NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF BUSINESS AND HUMAN RESOURCE MANAGEMENT

COURSE CODE: ENT 225

COURSE TITLE: SMALL BUSINESS FINANCE

COURSE GUIDE

ENT 225: SMALL BUSINESS FINANCE

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Introduction

Welcome to ENT 225: Small Business Finance, which is a two credit unit course. This course is a second semester course, which is prepared and made available to you in this second year of your undergraduate degree programme in B.Sc Entrepreneurial and Small Business Management in the school of Business and Human Resources Management.

This course material is very fundamental to you in your academic pursuit as well as in workplace as managers or administrators. It will enable you acquire the skills of starting up a business and financing it, in order to ensure its sustainability. It has been developed to suit the Nigerian context.

What you will learn in this course

The course is made up of five modules with sixteen study units: Module 1 has 4 Units, Module 2 has 5 Units, Module 3 has 2 Units, Module 4 has 2 Units and Module5 has 3 Units. The areas covered in this course are: definition, and scope of small business, types of finances, the Nigerian financial system, success and failure of small business in Nigeria, among others.

This course guide is one of the several resource tools available to you, to help you successfully complete this course. It contains useful information about the course, such as aims, objectives, and the nature of the materials you will be using and how best you can make use of the materials in successfully completing this course as well as your practice as entrepreneurs. This course guide will also assist you in tackling the tutor-marked assignment questions and guide you on how to plan your time for study.

Tutorial sessions will be held. During these sessions, your instructional facilitator will take you through your difficult areas and at the same time exchange ideas with you.

Course Contents

The course consists of the definition of basic concepts: small business finance, nature and scope of small business, characteristics of small business, history of small business, the Nigerian financial institution, the Nigerian money market, the Nigerian capital market, Nigerian security and exchange commission, the role of central bank, types of finance, the financing of small businesses in Nigeria, business plan, analysis of market opportunities, the role of small business in economic development, success of small business, and failure of small business

Course Aims

The aims of this course are to provide you with adequate background information on small business, sources of business finance, and the Nigerian financial system.

The aims of this course will be achieved by:

- Explaining the nature and scope of small business
- Identifying and discussing the various ways of financing a small business
- Explaining the major sources of business finance
- Analyzing the Nigerian financial system

Course Objectives

It is hoped that by the time you complete this course, you will be able to:

- Explain the nature and scope of small business
- Identify and discuss the various ways of financing a small business
- Explain the major sources of business finance
- Analyze the Nigerian financial system

Course Materials

Major components of the course are:

1. Course Guide
2. Study Units
3. Text Books
4. Assignment Guide

Study Unit

There are sixteen units of five modules in this course, which should be studied carefully. The units are as follows:

Module 1

Unit 1	Definition of Basic Concepts: Small Business and Finance
Unit 2	Nature and Scope of Small Business
Unit 3	Characteristics of Small Business
Unit 4	History of Small Business

Module 2

Unit 5	The Nigerian Financial System
Unit 6	The Nigerian Money Market
Unit 7	The Nigerian Capital Market
Unit 8	Nigerian Securities and Exchange Commission
Unit 9	The Role of the Central Bank of Nigeria

Module 3

Unit 10	Types of Finance
Unit 11	The financing of Small Business in Nigeria

Module 4

Unit 12	Business Plans
Unit 13	Analysis of Market Opportunities

Module 5

Unit 14	Roles of Small Business in Economic Development
Unit 15	Success of Small Business
Unit 16	Failure of Small Business in Nigeria

Module 1 unit 1 simply presents the meaning of small business and finance. The second unit discusses the nature and scope of small business. The characteristics and history of small business are examined in units 3 and 4, respectively. In module 2, units 5 analyze the Nigerian financial system, unit 6 discusses the Nigerian Money Market, unit 7 examines the Nigerian capital market, unit 8 treats Nigerian Securities and Exchange Commission while unit 9 describes the role of Central Bank of Nigeria. Module 3 unit 10 discusses the various types of finance while unit 11 explains the financing of small business in Nigeria; Module 4 unit 12 discusses business plans while unit 13 presents analysis of market opportunities. Finally, in module 5, unit 14 describes the roles of small business in economic development. Unit 15 treats the success of small business and unit 16 discusses the failure of small business in Nigeria.

How to get the most from this course

Each study unit will take at least two hours, and it includes the introduction, objectives, main content, self-assessment exercises, conclusion, summary, tutor-marked assignment and references/further readings. Some of these exercises will necessitate contacting some small business owners (Entrepreneurs) and organizations that assist these entrepreneurs with finance. This is to enable you obtain more information in practical terms. There are textbooks under the references and other resources for further reading. They are meant to give you additional information when consulted. You are advised to practice the self-assessment exercises and tutor-marked assignment for an in-depth understanding of the course. The essence of studying the self-assessment exercises and tutor-marked assignment is to achieve the stated learning objectives.

Assignment

There are many assignments in this course and you are expected to do all of them by following the schedule prescribed for them in terms of when to attempt them and submit same to your tutor for grading.

Tutor-Marked Assignment

In doing the tutor-marked assignment, you are to apply what you have learnt in the contents of the study units. These Tutor-Marked assignments which are many in number are expected to be submitted to your Tutor for grading. They constitute 30% of the total score for the course.

Your answers should be hand-written by you and should be concise. Leave a margin of 1.5 inches of the side and about 5 lines before the answer to the next question for tutorial facilitator's comments. Your assignment should be written and submitted in this format:

Course Code:
Course Title:
Tutor-Marked Assignment:
Date of Submission:
School and Programme:
Matriculation Number:

Final Examination and Grading

At the end of the course, you will write the final examination. It will attract the remaining 70%. This brings the total score to 100%

Conclusion

In conclusion, this course guide has been designed to enable you have a clear understanding of what the course entails. This includes the aims and objectives, course contents, Self Assessment Exercises, study questions, among others.

Summary

This course, ENT 225: Small Business Finance will enable you acquire the skills of starting up a business and financing it, in order to ensure its sustainability. It has been developed to suit the Nigerian context.

References/Further Readings

The course material given to you is the main material for this course. However, you can consult other source especially sources provided for you in the list of references and further.

MAIN COURSE

ENT 225: SMALL BUSINESS FINANCE

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MODULE 1 OVERVIEW OF SMALL BUSINESS

UNIT 1 DEFINITION OF BASIC CONCEPTS

CONTENTS

1.0 INTRODUCTION

Small businesses have many definitions, which vary. The differences in these definitions are usually as a result of differences in the level of development of a country, differences in the organization and structure of industries in different countries and other consideration.

There are various criteria used in classifying small businesses such as employment (number of workers), assets value, turnover, etc. Each country tends to adopt which ever parameter or criteria suitable for it, based on their economic policies and the role small businesses are expected to play in the economic growth and development of the country.

Small business has been promoted in various ways by individuals, government, and various local and international agencies. This has been done by financing their activities, through grants and subsidy, making credit facilities available, etc.

Thus, in this unit, we will discuss the concept of small business and finance and also examine the various classifications of small businesses. This is to enable you have a clear understanding of their meaning.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Explain the term small business
- Describe the criteria used in classifying a small business
- Define finance

3.0 DEFINITION OF BASIC CONCEPTS

3.1 The Meaning of Small Business

A business is a concern, an enterprise, or organization set up by an individual or group of individuals for the purpose of making profits from operations of the concern. Olagunju (2008:6) defines business as an enterprise that engages in the production of goods/services that provide satisfaction for consumers. Businesses in Nigeria range from micro, small and medium to large ones.

The definition of small business differs from country to country and from industry to industry. Each country tends to derive its own definition based on the role small businesses are expected to perform in the development of the country. Definitions change over a period of time with respect to price levels, levels of technology, and other considerations.

Small businesses are synonymous with small and medium scale enterprises (SMEs). SMEs are usually referred to as small businesses in developed countries.

Generally, a small business is an enterprise or an organization that is 4privately owned and operated with a small number of employees and relatively low volume of sales. Olagunju (2008:3) defines small business as those business concerns with a total capital investment of not more than two million (₦2,000,000), with the number of employees not more than 50. In Nigeria, small businesses are commonly found in small shops, hairdressers, trade men, photographers, etc.

The owner of the business is referred to as an entrepreneur. S/he provides the capital required for the running of the business. S/he is the chief coordinator, controller and organizer of the business.

SELF ASSESSMENT EXERCISE 1

Explain the meaning of small business

3.1.1 Classification of Small Business

The methods used to classify small business are: number of employees, annual sales or turnover, value of assets and net profit (balance sheet). According to UNDP/SMEDAN (2006:15), classification of small businesses by various countries differ for instance, in Australia, the Australian Bureau of Statistics defines small businesses as those employing fewer than 20 persons. The Australian Tax Office uses a definition of average annual turnover of less than $1million and net assets of less than $3million. By contrast, the Export insurance scheme targets small businesses with annual turnover not exceeding $10million.

The classification of small businesses in china is based mainly on sales revenue and total assets. Thus, small businesses have sales revenue not less than RMB 50million

In Canada, small businesses are those with less than 100 employees in manufacturing and less than 50 employees in the service sectors. The United Kingdom classified businesses according to number of employees: micro, 0-9, small businesses, 0-49, medium sized businesses, 50-249 and large businesses, 250 and above.

In Nigeria, the current classification is based on the number of employees and assets (excluding land and buildings). Some of the classifications of small businesses by various agencies, as noted by Otiti (2007:236) are:

1. The Center for Industrial Research and Development (CIRD) of Obafemi Awolowo University, Ile-Ife classified small business as an enterprise with working capital base not exceeding ₦250,000 and employment on full time, 50 workers or less.
2. The Nigerian Industrial Development Bank (NIDB) (now Bank of Industry) classified small scale enterprise as an enterprise that has investment and working capital not exceeding ₦750,000, while it defined medium scale enterprises as those operating within the range of ₦750,000 to ₦3.0 million.

