International Journal of Economics and Financial Management E-ISSN 2545-5966 P-ISSN 2695-1932, Vol 4. No. 4 2019www.iiardpub.org

Impact of Nigeria Financial Market on Small and Medium Scale Enterprises (SMEs) In Nigeria: A survey of some SMEs in Gusau Metropolis.

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ABSTRACT

This research work evaluates the impact of the Nigerian financial markets on small and medium scale enterprises (SMEs) in Nigeria, using some selected small and medium scale enterprises in Gusau metropolis as case study. Specifically, the study aims among others to examine if there is any significant relationship between Financial Markets and Small and Medium Scale Enterprises in Nigeria. Data were collected using a well structured and tested questionnaire administered on 250 small and medium scale business owners in some strategic locations in Gusau metropolis, Zamfara State. The data collected were analyzed using frequency table and simple percentage. Hypothesis formulated was tested using t-test at a decision rule of P > 0.05 and the hypothesis was retained. The findings of this study affirm a positive and significant relationship between financial markets and small and medium scale enterprises in Gusau metropolis. The study recommends among others that financial institution is to be charged to keep the ball rolling in financing small scale enterprises as well as enhancing and uplifting the growth of the economy, Also the government should engage more in the development of Small Scale Enterprises by creating and embarking on various incentives to encourage both Small Scale Enterprises and financial market.

KEYWORDS: *Financial institutions, Financial market, Medium Scale enterprises, Small Scale Enterprises*

Introduction

The small and medium – scale industries cover the entire range of economic activity sector and are very heterogeneous groups. They include a wide variety of firms, restaurants, bakeries, poultry farming, hair dressing and barbing saloon just to mention a few. The Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), (2011) classify industries into micro, small and medium scale enterprises (MSMEs). The significance of SMEs to growth, productivity and competitiveness of the economies of developing countries is universally recognized. SMEs are generally acknowledged in (Kasekende and Opondo 2003) as the bedrock of the industrial development of world economic. They are more innovative that larger firms. SMEs usually provide training grounds for entrepreneur even as they generally rely more on the use of local materials. SMEs development can play a key role in entrepreneurs' development through their contributions to economic advancement and social empowerment.

Oteh (2011), in the Global Entrepreneurship Monitor 2009, a research program aimed at assessing the national level of entrepreneurship activity in selected countries, conducted an entrepreneurship and economics growth study on 37 countries. According to the entrepreneurial activity, the study reveals that, the is a high correlation between economic growth and entrepreneurial activity in industrialized countries, hence to achieve Nigeria Vision 20:20 then greater attentions should be paid on very vibrant and robust enterprises. Entrepreneurs create new enterprises, new commercial activities and new sectors, which have a positive multiplier effect on the economy. Entrepreneurial activities are very crucial to fostering economic and social progress in the country. The development of SMEs in Nigeria is therefore an essential element in the growth strategy.

Notwithstanding the widely acknowledge role SMEs in fostering economic growth and development, SMEs have continued to face a variety of constraints (Adelaja, 2004) and majorly that of finance. This is quite common in many African countries to including Nigeria, where access to finance was the second most important constraint to doing business after inadequate supply of infrastructure. This is because; the conditions for financing SMEs are more restrictive to those of large enterprises. This has also confirmed the fact that, inadequate finance is a serious challenge that must be tackled before there could be any meaningful progress in the SMEs sub-sector.

SMEs in Nigeria suffer from lack of access to appropriate (term and cost) funds from both the financial market. This is due in part to the perception of higher risk resulting in high mortality rate of the business, information asymmetry, poorly prepared project proposals, inadequate collateral, absence of, or unverified history of past credit(s) obtained are virtual absence of financial market facilities and instrument s that SMEs can access. (Bates, 2010). The financial market in Nigeria is still evolving while other conventional sources have no confidence in the credit worthiness of the SMEs.

