, technical. Management should be employed not only to assess the viability of projects submitted for loans but also offer technical advice to the prospective small-scale investors.

In addition to qualified manapower in the shceme the government should consider the importance of small-scale industries and provide adequate fund for advances to those applicants whose projects are not only viable but also meet the need of the state for future industrial development. It should be noted however that the present policy of giving loan to greater number of people does not in anyway help to the industrial development of the state but rather adequate fund based on costing by technical experts should be given to those projects that has a promising future. Because it is better to have few functional industries than many that are not operational. Also the government should encourage the various applicants to pool their resources and form partnerships and limited liability companies, which are more promising and easier to secure loan from commercial and development banks.

To ensure actural utilisation of loan to the project granted, a monitoring committee within the scheme should be established in each division of the state with the following functions:

a) ensuring that all equipments and machinery loaned for a project do not find their way somewhere;
b) maintenance of proper accounts by the industrialists;
c) helping the industrialists in securing raw materials and marketing the products;
d) ensuring that repayments are done promptly for use as a revolving fund.

Finally the loan management committee charged with the responsibility of approving loan should base their decisions on the recommendation of the technical experts of the scheme, and where loan is approved disbursement should be done with despatched.

2. To supplement the efforts of government in the provision of loans to small-scale industries, commercial banks should be compelled to grant a reasonable percentage of their total advances to small-scale industries and conditions for these loans should be made softer within the reach of these entrepreneurs.

3. In addition the Nigerian Bank for Commerce and Industries, which is the apex of financial agency for small industries, be supplied with fund from commercial and merchants banks for loans to small-scale industries.

Central Bank of Nigeria should also be made to play a role by issuing special stock at attractive interest rate for the purpose of generating fund for small-scale industries.

4. The chambers of commerce and industries and the Association of small-scale industries throughout the Federation 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. These could be done by organising symposia and seminars for small-scale owners and also through the use of various media. In addition the association of small-scale industrialist should creat a forum where its members and representatives of financial institutions could meet constantly to discuss how best they can work together for the benefit of both parties. In this way, financial institutions could enlighten small entrepreneurs of the requirements and procedure of granting loans.

5. The provision of adequate managerial and technical advice to small entrepreneurs should be increased. This should be done by making the industrial development centres located throughout the country more effective by the provision of adequate and competent staff and up to date equipment. The centre should work hand to hand with the small-scale entrepreneurs in terms of not only consultancy and advice but also train the various categories of workers of these industries at a highly subsidised price.

In addition they should help in making research into process, design and taste of products for innovation.

6. The current posture of the Nigerian Industrial Development Bank which give priority only to medium and large scale industries should be changed so that attention should be given to the small-scale industries as well. Specifically the industrial development should finance the small-scale industry through the following schemes.

i) Refinancing:

In order to encourage commercial banks and other institutions to channel their investments in the small-scale industry's sector, NIDB should provide 100% refinancing refinancing for loans granted by lending institutions to those industries engaged purely in the manufacturing business, while a reasonable percentage of refinancing should be provided for other loans to industries, though not in the manufacturing sector but whose services are very essential.

ii) Bills Rediscount

Under this arrangement Nigerian Industrial Development Bank should provide a special concessional rate of rediscounting of bills arising out of sales of indigenous machinery to purchaser/user on deferred payment basis.

iii) Finally the NIDB should strengthen the financial base of other financial institutions engaged in financing small-scale industries through the provision of loan to these institutions.

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