The Nigerian Banker's Committee (2005) classified small and medium scale enterprises as those with a maximum assets base of ₦500million excluding land and working capital; and with no lower or upper limit of staff.

The classifications of small businesses adopted by National Council of Industry are:

Micro/Cottage Industry: A business with total capital of not more than ₦1.5million (excluding cost of land but including working capital) and a labour size of not more than 10 workers

Small Scale Industry: A business with total capital of not more than ₦50million (excluding cost of land but including working capital) and a labour size of not more than 11-100 workers.

Medium Scale Industry: A business with total capital of not more than ₦200million (excluding cost of land but including working capital) and a labour size of not more than 300 workers.

Large scale industry: A business with total capital of over ₦200million (excluding cost of land but including working capital) and a labour size of over 300 workers

SELF ASSESSMENT EXERCISE 2

Identify the criteria used to classify small businesses.

3.2 DEFINITION OF FINANCE.

Generally, finance is the allocation of funds to your basic needs. In business, finance refers to the process of allocating funds to meet the needs of your business. In this case, finance is referred to as managerial, corporate, or business finance, while for small business, specifically, it is referred to as SME finance.

Olowe (2008:1) defined finance as the management of money. It is the management of the flows of money through an organization. These funds come in form of savings, loans, and/or invested capital to meet business requirements.

Finance is very important to investment. It facilitates investment for the growth of a business. The functional activities of a business such as advertising, production, marketing, purchasing, transportation, etc require the use of money, without which these business activities will not be possible.

Generally, finance can be sourced from within and outside a country, which are respectively referred to as internal and external finance. External finance takes the form of loans given by a country to others countries or loans given by international bodies such as World Bank, United Nations Development Programme (UNDP), African Development Bank (ADB) and others. Internal or locally finance take the form of bank loans, retained earnings, equity, etc.

Most small businesses rely on sources of finance within the country due to their small size. Assistance sometimes comes from international bodies, mostly through the government of the country. In Nigeria, for example, international bodies such as UNDP, ADB, etc have helped in financing the activities of some small businesses through the Nigerian government agencies.

SELF ASSESSMENT EXERCISE 3

Explain the meaning of business finance

4.0 CONCLUSION

This unit explains the meaning of small businesses and discusses the various ways of classifying small businesses in Nigeria and other countries. The unit also explains the meaning of finance. Small business is privately owned and operated enterprise. The criteria for classifying small business include the number of employees, turnover, value of assets, among others. Finance on the other hand is the management of funds or the allocation of funds to meet the needs of the business. For small businesses to thrive, they have to be adequately financed. Finance can be sourced from savings, bank loans, equity, etc

5.0 SUMMARY

This unit has thrown light on the meaning of basic terms such as small business and finance. The criteria for classifying small businesses in Nigeria and other countries were analyzed. It explained the reasons for financing small businesses and described how small businesses are financed.

In the next study unit, you will be taken through the discussion on the scope of small businesses with typical examples based on our country.

6.0 TUTRO-MARKED ASSIGNMENTS

1. What is the meaning of a small business?
2. Outline the criteria used in classifying small business and discuss the classification of small business by various countries.

3. What does the term finance mean?

7.0 REFERENCES/FURTHER READINGS

Olagunju, Y.A. (2008). *Entrepreneurship and Small Scale Business Enterprises Development in Nigeria.* Ibadan: University Press PLC.

Olowe, R.A. (2008). *Financial Management: Concepts, Financial System and Business Finance.* Lagos: Brierly Jones Nigeria Limited.

Otiti, O.G. (2007). *Essays on Recent Issues in the Nigerian Financial System.* Lagos: CIBN Press Limited.

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UNDP/SMEDAN (2006). *National Policy on Micro, Small, and Medium Enterprises.* Abuja.

UNIT 2 THE NATURE AND SCOPE OF SMALL BUSINESS

CONTENTS

1.0 INTRODUCTION

The previous unit presented to you the definition of basic concepts like small business and finance, to enable you understand their meaning. This present unit examines the nature and scope of small business.

The nature and scope of small business is very broad. It includes all those activities carried out by small business owner, which are related to the production and distribution of goods and services with an objective of earning profit. It also includes the forms of small business (ownership). Thus, we will examine the various small business activities carried out in Nigeria and also discuss the forms of small business.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Identify some of the small businesses in Nigeria
- Mention and discuss the various forms of business enterprise
- Outline and explain the advantages and disadvantages associated with each form of business enterprise.

3.0 THE NATURE AND SCOPE OF SMALL BUSINESS

3.1 SMALL BUSINESS ACTIVITIES IN NIGERIA

Small business activities in Nigeria are found in these areas as identified by UNDP/SMEDAN (2006:53):

1. **FOOD PROCESSING ENTERPRISES:** Food processing enterprises are the most common of small businesses. They are commonly referred to as restaurants. They account for about two-thirds of all small businesses and are found everywhere serving the basic food needs of local communities in both towns and villages. Most of the owners are women.

2. **ARTS AND CRAFT:** With many cultural traditions, Nigeria has a rich and diverse heritage of traditional arts and crafts. There are many people who are talented in art and craft but unfortunately, they have little or no external assistance for growth. They are found mostly in urban places where they can most patronized.

3. **TEXTILES AND CLOTHING:** Most producers of textiles and clothing in Nigeria are small-scale enterprises. They are mostly found in commercial areas like Kano, Kaduna, Ibadan, Lagos, etc. Over the years, textile industry in Nigeria has suffered from government policies and foreign competition, leading to closure of factories, drop in market share and loss of jobs.

We also have the tye-and-dye of textile, which prepares textile with different designs and colours to make them attractive and the garment factory that helps to produce dresses of various shapes and types.

4. **LEATHER AND LEATHER PRODUCTS:** With its large livestock population, particularly cattle, sheep, and goats, Nigeria has the raw material resource for thriving in the leather and leather goods industry. These leather enterprises produce shoes, bags, decorative accessories, etc. A typical example of leather enterprise is the Naraguta leather works in Jos, Plateau state.

Small business activities in Nigeria are also found in building and construction enterprises, electronic and information technology enterprises, basic metals, metal fabrication and engineering enterprises, among others.

SELF ASSESSMENT EXERCISE 1

Identify some small businesses in Nigeria and discuss their activities

3.2 FORMS OF BUSINESS

3.2.1 Sole Proprietorship

The sole proprietorship business is also referred to as a one-man-business due to the nature of the business. This type of business is owned and run by one person, sometimes he may have employees. Sole trading businesses have no need of legal requirements before they are established. With little capital or skill, you can start a Sole trading business.

Sole proprietorship business can be defined as an unincorporated business owned by one person who provides the capital, runs the business and undertakes the risks and profits of the business alone. This form of business is very common in Nigeria, especially because of the economic situation of the country, which has necessitated many people to find means of sustaining their lives.

The sole proprietorship business is commonly found in agriculture, retail trade and in the provision of direct services. Many big business concerns which exist today started as sole proprietorship business, for example Dangote etc. In Nigeria, factors that make people start a Sole proprietorship business are unemployment, desire to be independent, inheritance etc.

Advantages of Sole Proprietorship

1. It is easy to start with minimum cost and no legal intricacies. Many trades started with capital as small as five thousand naira or less.
2. The owner enjoys privacy in conducting his business affairs. Thus, the sole proprietorship can keep his business affairs secret.
3. Decisions can be taken quickly since the owner does not need to consult anyone. This is particularly advantageous, where there is need to exploit a particular business opportunity quickly.
4. The one-man-business enables the owner to feel independent. There are people who do not want to bear other people's business responsibilities or to be dependent on others for the source of their livelihood. For such people, this type of business is an advantage.

Disadvantages of sole proprietorship

1 Insufficient capital is one of the major setbacks of this form of business. In most cases, the owner finds it difficult to raise capital for the growth of the business from banks, because he may not be able to provide collaterals. However, this problem is being reduced through the assistance of government and micro-finance banks.

2. There is no continuity in the business as the death of the owner may led to the death of the business, either because there is no one to carry on the business or the other family members do not have adequate entrepreneurial ability to manage the business.
3. The sole proprietorship has unlimited liability. He bears the risk of the business alone. If business fails, he bears the entire loss and his personal belongings may be sold to pay his creditors.
4. An entrepreneur may lack entrepreneurial ability required in running the business. This hinders business growth.

3.2.2 Partnership

This is a form of business carried on by two or more people with the sole aim of making profit. The maximum number of partners differs from country to country. Partnership has been in existence for quite a long time. The nature of partnership is such that the partners are co-owners of the business. It is formed as a way of boosting the capital base of the business through the contributions of the owners.

To avoid conflicts or misunderstanding over internal management of the business, it is wise to draw up a partnership deed. The partnership deed is a written agreement providing for such things as: sharing of responsibility among partners, sharing of profit and loss among partners etc

There are two types of partnership:

1 **General Partnerships:** They take active part in the organization and management of the business, in addition to the contribution of capital.
2 **Limited or sleeping partnerships:** There are partners whose are limited to the amount stated in the partnership agreement. Such partners do not normally involve themselves in the management of the business.

Advantages of Partnership

1. Capital and skill are easily obtained to start or expand the business. The partners can raise more capital and skills by pooling all resources together for the benefit of the business.
2. It is easy to form and organize because there are no complicated legal requirements to meet before starting and the organization could be based on the skills of partners.
3. The business has greater continuity than the sole proprietorship. The death of a partner may not lead to a total dissolution of the business since other partners can still go ahead.
4. There is personal contact with both employees and customers. This is because of the relatively small size of the business when compared with the limited liability companies.

Disadvantages of Partnership

1. Distrust, disloyalty and divided interest of partner may create problems for the business, especially where some partners are not committed to the cause of the business.
2. Unlimited liability of partners poses a big problem in a partnership agreement, especially in cases of losses. Personal belonging of partners could be taken to settle serious business debt.
3. All partners have to be consulted before major decision relating to the business is taken, thus, decisions may take a longer time to be reached than the sole proprietorship.
4. Each partner is responsible for the action of the others. A partner may enter a risky contract which is binding on the other partner. In case of failure, every partner will be affected.