Financial markets could play a greater role in lending to the SMEs. Nevertheless, some of these institutions may not consider SMEs credit worthy. SMEs therefore rely on their retained earnings, informal savings and loan associations, which are unpredictable and insecure with little scope for risk sharing as their major source of capital. Many African countries have to deal with this chasm between the role of micro credit institutions and that of larger financial institutions. This is the space where SMEs operate and is referred to in the African Commission's Report as the missing middle. Oteh, (2011). Yet, the panacea for solving problems of economic growth in Nigeria often resides in adequate financing of small-scale industries. The missing middle or financial gap is a serious challenges in a fast-changing knowledge based economy because of the speed of innovation. Innovative SMEs with high growth potential, many in high-technology sectors, have played a pivotal role in raising productivity and maintaining competitiveness in recent years. Nonetheless, innovative product and services need investment to flourish, however great their potential might be. SMEs depend on capital accumulation, requires investment and equivalent amount of saving to match it. Two of the most important issues in developing countries, are how to stimulate investment, and how to bring about an increase in the level of saving to fund increased investment.

Most importantly, well functioning financial systems are heavily based on trust. An investor who deposits money in the bank or contacts his/her broker to buy stocks place his/her money and trust in the hands of the financial institution that provides her with advice and transition services. Adelaja, (2004) stressed that one reason why underdeveloped countries are underdeveloped is because they lack a financial system that has the confidence of those who must use it. Particularly, the stock market crash of 2008 affected the Nigeria financial sector adversely. It generated a pessimistic outlook on the economy that led to a decline in the demand for loans and higher percentage of loan defaults, causing a consequent decline in the stock prices. Despite all these illicit practices in the financial sector, the Nigerian Financial market is potentially the most viable source of capital for industries in Nigeria and the fact remains that, there exist a wide financial gap between the capacity of micro financial institutions and that of larger financial institutions, and this is really a great constraint to the promotion of SMEs in Nigeria.

Statement of the Problem

One of the Major problems facing small and Medium – Scale Enterprises (SMEs) in Nigeria is inadequate finance; whether for the establishment of new industries or to carry out expansion plans. The bulk of commercial bank lending to industries is working capital which goes to large scale enterprises which have enough bargaining power to negotiate better borrowing terms. The negative bias against SMEs was demonstrated by commercial banks' preference to pay penalty rather than meet the 20% target lending to small and Medium Scale Enterprises (SMEs) by making risky investments when the Central Bank's credit guidelines were in force. It is therefore not surprising that their lending to small and Medium Scale Enterprises (SMEs) drastically declined after the abolition of the guidelines in 1996.

The inability of SMEs to attract bank credit or resources has hindered or stifled their growth. The reasons for this inadequate fund can be attributed to the following reasons:

- High rate of inflation that led to the vast depreciation of Naira exchange rate, thus making it difficult for most small and Medium Scale Enterprises to obtain required inputs for expansion.
- Low level of saving in the economy, which leads to low capital formation.
- High rate of interest charged on loan, which scared off potential small and medium scale entrepreneurs.

Inability of specialized financial institutions such as the Bank of Agriculture (BOA), bank of industry (BOI), small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) etc, to provide for their funding because of the peculiar problems with these specialized instructions which make it impossible for them to provide enough fund for the Small and Medium Scale Enterprises. Therefore, this research sought to evaluate the impact of Financial Market in Small and Medium Scale Enterprises (SMEs) financing in Nigeria.

Research Objectives

The major objective of this research work is to assess the impact of financial market on the promotion of Small and medium Scale Enterprises (SMEs) in Nigeria. Summarily, the specific objectiveis:

- To assess if there is any significant relationship between Financial Markets and Small Medium Scale Enterprises in Nigeria.

Research Hypothesis

Ho: There is significance relationship between Financial Markets and Small and Medium scale Enterprises in Nigeria

The Conceptual Framework

Current and relevant literatures are reviewed based on the purpose of the study and the dependent and independent variables under consideration. From national policy viewpoint, enterprises are classified by size, sector, organization, technology and location. (Adebusuyi,1997). These variables interact with one another in complex ways, which must be taken into consideration in understanding the nature, characteristics, performance, problems and challenges of business enterprises. From the perspective of policy and planning, size provides the most practical basis for classifying MSMEs. The usual criteria include one or more of the following:employment, turnover, assets, and paid up capital. However, definitions vary from country to country relative to the overall size and structure of the domestic economy.