3.2.3 Limited Liability Companies

In Nigeria, the limited liability companies are of two types. They are:

1 **Private Limited Liability Companies:** This is a business enterprise, formed by two to fifty people. Shares of the company are not quoted on the stock exchange market. This means that the public do not subscribe to their shares. In all formal documentation, private limited companies are expected to use 'limited' (Ltd) after their name.

2 **Public Limited Liability Companies or joint stock companies:** This is a business enterprises formed by the association of at least seven members, with no restriction on the maximum number of members. Their shares are quoted on the stock exchange. In all

formal documentation, public limited companies are expected to use ‘Public limited company’ (Plc) after their name.

The limited liability companies are usually guided by the law. The law sees them as an artificial person who can own assets, enter a contract, sue and be sued, have bank accounts in its name, incur liabilities and employ other people to work for it (Olowe, 2008). This means that limited liability companies are legally separate from all other persons in the company; thus the company’s assets and liabilities belong to the company not to the members of the company.

In Nigeria, the formation of limited liability companies is governed by Company and Allied Decree of 1990. The law states that such company must be registered with the Registrar of Companies in Abuja. A memorandum and article of association must be submitted by the company.

The memorandum of association of a company is a document that states details of the relationship of the company with the outside world. It contains the following: company’s name, office location and address, objectives and nature of the business, liabilities of shareholders, amount and type of share capital, among others. The article of association on the other hand gives details of the internal workings of the company such as: time and schedule of meeting, power of Directors, etc.

The submission of those documents and their verification by Registrar of Companies will eventually lead to formal registration of the company with a certificate of incorporation.

Advantages of Limited Liability Companies

1. Liabilities of owners are limited to the amount of capital contributed
2. It is easier to raise additional capital on the identity of the company
3. The company enjoys continuity. This means that the company is expected to exist irrespective of the death of any member.
4. The company offers special adaptability for small, medium or large businesses. This means that a public company can be set up under small, medium, or large scale basis.

Disadvantages of Limited Liability Companies

1 Limited liability companies are usually under the watchful eyes of the government in terms of their profits, activities, employment, etc. Thus the business lacks privacy

2 There is delay in making decisions because of the relatively large size of the business.
3 There is much bureaucracy. Duties must be discharged according to prescribed rules and regulations, too much emphasis on routine work. This prevents the use of personal initiatives.
4. There is usually no personal relationship between the management of the company and workers on one hand and management and customers on the other hand.

3.3.4 Co-operative Societies

This is a self-help business enterprise formed by consumers and producers who have the aim of carrying on a business for the benefits of all members. We many types of co-operatives, but three types of cooperatives will be discussed.

1 **Producers' co-operatives:** This is an association of producers of a particular commodity. It is formed to promote producers interest in the area of pricing and marketing their product. An example is the agricultural co-operative societies.
2 **Consumers' co-operatives:** This is an association of consumers who buy products in bulk from the source at wholesale price and sell them at retail price to both members and non-members. The objective of this society is to reap the profit which the middlemen would have earned.
3 **Credit and thrift co-operatives:** they are formed with the aim of promoting saving culture among members. Members in this association contribute money for savings, based on their abilities. The saved money is then made available to members through loans at rates of interest much lower than financial institutions. The money contributed or saved can also be used for other investment purposes like investing is shares, establishing businesses etc. This type of cooperative is common among workers. An example is the ASUU Co-operative in all Nigerian Universities.

Advantages of Co-operative Societies

1. It enables producers of similar commodities with small capital base to pool their resources in order to produce on a large scale.
2. Consumers' co-operatives help to keep prices within bearable limits for consumers by buying at a cheap rate from source and selling at an affordable price to consumers.
3. The credit and thrift societies help to encourage the habit of saving among people, thereby boosting investment in the country.

Disadvantages of Co-operative Societies

1. Lack of sufficient capital may be a serious setback in that members' resources may be small.
2. Societies are always run by inexperienced managers who are not versed in the techniques of modern management. This affects the growth of the societies.

SELF ASSESSMENT EXERCISE 2

1. Identify the various forms of business enterprise.
2 Mention the advantages and disadvantages associated with the each form of business enterprise?

4.0 CONCLUSION

The above anlyses show that the various line of business or business activities which an entrepreneurs can invest his money into include food processing enterprises, arts and craft, textiles and clothing, leather products, etc. When the business line has being selected, the choice of the form of business organization that needs to be set up is then made, which ranges from sole proprietorship to co-operative societies. There are advantages and disadvantages associated with each of them.

5.0 SUMMARY

This unit explained the scope of small business in Nigeria. The unit specifically identified some small businesses in Nigeria and also discussed their activities. Various forms of small business organizations were also examined with their associated advantages and disadvantages.

In the next study unit, you will be exposed to some of the characteristics of small businesses.

6.0 TUTOR-MARKED ASSIGNMENT

1 Mention four major small businesses in your locality and discuss their activities
2. What are the various forms of business enterprises?

7.0 REFERENCES/FURTHER READINGS

Olagunju, Y.A. (2008). *Entrepreneurship and Small Scale Business Enterprises Development in Nigeria.* Ibadan: University Press PLC.

Olowe, R.A. (2008). *Financial Management: Concepts, Financial System and Business Finance.* Lagos: Brierly Jones Nigeria Limited.

UNDP/SMEDAN (2006). National Policy on Micro, Small, and Medium Enterprises. Abuja.

UNIT 3 CHARACTERISTICS OF SMALL BUSINESSES

CONTENTS

1.0 INTRODUCTION

In the previous unit, you studied the various small businesses in Nigeria and the various forms of business for the purpose of treating the nature and scope of business. In this unit, we will discuss 'characteristics of small business.

Small businesses are bounded by some common characteristics which distinguish them from large businesses. These characteristics help to make the identification of small businesses easier

The characteristics of small businesses that will be examined in this unit are: ownership and simple management, independent spirit of entrepreneurs, subjective decision making, small capital base, labour intensive production techniques, lower ratio of managerial and administrative personnel, ability to deliver personalized services. Each of these characteristics will be discussed in details in each section of the unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Outline and explain the various characteristics of small businesses that distinguish them from large businesses.

3.0 CHARACTERISTICS OF SMALL BUSINESSES

3.1 OWNERSHIP AND SIMPLE MANAGEMENT

Small businesses are usually owned and managed by few individuals. Thus, these businesses tend to revolve around the owners rather than operate as separate corporate entities.

In some cases, the entrepreneurs can hardly separate their private funds from the company's fund. They also depend on their own resources due to little or no external assistance. The success or failure of the business depends on the ability of the entrepreneur.

3.2 INDEPENDENT SPIRIT OF THE ENTREPRENEUR

If there is a single characteristic that small businesses share, it is the staunch spirit of independence of the entrepreneurs. Most small businesses are set up mainly because of the desire to be independent.

Small business owners willingly accept risks and live by their ability to provide what the public wants. Their survival depends on their own efforts in terms of self-financing and commercial drive.

3.3 SUBJECTIVE DECISION MAKING

There is often greater subjectivity in decision making and the prevalence of large informal employer-employee relationships. The entrepreneur makes use of his personal initiatives and takes decisions which are likely to be to his own advantage. (Ukeje, 2003:31)

These small businesses enjoy greater autonomy in decision making. The owners of small businesses exercise full powers in planning and control of their business operations.

The government at all levels, that is, federal, state, and local, impose fewer administrative restrictions on them in view of their flexibility, diverse, and competitive character.

3.4 SMALL CAPITAL BASE

Small businesses require small capital base in general to start or take-off, regardless of the industry and the country where they are based. (Otiti, 2007:367). However, they have difficulty in attracting funds for expansion as a result of which they have to rely heavily on their personal resources.

In order words, they have limited access to long and short term financing. Entrepreneurs that have access to loans, obtain such loans at a penal rate of interest. With the help of microfinance institutions that provide financial services to poor entrepreneurs, they now have access to cheap loans at an affordable rate of interest.

3.5 LABOUR INTENSIVE PRODUCTION

Unlike large businesses that generally require large capital investments in plants and machineries, small businesses require less capital investment in plants and machineries. Due to this low capital base of small businesses, their production and operation normally have a high labour content.

Furthermore, since the output of most small businesses are often non-standardized because they are personalized and customized to suit the customers taste (for instance, a craftwork or portrait of an individual) they have low technological requirement thereby making the labour intensive technique more appropriate.

3.7 ABILITY TO DELIVER PERSONALIZED SERVICES

Customers have testified that small businesses provide personal services, which large businesses cannot offer. In particular, many small businesses offer sympathetic individual attention and delivery services and also cater for specialized markets whose needs might otherwise be neglected.

Small scale entrepreneurs not only score by providing more personalized merchandise, their greater flexibility makes them more competitive through selective and careful use of differences in style and services to satisfy customers needs.

SELF ASSESSMENT EXERCISE 1

Identify the various characteristics of small businesses.

4.0 CONCLUSION

This unit explains that there are various characteristics of small businesses, which makes the identification of small businesses easier and also help to distinguish them from large business. These characteristics include: ownership and simple management, independent spirit of the entrepreneur, subjective decision making, small capital base, labour intensive production, among others.

5.0 SUMMARY

In this unit we have learnt the various characteristics of a small business which helps to distinguish it from a large business. In the next unit, emphasis will focus on the history of small business.

6.0 TUTOR-MARKED ASSIGNMENT

1. Outline the various characteristics of small businesses
2. Describe how these characteristics distinguish small business from large businesses.

7.0 REFERENCE/FURTHER READING

Otiti, O.G. (2007). *Essays on Recent Issues in the Nigerian Financial System.* Lagos: CIBN Press Limited.

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UNIT 4 HISTORY OF SMALL BUSINESS

CONTENTS

1.0 INTRODUCTION

You have learnt and understood the meaning, scope and characteristics of small business in the previous units. This module will not be complete if we do not discuss the history of small business. Unit 3 presented to us the characteristics of small business, which explained to you how easy it is to start a small business.

People have always participated in the economic activity of producing, trading, etc, most of which are carried out on a small scale. Thus, small business is not a new phenomenon. It is as old as trade itself.

Before 1960, small business was written off as an out dated form of economic activity. Most policy makers were of the view that large firms are the important foundation or basis upon which any nation's meaningful development is anchored. By the late 1960, the importance of small business was globally acknowledged, which led to the establishment of programmes and schemes aimed at developing small business.

Every country has an account of how small business evolved to this present stage. To avoid boring you with the experience of so many countries, our discussion will be limited to the Nigerian economy. This unit therefore examined the historical evolution of small business in Nigeria.

2.0 OBJECTIVES

It is hoped that by the time you complete this unit, you will be able to:

- Describe the historical evolution of small business in Nigeria

3.0 HISTORY OF SMALL BUSINESS

3.1 Historical evolution of Small Business in Nigeria

According to Ubom (2006) and Olagunju (2008), the history of small business in Nigeria can be traced to the period of our forefathers who were engaged in local farming and trading. At first, they went into farming in order to satisfy their immediate needs, which is known as subsistence. They did not have to sell any of their produce to others; neither did they have to render any services to others. They consumed all they produced.

As the country got populated by more people, and given the divergences in human talents, natural and geographical endowments, coupled with the inability of these farmers to satisfy other needs, they then, diversified into other craft trades to provide their other needs. The resulted to the growth of small business activities.

With the coming of the European missionaries and later traders, the scope of and form of indigenous enterprise changed. The activities of the Europeans opened up many places that were not known. This made people to go from place to place to trade and with this, market sprang up. Many organizations sprang up too. They helped in expanding the frontiers of small businesses. Notable among those organizations is United Trading Company (UTC).

UTC came to trade and tap resources in the country. In their desire to trade, they entered into trade alliances with indigenous people. This gave the people experience and background to establish enterprises of their own.

With the attainment of independence of Nigeria in 1960, the government of the country came to realize the need for accelerated economic development of the country through indigenous participation. This came with the understanding that political independence is not without economic independence.

Accordingly, various governments, since independence have fashioned out programmes, polices and laws aimed at encouraging small businesses among the people. Among such efforts is the creation of defunct Nigeria Industrial Development Banks (NIDB) in 1964 to provide loans to entrepreneurs for the development of small businesses.

In 1972, the Nigerian Enterprises Promotion Decree No. 4 of February was promulgated. The decree has the objective of promoting indigenous enterprises and to make Nigerians have greater stake in the economy of the country.

The indigenization decree actually brought some developments to small businesses in Nigeria. Many agencies were established to aid the effective implementation of the policy. Example is the defunct Nigeria Bank for Commerce and Industries (NBCI), which had been merged with NIDB to form the new Bank of Industry.

However, the policy could not fully realize its objective because of various factors, among which were the political instability in Nigeria, and the problem of bureaucratic bottleneck, which thwarted some government's programmes. Successive governments, having discovered the same problem that led to the birth of the indigenization policy, had been making other efforts towards the promotion of small businesses.

In spite of these policies and programmes, the state of the Nigerian economy was not enhanced. This hopeless state forced the government to introduce he Structural Adjustment Programme (SAP) in 1985. The programme was aimed at saving the economy from total collapse through liberalization of the economy, which allows greater private initiative.

The programme wanted to make small businesses to play greater role in the economy than before. Consequently, many enterprises were opened up for private participation. It was this that made small businesses go into various trades like banking, manufacturing, retail trade etc

There has also been increase in government efforts aimed at revamping small businesses. Among were the National Directorate of Employment (NDE), Working for Yourself Programme, Small And Medium Enterprises Development Agency of Nigeria (SMEDAN), the Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

All these programmes and schemes are established to promote the development of small businesses in Nigeria. They were adopted to address the lingering problem of inadequate funding of small businesses in the country.

These efforts have led to the establishment of many enterprises especially small ones all over the country. For example, the pure water business found in many places today, the phone business, computer business centers, etc.

SELF ASSESSMENT EXERCISE 1

Discuss the historical evolution of small business in Nigeria

4.0 CONCLUSION

The history of small business in Nigeria ~~can be~~ is traced to the period of our forefathers who were engaged in local farming and trading. With the coming of the European missionaries and later traders, the scope of and form of indigenous enterprise changed. The activities of the Europeans opened up many places that were not known.

The attainment of independence of Nigeria in 1960 made the government of the country came to realize the need for accelerated economic development of the country through indigenous participation. Accordingly, various governments, since independence have fashioned out programmes, polices and laws aimed at encouraging small businesses among the people.

5.0 SUMMARY

The unit discussed the history of small business in Nigeria. The various developmental stages which small businesses in Nigeria have undergone were highlighted. The next unit takes you to a new module, where you will learn about the Nigerian financial system.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the history of small business in Nigeria
2. Outline and explain the role of the agencies established to support small businesses in Nigeria

7.0 REFERENCES/FURTHER READINGS

Olagunju, Y.A. (2008). *Entrepreneurship and Small Scale Business Enterprises Development in Nigeria.* Ibadan: University Press PLC.

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MODULE 2 OVERVIEW OF NIGERIAN FINANCIAL SYSTEM

UNIT 5 THE NIGERIAN FINANCIAL SYSTEM

CONTENTS

1.0 INTRODUCTION

In the previous unit, you studied the characteristics of small business. The present unit is a discrete unit and independent from the previous ones you have studied so far in this course. In this unit, we will discuss the Nigerian financial system to provide you the necessary understanding of its activities.

The Nigerian Financial System has evolved over the years from a rudimentary stage to a more sophisticated stage. There are so many operators, instruments, and institutions that facilitate the performance of its role, especially the role of financial intermediation. Financial intermediation is the process that facilitates the transfer of saved funds of some economic units to others for investment purposes. For example, the personal savings of an individual, placed in a bank, can be loaned to another individual or a business enterprise for the purchase of machineries, equipments, raw materials etc for productive purposes.

For financial intermediation to occur, the operators, instruments and institutions in the financial system must operate together, with the ultimate aim of brining about economic development in the country. Thus, the state of the financial system of any country in most cases reflects the state of the country.

In this unit, the structure of the Nigerian system is examined in order to assess the role of the financial system in Nigeria and how these operators, instruments and institutions work together to bring about economic development.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Explain the meaning of a financial system
- Identify the participants in the financial system and describe their role
- Mention and explain the instruments used in the financial system
- Examine the structure of the Nigerian financial system.

3.0 THE NIGERIAN FINANCIAL SYSTEM

3.1 Meaning of the Financial System

The financial system is an embodiment of rules and regulations within various financial arrangements, institutions, agents, and the various ways through which they relate and work with each other. Ekezie (1997:6) defines the financial system as a set of rules and regulations and the aggregation of financial arrangements, institutions and agents that interact with each other and the rest of the world to foster economic growth and development of a nation.

In the financial system, the various institutions, agents (operators) and instruments are very important. They are linked by laws (rules and regulations), friendship, contracts, and communications networks, in order to work effectively, by providing a medium of exchange through financial intermediation, which facilitates the channeling of funds from the surplus spenders (those with excess funds) to deficit spenders (those without excess funds) for investment or productive purposes, which in turn will enhance productivity and consequently foster economic growth and development.

Thus, in the financial system, operators, institutions and instruments are brought together on one hand while the surplus spenders and deficit spenders are brought together on the other hand. The functions of a financial system as outlined by Olowe (2008:59) are as follows:

1. It eases the flow of funds from the surplus units to the deficit units, thus, ensuring efficient allocation of resources.
2. It facilitates the issue of instruments of varying maturies
3. It facilitates the transformation of maturity of financial instrument.
4. It facilitates the growth of the economy
5. It allows investors the opportunity to invest in a wide range of enterprise, thus allowing them to spread their risk
6. It offers the participants in the system the opportunity to reduce risk

For a highly developed and efficient financial system, Ekezie (2008:6) suggested that it must have facilities for creating capital by channeling savings into investment and the financial system must be capable of providing markets and procedure for the transfer of claims to wealth.

SELF ASSESSMENT EXERCISE 1

Explain the meaning of a financial system

3.2 The Participants in the Financial System

There are six participants in the financial system and they include:

1. The Household
2. The Non-Financial Intermediaries (firms)
3. The Financial Intermediaries
4. The Government
5. The Central Bank
6. The Foreign Sector or Participant

1. The Household: They are also referred to as consumers. They receive income from wages paid by the firms, which are saved and spent on goods and services. The household spends their income on two types of goods which are durable and non-durable goods.

Durable goods provide use beyond current period. Consumers borrow to fund it, e.g. cars, television, etc. Non-durable goods are consumed within the current period, funding of non-durable goods done by current income of consumers.

The household can also lend money which is paid to them by the firm to others. This involves a flow of funds from the household to the firm.

2. The firm: They are the producers of goods and services for both households and for themselves (the firm). They produce consumer's goods which are durable or non-durable, and also produce goods for the firm which are used by the firm in production process. For example, machinery, plants, etc. They make use of raw materials, labour input, etc as a result they incur a lot of expenses but receive revenue and make profit by selling their goods.

The firm pays taxes to the government and invests in government securities, which involve the flow of funds from firm to government.

3. Financial Intermediaries: They are institutions that channel funds from lenders to borrowers or channel funds from surplus spenders to deficit spenders. They hold money balances of individuals, which they use in making loans and other investments.