On the global context, a general definition of MSMEs using size and scale of operation is not easy, but within the fixed co-ordinates of national boundaries, it might be relatively easier. (Adebusuyi,1997). Prior to 1992, different government agencies in Nigeria such as the Central Bank of Nigeria tended to adopt various definitions to reflect differences in policy focus. However, in 1992, the National Council on Industry streamlined the various definitions in order to remove ambiguities and agreed to revise them every four years. Small Scale Enterprises were defined as those with fixed assets above N1million but not exceeding N10 million, excluding land but including working capital, while Medium Scale Enterprises were defined as those with fixed assets, excluding land but including working capital, of over N10 million but not exceeding N40 million. (Udechukwu,2003)

The definitions were revised in 1996. Small Scale Industry were defined as those with total cost including working capital but excluding cost of land above N1 million but not exceeding N40 million. with a labour size of between 11 and 35 workers; while Medium Scale Industry was defined as those with total cost, including working capital but excluding cost of land, above N40 million, but not exceeding N150 million with a labour size of between 36 and 100 workers. At the 13th Council meeting of the National Council on Industry held in July, 2001 Micro, Small and Medium Enterprises (MSMEs) were defined by the Council as follows:

Small-Scale Industry: An industry with a labour size of 11-100 workers or a total investment of over #1.5mbut not more than N50 million, including working capital but excluding cost of land.

Medium Scale Industry: An industry with a labour size of between 101-300 workers or a total investment of over N50 million but not more than N200 million, including working capital but excluding cost of land.

Large Scale: An industry with a labour size of over 300 workers or a total investment of over N200 million,including working capital but excluding cost of land. (Hamitle, 2007)**.** This is taken as working definition for this study.

Where there exists a conflict between employment and assets classification criteria, such that, an enterprise has assets worth of seven million naira, but employ seven people, the employment-based criteria will take precedence and the enterprise would be classified as micro. Employment based classification tends to be more stable definition, given that inflationary pressure may compromise the asset-based definition.

Concept of Financial Market

A financial market is made up of series of arrangements, institutions, facilities and processes that facilitate the exchange of funds (government, corporate bodies, and individuals). The duration of the lending/borrowing arrangement and the nature of the instrument/product used, determines the classification of a financial transaction as either a money market or capital market activity. (Madura, 1996). The money market is a market where funds for short-term purposes (usually between a day and one year) are sourced, while the capital market is a market where funds for medium to long-term purpose (usually above one year and upwards) are sourced. (SEC, 2012).

Brigham and Houston (2007) defined capital market as the market for intermediate or long-term debt and corporate stocks. To Madura (1996), capital market is the financial market that facilities the flow of long-term funds. According to Akinsulire, (2011), capital market is the market for raising/investing long-term funds. Financial instruments traded on this market are equities and loan stocks with over three-year maturity. The common term that run through these definitions is long-term. This makes the capital market the most viable source of long-term capital for industries especially the MSMEs.

The Role of Financial Market in Financing SMEs

According to Bates (2010), the financial markets through the commercial banks and specialized banks-have several ways to get involved in SMEs finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking sector services provided to SMEs take various form, such as:

- Short term loans compatible with SMEs business and income patterns
- Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow
- Very small loans, or banks overdraft facilities are also appropriate for meeting the day-to-day financial requirements of small businesses
- Factoring and invoice discounting, asset finance (including commercial mortgages), and equity finance, all being within framework of a customer friendly approach.

In providing all these services, it is recommended that banks take into consideration

- That outlet is located close to entrepreneur.
- To use extremely simple loan applications.
- To limit the time between application and disbursement to a few days
- As well as to develop a public image of being approachable to low-income people

Financing Smalland Medium Enterprises (SMEs)

A simple but general question to ask ourselves is for what do organizations or firms require funding? According to Babajide (2002:17), firms need finance for many reasons and these reasons can be divided into two broad areas:

1. To acquire fixed asset e.g. plant and machinery, factory premises and facilities for start up, expansion, diversification or reconstruction.
2. To finance working capital requirements which could be the need to acquire or increase stock of raw materials and finished goods and to bridge temporary gaps between the payment and the receipt of money.

The rationale for funding requirements of small scale enterprises is not different from these. In general terms, the sources of funds to finance business are legion depending on the type and character of business as well as the duration for which the fund is required i.e. short term, medium term and long term. In Nigeria, funding businesses of the nature under consideration can be private or institutional.