In the financial institutions, we have

1. The depository or bank financial institution: They are divided into two, and they include:
    - The informal institution, which are the traditional financial institution. Examples are esusu, traditional money lenders, etc
    - The formal institutions which are the deposit money banks, development banks etc

2. The non-depository or non-bank financial institutions: They are divided into two, and they include:
    - The contractual: They offer legal contract to protect savers against risk. Examples of them are the pension funds, insurance companies etc.
    - The investment institution: They sell shares to the public and invest the proceed in stocks, bonds and other assets.

4. The Government: In some countries like Nigeria, we have three tiers of government which are the federal, state, and local governments; as a result we include the federal ministry of finance in this group.
They are involved in the collection of tax revenue as approved by legislature. In conjuncture with the Central Bank, they offer financial instrument to finance the gap between the government expenditure and receipts.

5. The Central Bank: They are fundamental force to reckon with because they take care of the health of the national financial system and the economy.

6. The Foreign Participants: They are made up of the foreign sector. We lump the foreign participants which includes the households, firms, financial institution, government and the Central Bank, which are from outside economy. It also includes goods and services and financial instruments exchanged across national boundaries.

SELF ASSESSMENT EXERCISE 2

Mention the participants in the financial system

3.3 Instruments used in the Financial System

Financial instruments are tools of trades within the financial system. Financial instruments packages financial capital in a readily tradable form. They do not exist outside the context of the financial market.

Financial instruments are categorized according to whether they are securities, derivatives of other instruments or cash securities. If they are derivatives, they are further categorized depending on whether they are traded as standard derivatives or traded over the counter

Alternatively, they can be categorized by asset class depending on whether they are equity based or debt based, reflecting a loan that the owner has made. If it is a debt security, it can further be categorized as short term (less than a year) or long term (more than a year). Foreign exchange instrument are neither debt nor equity based, they to their own category. Financial instruments are classified as follows:

ASSET CLASS	CASH	STANDARD DERIVATIVE	OVER THE COUNTER DERIVATIVE
Debt (long term)	Bond (float rate)	Bond (future)	Interest rate swap Interest rate cap Interest rate floors
Debt (short term)	Deposit (loans) Certificate of Deposit Commercial Papers	Future	Forward rate agreement Forex Swap

Equity	Stock (Equity index)	Stock Options Equity Futures	Stock Options
Forex	Forex spot	Forex futures	Forex spot or forex futures

SELF ASSESSMENT EXERCISE 3

Identify the instruments used in the financial system

3.4 The Structure of the Nigerian Financial System

As earlier mentioned, the Nigerian financial system is made up of financial institutions, instruments, and operators. In the last two sections of this unit, we concentrated on operators (participants) and instruments. Here, we will discuss the various financial institutions in the financial system.

The institutions include the regulatory agencies, which include the Federal Ministry of Finance (FMF), Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation (NDIC) and the Securities and Exchange Commission (SEC). Other Deposit Money Banks (the erstwhile commercial and merchant banks), Development Finance Institution, Specialized Banks such as Micro finance Banks and Community Banks. Other institutions include Insurance Companies, Finance Houses, Discount Houses, Bureax de Change, pension Fund Administrators, etc Thus, the Nigerian financial system is quite robust in terms of number and variety. These institutions are discussed below.

1. The Central Bank of Nigeria (CBN): This is the apex regulatory body of the financial system. The CBN was established by the Central Bank Act of 1958. Its responsibilities were defined in the CBN Act of 1958, which was amended in 1991; it includes:

- Issuance of legal currency in Nigeria
- Maintenance of Nigeria external reserves in order to safeguard the international value of the national currency
- Promotion of monetary stability and a sound and efficient financial system in Nigeria
- Acting as banker and financial adviser to the federal government
- Acting as lender of last resort to the banks

2. The Federal Ministry of Finance (FMF): It advises the government on its fiscal operations. The ministry handles budgeting and planning and interacts with the CBN on monetary issues. The FMF is currently in charge of licensing bureau de change and regulating insurance companies.

3. The Securities and Exchange Commission (SEC): This is the apex regulatory organ of the capital market. It was established by the SEC Act of 27th September, 1979 and was re-enacted by the SEC Decree of 1988. The major objective of SEC is the promotion of an orderly and active capital market.

4. The Nigerian Deposit Insurance Corporation (NDIC): It was established by decree 22 of 1988 and began operations in February 1989. Its primary responsibility is to provide protection for bank deposits in order to promote confidence in the banking sector and ensure stability of the system. In carrying out this major function, the NDIC insures deposit liabilities of licensed banks operating in Nigeria, assists banks to overcome temporary illiquidity problem in the interest of the system, guarantees payments to insured depositors of up to a maximum of ₦50,000 per depositor (Aderibigbe, 2004:5)

5. Commercial Banks: These are privately owned financial institutions established in 1892, to transact business with money in order to earn profit for their shareholders. (Ademu, 2003:332). Commercial Banks accept deposits of money and repay cash on demand. They also accept both current and savings accounts in order to meet the aspirations of their customers; they undertake activities like provision of credit facilities to sectors, the safekeeping of valuables and money, business advisory, among others.

5. Merchant Banks: They take deposits and cater for the needs of corporate and institutional customers by way of providing medium and long term loan financing, and engaging in activities such as equipment leasing, loan syndication, debt factoring and project advisers to clients sourcing funds in the market. The first merchant bank in Nigeria, Nigeria Acceptance Limited (NAL), started operations in 1960. By the end of 1996, there were 51 merchant banks with 147 branches, while their assets amounted ₦111,266.9 million (Nigerian Investment Promotion Commission, 2005).

It is important to note that in 2001, Deposit Money Banks (DMBs) emerged, following the adoption of the universal banking system and the removal of the dichotomy between commercial and merchant banks. A universal bank performs the most important role of financial intermediation in the Nigerian economy.

6. Development Finance Institutions: They are established to provide medium and long term finance to the industrial and agricultural sectors of the economy. Some of the development finance institutions operating in Nigeria are Bank of Industry, Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), Federal Mortgage Bank of Nigeria etc. Each of these was established to meet specific financial needs in some sectors of the economy.

7. Specialized Banks: These are banks established to cater for the needs of some segments of the economy. These banks include Micro Finance Banks, Community Banks etc

8. Insurance Companies: These are companies that provide protection against the erroneous consequences like loss of life, property etc from accident. Olowe (2008: 38) explains that by accepting premiums, insurance companies promise policyholders, compensation if certain pre-specified events occur. The premiums being collected by insurance companies constitute mobilization of funds and such funds are invested in other outlets such as bonds, stocks, mortgages and government securities. The insurance companies in Nigeria are classified into life and non-life institutions.

9. Finance Houses: These are financial institutions where an individual or a firm could obtain small, secured and unsecured, personal loans and business loans, usually at a higher interest rates and processing fees than banks. They mobilize funds, manage projects, provide leasing finance, consumer installment lending etc but are prohibited from accepting deposits and undertaking foreign exchange transactions.

10. Discount Houses: They are licensed to act as an intermediary between the Central Bank and the licensed banks in open market operation transaction and other eligible securities. They provide discounting /rediscounting services which will assist in providing liquidity

11. Bureaux de Change: In order to broaden the foreign exchange market and improve accessibility to foreign exchange, Bureaux de change have since 1989 been authorized to act as dealers in the spot market for foreign exchange. The federal ministry of finance is charged with the responsibility of licensing them. (Ekezie, 1997:15). From the 2006 CBN annual report and statement of accounts, there are 352 bureaux de change operating in Nigeria.

12. Pension Fund Administrators: These are limited liability companied licensed by the National Pension Commission (NPC) to manage pension funds in Nigeria.

SELF ASSESSMENT EXERCISE 4

With the aid of a diagram explain the structure of the Nigerian financial system.

4.0 CONCLUSION

The financial system is an embodiment of rules and regulations within various financial arrangements, institutions, agents, and the various ways through which they relate and work with each other. The system comprises of institutions, instruments, and operators. There are six participants in the financial system and they include: the household, the non-financial intermediaries (firms), the financial intermediaries, the government, the Central Bank, and the foreign sector or participant.

The financial institutions include the regulatory agencies, which include the Federal Ministry of Finance (FMF), Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation (NDIC) and the Securities and Exchange Commission (SEC). Other Deposit Money Banks (the erstwhile commercial and merchant banks), Development Finance Institution, Specialized Banks such as Micro finance Banks and Community Banks. Other institutions include Insurance Companies, Finance Houses, Discount Houses, Bureax de Change, pension Fund Administrators, etc Thus, the Nigerian financial system is quite robust in terms of number and variety.

5.0 SUMMARY

This unit explained the structure of the Nigerian financial system. The unit specifically discussed the institutions, instruments and operators that make up the financial system. In the next unit, the money market will be examined.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the meaning of a financial system.
2. Identify the participants in the financial system and describe their role.

7.0 REFERENCES/FURTHER READINGS

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UNIT 6 THE NIGERIAN MONEY MARKET

CONTENTS

1.0 INTRODUCTION

You studied the Nigerian financial market in the previous unit. This unit examines the money market, which is an integral but active part of the financial system of any country. It is basically a market for short-term securities and loans, gold and foreign exchange. Money market can be intangible in the sense that there must be a physical market place.

However, the institutions participating in the money markets are the discount houses, Deposit Money Banks (the erstwhile commercial and merchant banks), the Central Bank, the government, among other. They are brought into contract via sophisticated communication networks, available through modern technology.

The activities in the money market center on borrowing and lending of funds, which have very low default risk. Generally, the maturity of these assets varies from over night to one year.

In this unit, we will examine the structure of the Nigerian money market.

2.0 OBJECTIVES

By the time you complete this unit, it is hope that you can:

- Explain the meaning of the money market.
- Identify and describe the instruments of the Nigerian money market.
- Outline and discuss the operators in the Nigerian money market.

3.0 THE NIGERIAN MONEY MARKET

3.1 Meaning of the Money Market

Money market is an intermediary where short-term financial instruments are traded. The life span of such financial instruments usually ranges from few hours to about one year. Olowe (2008:60) defined money market as the market where money is borrowed or invested/lent for periods of up to one year maturity.

The money market deals in short-term government and private sector instruments. The instruments traded are readily convertible into cash. An individual, institution or government that requires funds, creates instruments with which to source such funds. The type of instrument is debt or loans instrument which are traded with different names e.g. treasury bills, etc.

In Nigeria, the money market was established and nurtured by the Central Bank of Nigeria, primarily for mobilizing domestic savings for productive investment as well as providing the government with funds to enable it implement its economic programs. Anyanwu (1993:156) explained that these short-term instruments involve a small risk due to loss, because they are issued by obligators of the highest credit rating.

He further outlined the function of the money market as follows:

1. It provides the basis for operating and executing an effective monetary policy
2. To promote an orderly flow of short-term funds
3. To ensure supply of the necessary means of expanding and contracting credit.
4. Mobilization of funds from savers (lenders) and the transmission of such funds to borrowers (investors)

The Nigerian money market is made up of two segments: the primary and the secondary markets. The primary market is the market for the issuance of new financial instruments while the secondary market is the market where existing or old financial instruments are traded.

SELF ASSESSMENT EXERCISE 1

Define money market and highlight the function the Nigerian money market

3.2 The Instruments of the Money Market

There are various instruments through which funds can be raised in the money market. The instruments used in the Nigerian money market are as follows:

1. Treasury Bills: These are short-term promissory notes issued by the CBN on behalf of the federal government. This instrument is a default free instrument, sold on weekly basis to raise funds for the federal government and matures within 91 days from the date of issue. The instrument is also used as a monetary policy tool by the CBN to manage liquidity in the banking system through open market operation (OMO).

The security could be sold at a price lower than its nominal value, hence it is a discountable instrument. At maturity, the bill is redeemed at its face value.

2. Treasury Certificates: These are medium term government debt instrument, introduced in 1968. They are of two classes; the one year treasury certificate and the two year treasury certificate, thus bridging the gap between treasury bills and long-term government securities. They are issued at par or face value and pay fixed interest rate as imprinted on the coupon.

They are similar to treasury in all respect except that they have longer maturities and higher returns. Unfortunately, this instrument was phased out in 1997.

3. CBN Certificate: The CBN Certificate was introduced by the Central Bank of Nigeria in February 2001, in order to address the lingering problem of liquidity overhangs in the system, with a view to establishing a stable macroeconomic environment. The instrument was issued in two tranches of 180-day and 360-day tenors, with a minimum investment of ₦250,000.00 and in multiples of ₦50,000.00 thereof. The security was is open for public subscription through the deposit money banks.

4. Certificates of Deposits: They are inter-bank instruments introduced in March 1975. They are claims to specified sum of money deposited with a merchant bank name on them. Certificates of Deposits have maturity range of 3 and 36 months.

They are in two forms- the Negotiable Certificate of Deposit (NCD) and the Non-Negotiable Certificate of Deposit (NNCD). These instruments were issued by merchant banks and held mostly by commercial banks. The instrument was phased out since 1997.

5. Commercial Papers: These are short-term promissory note issued by corporate entities (companies) showing indebtedness. Commercial papers have a maturity range of 30 days and 270 days. The investors in commercial papers are usually high net worth individuals, institutional investors such as banks, etc.

6. Money at Call: Money at Call was money lent by the banks and could be called back at a short notice e.g. 24 hours in overnight. Call money was simply bank reserves that were loaned to banks with insufficient reserves and it helps potential erring banks acquire the legal reserves which the CBN examines require banks to maintain. They also serve as a buffer against stock of liquidating pressures in the market; thus, helping banks to manage new cash balance.

In 1962, the call money scheme was introduced in Nigeria but was abolished by CBN in 1974.

SELF ASSESSMENT EXERCISE 2

Mention the instruments used the Nigerian money market.

3.3 Operators in the Money Market

The major operators in the money market as highlighted by Nnanna, Englama, Odoko (2004:49) are as follows:

1. Central Bank of Nigeria (CBN): The CBN is the issuer of the domestic currency. It participates actively in the money market in the process of implementing its monetary policy and by virtue of its role as the banker's bank. As the banker and financial adviser to the federal government, the CBN on behalf of the government, sources funds from the money market through the use of short-term debt instruments.

The CBN also acts as the lender of last resort, determines the minimum rediscount rate (MRR) at which it gives short-term credit to the banks. The adjustment of the MRR influences other market interest rates at which transactions in the money market are carried out.

2. Deposit Money Banks (DMBs): They are the largest entity of all that groups that make up the Nigerian money market. They are the largest partner with CBN in money market transactions.

They equally serve as the intermediary between the Central Bank and the general public in the processing, sales and purchase of banking products and monetary policy instruments. Thus, the major transaction of converting financial assets into cash and vice-versa takes place in

DMBs. The DMBs operate under the general guidelines provided by the monetary authorities and are involved in the business of providing financial services to individuals/households, corporate bodies and the government.

3. Discount Houses (DHs): These are non-bank financial institutions that provide the deposit money banks with a convenient window for liquidity management by contracting from banks, repayable at call, and providing short term market for government securities. They provide secondary market for investors who cannot keep their instrument till maturity.
Such investors can sell their bills to the house at a discount i.e. a value less than the maturity value. The discount house holds such instrument to maturity. The difference between the discounted value and the maturity value is the profit made by the discount house.

4. Finance Houses: Finance houses specialize in short term non-bank financial intermediation. Their main objective is to mobilize funds by providing consumer credit and other facilities for local purchase order, project financing, equipment leasing and debt factoring.

They are not allowed by law to accept deposits from members of the public and from making dealings in the foreign market. The main source of their funds is equity and borrowing.

5. Bureaux de Change: They were granted authority to commerce operation in Nigeria, in order to enhance public access to foreign exchange. Under the recommendations of CBN, a bureau de change can operate in Nigeria if it has been issued license by federal ministry of finance.

6. Community Banks: The establishment of community banks in Nigeria can be traced to the federal government pronouncement in the 1990 budget, the initiative was aimed at redressing the lack of adequate and efficient facilities for the mobilization of savings for productive activities among the less privileged members of the society.

SELF ASSESSMENT EXERCISE 3

Identify the operators in the Nigerian money market.

4.0 CONCLUSION

Money market is an intermediary where short-term financial instruments are traded. The life span of such financial instruments usually ranges from few hours to about one year. The instruments used in the Nigerian money market are Treasury Bills, Treasury Certificates, CBN Certificate, among others. The major operators in the Nigerian money market are Central Bank of Nigeria, Deposit Money Banks, Discount Houses, finance Houses, etc.

5.0 SUMMARY

This unit has thrown light on the meaning and functions of money market. The instruments used in the Nigerian Money market were analyzed. The unit also discussed the major operators in the Nigerian money market.

In the next study unit, you will be taken through the discussion on the Nigerian capital market.

6.0 TUTOR-MARKED ASSIGNMENT

1. Outline and explain the instruments used in the Nigerian Money Market.
2. Mention and discuss the operators in the Nigerian Money Market.

7.0 REFERENCES/FURTHER READINGS

Anyanwu, J.C. (1993). *Monetary Economics: Theory, policy and institutions.* Onitsha: Hybrid Publishers Ltd.

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UNIT 7 THE NIGERIAN CAPITAL MARKET

CONTENTS

1.0 INTRODUCTION

Capital occupies a very important position in the life of any business both private and public. The capital market provides the much needed capital on a long term basis. Globally, the capital market plays an important role of channeling capital from the surplus unit to the deficit unit of the economy for investment purposes.

The instruments traded in the capital market are: Shares, Debt, Unit Trust/Mutual Funds, and Derivates. The role of the capital market in the economic development of Nigeria has continued to attract increasing attention among policy makers.

However, this unit explains the meaning of the capital market as well as the instruments used in the market. Furthermore, it examines the operators in the market.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Define Capital Market.
- Mention and describe the instruments of the Nigerian Capital market.
- Outline and discuss the operators in the Nigerian Capital Market.
- Examine the structure of the Nigerian Capital Market.

3.0 THE NIGERIAN CAPITAL MARKET

3.1 Meaning of the Capital Market

The capital market is a segment of the financial market that provides medium and long term capital for development purposes. The capital market facilitates the transfer of funds from the surplus unit to deficit unit of the economy. The financial market, as defined by Ekoko (2007:16) is a market where institutions exchange financial assets through a process of intermediation. The financial market comprises of the money and capital markets.

A capital market is a network of financial institutions and facilities that interact to mobilize and allocate long term savings in an economy. The long term funds are exchanged for financial assets issued by borrowers or traded by holders of outstanding eligible instrument. Therefore, it provides services that are essential to a modern economy mainly by contributing to capital formation (Nnanna, Englama, and Odoko, 2004: 65)

Jhingan (2004:294) explained that the flow of funds into the capital market come from individuals who have savings to invest. The capital market functions through the Stock Exchange. A stock Exchange is a market which facilitates the buying and selling of shares, bonds, Debenture etc. It is a market for both old and new securities.

The functions of a Capital Market as identified by Anyanwu (1993:192) are:

1. The promotion of rapid capital formation
2. The provision of sufficient liquidity for investors.
3. The creation of a built-in operational allocational efficiency within the financial system to ensure that resources are optimally utilized at relatively little cost.
4. The mobilisation of savings from numerous economic units for economic growth and development.
5. The encouragement of a more efficient allocation of new investment through the pricing system.
6. The provision of an alternative source of funds for government other taxation.
7. It is a machinery for mobilizing long term financial resources for industrial development.

SELF ASSESSMENT EXERCISE 1

Define the capital market and outline its functions

3.2 Instrument of the Nigerian Capital Market

The type of instrument traded in the capital market can be classified into categories. Each of these categorizations is a group identity within which a number of specific instruments come in. They are:

1. Shares:

- Ownership Instruments (ordinary share or equity)
- Preference Share

2. Debt:

- Bonds
- Stocks

3. Funds:

- Unit Trust/Mutual Funds

4. Derivates:

- Rights
- Futures
- Options
- Swaps
- Warrants

3.2.1 Shares

A share is a unit of ownership in a company. When you buy shares, you become a part owner of a company or a shareholder of a company. Thus, a shareholder is anyone who owns at least a unit of share in a company.