Personal Initiative and Efforts

Personal savings and loans and grants from parents, relatives, friends or business associates are major sources of finance for this category of business in Nigeria. In addition, cooperative society efforts as well as thrift savings "isusu" remain veritable sources of savings that are plunged back into businesses. There are those that resort to money lenders, who remain a major source of finance in all parts of the world. The major merit in all these sources is the fact that little or no formalities are involved in accessing the funds. Thus, funds can be obtained much more quickly than would be from other formal source of finance. It is to be noted though that the quantum of funds that can be mobilized through these sources are rather very low.

The Banking Industry

The Nigerian banking industry made up essentially of commercial and investment banks remain a veritable source of funding for small scale enterprises. Although they operate at the short end of the market resulting from their sources of deposits, which are short-tenured, they still foster funds that are accessible through equity participation, venture capital activities and loans and advances. By section 21 of the banks and other financial institutions Act 1991, (BOFIA) a bank may acquire or hold a part of not more than 40 percent of the share capital of any agricultural, industrial or venture capital company subject to a number of conditions. Among the conditions for banks is that such equity participation should not be more than 10 percent of the bank's shareholders unimpaired by losses while total holding for all companies is restricted to 20 percent for commercial banks and 50 percent for investment banks of their shareholders funds not impaired by losses.

Apart from equity funding, banks are also sources of borrowing for small scale Enterprises (SSE) ranging from short-term overdraft facilities to medium and long term loans and advances. The major limitation of bank loans is the associated costs in terms of interest and other charges. Furthermore, lack of required and acceptable collateral always poses a problem of small scale Enterprises (SSEs) in accessing bank loans of various types.

Small Scale Enterprises Credit Scheme (SSECS)

This was a popular scheme for the financing of small and medium enterprises before the introduction of the structural Adjustment programme (SAP). They are funding assistance to cottage and small & medium enterprises by the regional governments. The schemes were implemented by management committees and investment promotion Departments backed up with technical support from the industrial Development Centers (IDCS). This scheme was able to promote over 10,000 small scale enterprises before 1986. Political interference on the operations of the scheme during the Second Republic led to the collapse of the scheme in many states. However, some states still have the scheme functioning.

The Small and Medium Industry Equity Investment Scheme (SMEIS).

This is a voluntary initiative of the Bankers committee that was approved at its 246 meeting held on 21st December, 1999. The initiative was in response to government's concerns and the policy measures for the promotion of small and medium enterprises as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. The scheme requires all banks in Nigeria to set aside 10 percent of their profit before tax for investment in form of equity in eligible industries in the real sector of the economy, specifically in agro-allied, information technology and telecommunications, manufacturing, educational establishment, services, tourism and leisure, solid minerals, construction and any other activity as may be determined from time to time.

To access the funds, the beneficiary must be a limited liability company and comply with all applicable tax laws and regulations. Funds invested by participating banks shall be in the form of equity investment. This is to reduce the burden of interest and other financial charges under normal banks lending. A beneficiary may however, obtain additional funds by way of loans from banks in addition to the equity. The recommendations of industrial associations such as the Manufacturers Association of Nigeria (MAN) and National Association of Small and Medium Scale Enterprises (NASME) are mandatory for their members.

The Bank of Industry

This bank is a product of the merging of federal government financial institutions that have responsibilities for promoting small and medium enterprises as well as poverty alleviation for the development of a country. Thus, the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB), the National Economic Reconstruction were merged to form the Bank of Industry with an initial capital base of ₦50 billion. It is the primary responsibility of the new bank to promote industrial development.

The Capital Market

The capital market remains the source of long-term funding for business. It is a market for the trading of long term securities e.g. debentures, commercial papers e.t.c. In Nigeria, the Nigerian Stock Exchange (NSE) is the apex of the market for long term and equity finance, it was established in 1961 to facilitate the raising of business finance for industries and the trades and to facilitate the disposal or change of ownership of existing stocks and debentures. The Nigerian Stock Exchange (NSE) seeks to promote Small and Medium Enterprises (SMEs) by the establishment of Second-Tier Securities Market (SSM). The objective of this market is to facilitate access to the capital markets by small and medium enterprises to raise cheap funds. The main technique is to streamline the listing requirements under the second-tier securities market (SSM) and make it more flexible than what is obtainable at the Nigerian Stock Exchange (NSE). Although, a laudable scheme, it has achieved limited successes as only few enterprises have achieved this.

Methodology

This research study employed descriptive survey design method. The purpose of descriptive survey design, according to Ezeani (1998), is to collect detailed and factual information that describes an existing phenomenon. The target population of this study comprises of all small and medium scale owners in Gusau metropolis, Zamfara state. A sample of five (5) strategic places were chosen; they are Canteen Daji, Tudun Wada, Samaru, Sabon Kasuwa and Gada biyu areas in Gusau metropolis. The study considered small and medium scale owners in the selected local government as the sampling frame from which 250 respondents were selected via stratified sampling technique. The questionnaire was specifically designed to accomplish the objectives of the study. The questionnaire is divided into two sections. The first section collected bio-data information such as age, sex, experience, professional status, marital status and position while the second section contained 16 items questions that measure theimpact of Nigerian financial markets on small and medium scale enterprises (SMEs), using five points likert scale style: ranging from strongly agree to strongly disagree. There are 250 respondents. Of these, 148 (59.2%) were small scale business owners, while 102 (40.8%) were medium scale business owners; while 161 (64.4%) of the respondents were male; while 89 (35.6%) were females. Their age ranges from 25-46, with a mean of 36 years. The academic qualifications of the participants are: SSCE, OND, NCE, B.SC, BED, MSC, and MBA. The Ordinary Least Square method (OLS) was used in the analysis which comprises various tests such as **t-test, F- test, r^2**and **the adjusted r^2.**

Hypotheses Testing

H_1: There is significance relationship between Financial Markets and Small and Medium scale Enterprises in Nigeria

Table I.
Summary of regression analysis on relationship between financial market and Small and Medium scale enterprises (SMEs)

Dependent variable **FM**	Coefficient	t-Value	Standard Error	R^2	R^2 Adjusted	F Ratio	Sig.
Constant **SMEs**	7.921 2.001	6.028 6.310	0.011	0.642	0.583	15.01	0.000

Source: Author's computation (2019)

The table above indicates the relationships between financial market(FM) and Small and Medium Scale Enterprises(SMEs), In the Table, the coefficient of R^2 known as the coefficient of determination simply shows that 64.2% variations in Small and Medium Scale Enterprises is influenced by effective and efficient financing. The adjusted R^2 value of 0.583showsthat the actual variations in Small and Medium Scale Enterprises is attributable to the variations in financial markets. It reveals the actual variation of 0.583% as against the 0.642 suggested by R^2. The t-test of significance of 6.310 simply indicates that existing relationship between financial market and Small and Medium scale Enterprises is a true reflection of each other. Alternative hypothesis is therefore retained.

Conclusion

Small and medium enterprises (SMEs) issimply an engine that driveseconomic growth. In fact, going by their importance, they should be the major focus of the government, together with agriculture, if Nigeria is to realistically address the development problems of unemployment, poverty, etc. Indeed, the industry for the future in this country should emphasize on the development of well-managed small and medium enterprises, and this can simply be achieved through adequate financing.

Financial institutions adopting more developmental approach to the financing of small scale enterprises can be achieved through the nature of advice and guidance they give their small scale customers. They should also encourage them to use the facilities at the stock exchange particularly under the second-tier securities market, as a basis of acquiring needed capital and spreading ownership and consequently reducing the risks of concentrated control. They should also deemphasize collaterals as the overriding condition for granting credit facilities to small scale enterprises (SSEs). This study shows a positive and significant relationship between financial market and small and medium scale enterprises (SMEs) in Nigeria

Recommendation

The paper recommends the following:

- Government efforts should be geared towards the creation of management environment conducive to the development of their efficiency, productivity and the adoption of a result-oriented management approach.
- The financial institution is to be charged to keep the ball rolling in financing small scale enterprises as well as enhancing and uplifting the growth of the economy.
- Central bank of Nigeria (CBN) should license more Micro Finance banks to be able to extend more loans to small scale enterprises (SSEs). We also recommend that small scale enterprises (SSEs) should not base only in urban areas.

- Banks should not discriminate from lending to small scale enterprises (SSEs) as there are no more restrictions restricting them from doing so. They should extend loans freely to small scale enterprises (SSEs) and ensure that these loans are monitored effectively so that they are used for their specific purposes.

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