Share literally means a portion or a fragment which belongs to you. This means that you share in the profit and loss of that company. This is why you are a shareholder. The contribution of each shareholder towards the capital of the company is represented by shares.

As owners of a company, the shareholders are entitled to dividends. There are two main kinds of shares. They are the ordinary shares and the preference shares.

1. Ordinary Shares: This is an ownership instrument which is held in perpetuity until the owner decides to sell it off. Once the investor sells off the entire shares, he no longer has any linkage with the company. But as long as the investor holds the shares, he is entitled to the following: receive the company's annual reports and accounts; attend general meetings; vote at the general meetings; and receive dividends in form of cash and bonus share.

The ordinary shares usually have a par value and a market value. You might have come across the phrase "A 50k share of ₦5.00 each" this means that the share sells in the market for ₦5.00, which is the market price. The 50k figure is the share's par value, which means that the company's shares are in units of 50k. This figure is of no practical relevance to us. This type of share is called common stock in USA.

2. Preference Shares: This is a mixture of ownership and debt security. It does not confer voting right on the investor unless it is specifically stated so. It can be redeemable or convertible, thus, when it is redeemable, it is virtually similar to a bond or stock, which has to be paid back at maturity. If it is convertible, then, it can be exchanged at a future time, either at the option of the holder or the company, for the company's ordinary shares.

The preference share earns dividend at a fixed rate. If the company makes profit, the investor earns the dividend but if it does not make profit, the investor does not earn the dividend, if it is non-cummulative. However, if the instrument is cummlative, the investor is entitled to dividend whether or not the company makes profit. The preference share in Nigeria is called the preferred stock in USA. (Ekiran, 1999:58).

3.2.2 Debt Instruments

This involves borrowing funds from the public or from selected high net worth companies or individuals. The debt instruments come in form of bonds and stocks. The investor is a creditor to the issuing company or government, who is the debtor to the investor.

The investor is entitled to interest payment at the specified periodic intervals and his principal investment at maturity, if he holds the instrument to maturity.

1. The Bond: A bond is a long term debt instrument, which comes in the form of a legal document that shows a promise to pay interest periodically, over a period of time and the principal at some specified date in future. When you buy a bond, you are loaning money to the seller at a specified interest rate. Government, companies, etc can sell bonds.

The maturity period ranges from 1-30 years. Generally, bonds are less risky than shares, but they give lower rates of return. There are different types of bonds, namely, debenture, convertible bonds, floating rate, zero-coupon bonds, etc. the most secured bonds are the federal government bonds, which are usually advertised in this form:
4^{th} Federal Government of Nigerian Bond 2017, series 9. Tenor: 10yrs, coupon rate: 9.35%.

2. Stocks: An example is the federal Government Development Stock (FGDS), which are issued for development purposes. They are gilt-edged stocks with fixed interest rates and maturity dates. They are usually issued in tranches and the interests paid bi-annually.

3.2.3 Funds

Unit Trust/Mutual Fund: This is a kind of collective or pooled investment scheme. The manager of a unit trust combines the money of several investors (mostly small savers) and invests it in stocks, bonds, real estate and money market instruments.

Nnanna, Englama, and Odoko, (2004:85) explained that the unit trust scheme is an important mechanism for mobilizing financial resources from small savers and managing such funds to achieve maximum returns with minimum risks through efficient portfolio diversification. In recent times, however, big savers including institutional investors that do not possess the expertise to manage funds make recourse to the scheme.

Two broad categories of the scheme exist namely: the close-ended unit trusts and the open-ended. Under the close-ended fund scheme, managers mobilize resources at the end of a specified period and the subscriptions are invested in companies and dividends emanating from the investment are distributed among investors. On the other hand, the open ended fund implies that subscriptions are made at tranches or units and invested, while returns are shared among holders.

3.2.4 Derivatives

These are instruments derived from existing instruments. They are mere shadows of underlying securities. The commonly traded derivatives are rights, options, futures, and swaps. These are common in developed economies, where they had not only boosted the supply of securities but had helped activate the market. In Nigeria, the closest instrument in this group is the trading of rights. When a quoted company issues new shares to raise capital, some share are first issued to existing shareholders in the form of a right issue. It is called a right issue because shareholders have the first right to buy the new shares. The new shares are offered to shareholders in relation to their existing shareholding. For example, XYZ Company is offering by way of rights, one new share for every three held. It means that shareholders have the chance to buy one new share for every three already owned. They are usually offered at price below that of the existing share in the market.

SELF ASSESSMENT EXERCISE 2

Mention the instruments used in the Nigerian Capital Market

3.3 The Participants in the Nigerian Capital Market

The major participants in the Nigerian Capital Market are: investors, operators, facilitators, and regulators.

3.3.1 Investors

They are both the supplier (sellers) and the consumers (buyers) of financial instruments or capital. The investor can be a government, or a corporate body, or an individual. In the secondary market, the investor is not permitted to go to the market place directly to transact business. He is expected to employ the services of an agent called a stockbroker, to transact the business on his behalf.

The investor must have a trading or investment account with the stockbroker which is regularly funded. The account also shows all transactions carried out by the stockbroker on behalf of the investor.

3.3.2 Operators

They include Brokers, Issuing houses, Registrars, Underwriters, Trustees, etc. that provide various services for the investors and borrowers in the capital market.

1) Stockbrokers: A stockbroker is a licensed member of the stock exchange, who acts as an intermediary between two or more parties. It is licensed to represent and trade in securities on the market, on behalf of investors for a commission, which is called the brokerage fee. They, among other functions, act as agent for the public, receiving and executing buy and sell order for shares according to the instruction of their clients; they provide advisory services by giving professional advice on choice and management of investments and assisting project sponsor to raise funds. The Nigerian stock exchange regulates their activities.

2) Issuing Houses: An issuing house is a key intermediary of the Nigerian capital market that prepares prospectus to sell new securities offered to the public by companies and government. They coordinate the entire issue process, bringing together all the other professionals and either underwrites or arrange for the underwriting of the issue**.** They also help in pricing the issue and advising the issuer on matters relating to the success of the exercise.

3) Registrars: They are operators in the capital market that are involved in the opening of registers and maintaining the list of shareholders of the companies, on the conclusion of the offer. We have two types of registrars namely the in-house and general registrars. The in-house registrars means that the listed company maintains its own register of shareholders while a general registrar means that the listed company employs the services of a registrar to keep its register.

Registrars, among other functions, open and maintain register of members, effect transfer of instruments, accept lodgment of document in respect of concluded transaction, cancel already traded certificates, prepare new certificates, and dispatch annual report and account to members, dividend and interest warrants to investors

4) Underwriters: They help to facilitate the success of the offer. They are of three categorises. The first is the stand-by underwriter, who, at the time of subscription makes a promise to make money available in the event of under subscription. A commission is paid to him at the point of agreement.

The second category of underwriters negotiates the price of the offer, add their own margin, pay off the issuer, and then market the offer. It is called firm underwriting.

The third category refers to those that do not commit any financial assistance but rather promise to make the best effort to market the security. Major underwriters of public offers are the deposit money banks and insurance companies.

5) Trustees: A trustee holds and manages properties or assets on behalf of individuals or institutional investors.

3.3.3 Regulators

The regulators in the capital market in Nigeria are: Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE), and Central Bank of Nigeria (CBN).

1. Securities and Exchange Commission (SEC): This is the apex regulatory body in the capital market. It regulates the issue of securities and the conduct of operators in the market, as well as sales practices. It is vested with the power to suspend or revoke the registration of any person/body involved in price manipulations, unjust or inequitable practices, after an opportunity for hearing has been granted.

2. Nigerian Stock Exchange (NSE): Following the favourable report of the Barback committee, which was set up in May 1958, the Lagos Stock Exchange was established. It commenced operations on 2, June 1961. In order to meet the aspirations of the users of its services, the Lagos Stock Exchange was transformed into the Nigerian Stock Exchange (NSE) by the federal government on 2, December 1977. Presently, it has eight exchange offices outside Lagos in Abuja, Kaduna. Port Harcourt, Kano, Onitsha, Ibadan, Yola, and Benin.

The Nigerian Stock Exchange is a self regulatory organization. It ensures that companies comply with requirements of the exchange and adhere to international accounting standard in the preparation of their financial statements. The Exchange provides a means for trading in new and old securities.

3. Central Bank of Nigeria (CBN): As with the money market, the Central Bank of Nigeria is the major player in the capital market. It actively participates by issuing and underwriting all federal government loans stocks. CBN imparts resilience and stability to the market by buying up all stocks on issues which are not taken up by other investors.

SELF ASSESSMENT EXERCISE 3

Mention the various participants in the Nigerian Capital Market.

3.4 Structure of the Nigerian capital Market

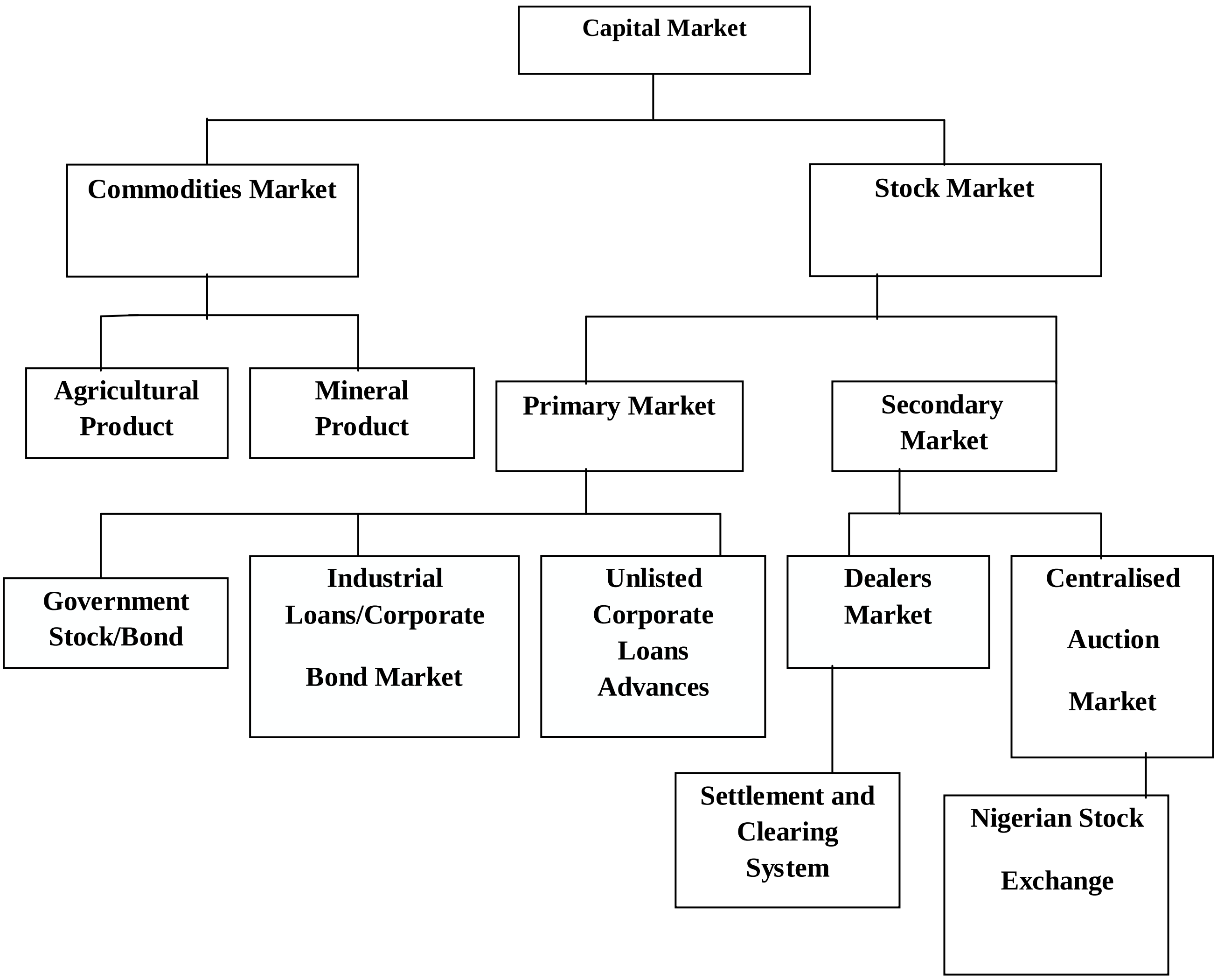
The Nigerian Capital Market is broadly segmented into the commodities and stock markets. The commodities market is a part of the capital market where commodities and contracts are bought and sold. Examples of commodities traded are cocoa, gold, groundnuts etc.

The Stock Market is a part of the capital market that facilitates the buying and selling of shares, bonds, funds, etc. The Stock Market is divided into two segments which are the primary and secondary markets. The primary market is the segment of the Stock Market that deals with the trading of new or fresh securities while the secondary market is a market for the purchase and sale of already issued securities.

There are two broad categories of the secondary market. They are the dealers market and centralized auction market. The dealers market is characterized by the absence of a centralized location for transacting business in securities. Securities that are not listed on any Stock Exchange are traded on the Dealers Market while the Centralized Auction Market is an organized market where rules, regulation, and procedures for buying and selling of securities are put in place.

These securities are bought and sold through brokers on the stock market. The Stock Market is the major operator in the Capital Market. The stock exchange operates two tiers market - the first tier market where securities of big companies are listed and the second tier market, where securities of small companies are listed. The instruments traded on the Nigerian Stock Market are Ordinary shares, Preference shares, Bonds, and Federal Government Development Stock.

The structure of Nigeria Capital Market is diagrammatically presented as:



Source: Nnanna, Englama, and Odoko (2004)

SELF ASSESSMENT EXERCISE 4

With the aid of a diagram, explain the structure of the Nigerian Capital Market.

4.0 CONCLUSION

The capital market is a segment of the financial market that provides medium and long term capital for development purposes. The major participants in the Nigerian Capital Market are: investors, operators, facilitators, and regulators. The instruments traded in the capital market are: Shares, Debt, Unit Trust/Mutual Funds, and Derivates.

5.0 SUMMARY

This unit discussed the structure Nigerian Capital Market. It explained the meaning of capital market and described the instruments of the Nigerian capital market. Major operators in the Nigerian Capital Market were examined.

In the next unit, we will focus on the Securities and Exchange Commission.

6.0 TUTOR-MARKED ASSIGNMENT

1. Mention and describe the instruments of the Nigerian Capital market.

2. Outline and describe the activities of participants in the Nigerian Capital Market.

7.0 REFERENCES/FURTHER READINGS

Anyanwu, J.C. (1993). *Monetary Economics: Theory, Policy and Institutions.* Onitsha: Hybrid Publishers Ltd.

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UNIT 8 SECURITIES AND EXCHANGE COMMISSION OF NIGERIA

CONTENTS

1.0 INTRODUCTION

In the previous unit, we discussed the Nigerian Capital Market, where we briefly explained the activities of the Nigerian Securities and Exchange Commission. We noted that it is an apex regulatory body of the capital market, which regulates the issue of securities and the conduct of operators in the market, as well as sales practices.

Thus, in this unit, we will focus on the Commission, with emphasis on its origin, functions and activities.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Analyse the historical evolution of the Securities and Exchange Commission
- Identify and discuss the functions of the Securities and Exchange Commission.
- Critically evaluate the activities of the Securities and Exchange Commission.

3.0 THE NIGERIAN SECURITIES AND EXCHANGE COMMISSION

3.1 History of Securities and Exchange Commission

The origin of Securities and Exchange Commission dates back to 1962, following the establishment of an adhoc consultative and advisory body known as the Capital Issue Committee, with the support of the Central Bank of Nigeria. Its primary function was to examine applications from companies seeking to raise capital from the market and to recommend the timing of such issues. The committee, however, had no legal backing but operated non-officially as a capital market consultative and advisory body within the Central Bank of Nigeria.

An increase in the level of economic activities and consequently, capital market activities after cessation of the civil war hostilities, coupled with the promulgation of the Nigerian Enterprises Promotion Decree in 1972, necessitated the creation of another body known as the Capital Issues Commission (CIC) in March, 1973 to take over the activities of the Capital Issues Commission. The new body was backed by Capital Issues Commission of 1973 and it was vested with the power to determine the price, amount and time at which shares or bonds of a company are to be sold to the public. Only public companies both quoted and unquoted fell within the sphere of CIC.

In 1976, the Financial System Review Committee recommended the establishment of Securities and Exchange Commission, after considering the role of CIC and realizing the need to protect investors and keep them informed of companies and securities issued in the market and most importantly, realizing the need for an apex capital market regulatory body, which will promote efficiency in the market.

Consequently, the Securities and Exchange Commission (SEC) was established by the Securities and Exchange Commission Decree of 27 September, 1979, effective retrospectively from April, 1978, to supersede the Capital Issue Commission. The Securities and Exchange Commission was vested with a wider power to regulate and develop the Nigerian Capital Market, in addition to determining the price of issues and setting the basis of allotment of securities.

The Commission, however, took off effectively on January 1st, 1980. In 1988, the Securities and Exchange Commission Decree of 1979 was re-enacted by the Securities and Exchange Commission Decree of 1988, with additional provisions to address observed lapses in the previous arrangement and to enable the commission purse its functions more effectively.

To further enhance the commission's pursuit of its objectives of investors protection and capital market development, a 7-man panel, headed by Chief Dennis Odife was constituted in 1996. Based on the panel's recommendations, a new Act known as the Investment and

Securities Act of 1999 was promulgated on May 26, 1999. The Act repealed the Securities and Exchange Commission Act of 1988. The new Act is expected to promote a more efficient and virile capital market, pivotal to meeting the nation's economic and developmental aspirations in this millennium.

SELF ASSESSMENT EXERCISE 1

Analyse the historical Evolution of the Securities and Exchange Commission

3.2 Functions of Securities and Exchange Commission

The Commission carries out its functions as provided in the Investments and Securities Act (ISA) of 1999 as follows:

1. Regulate investments and securities business in Nigeria as defined in the Investment and Securities Act;

2. Register and regulate Securities Exchanges, Capital Trade Points, Futures, Options and Derivative Exchange, Commodity Exchange and any other recognized investment Exchange;

3. Register Securities to be offered for subscription or sale to the public;

4. Render assistance in all aspects including funding as may be deemed necessary to promoters and investors wishing to establish Securities Exchange and Capital Trade points;

5. Prepare adequate guidelines and organize training programmes and disseminate information necessary for the establishment of Securities, Exchange and Capital Trade points;

6. Register and regulate corporate and individual capital market operators as defined by ISA;

7. Register and regulate the workings of venture capital funds and collective investments schemes including mutual funds;

8. Facilitate the establishment of nationwide system for securities trading in the Nigerian capital market in order to protect investors and maintain fair and orderly market;

9. Facilitate the linking of all markets in the securities through modern communication and data processing facilities in order to foster efficiency, enhance competition, and increase the information available to brokers, dealers and investor;

10. Act in the public interest of having regards to the protection of investors and the maintenance of fair and orderly markets and to this end to establish a nationwide trust scheme to compensate investors whose losses are not covered under the investors protection funds administered by Securities, Exchange and Capital Trade points;

11. Keep and maintain separate registers of foreign direct investments and foreign portfolio investments;

12. Register and regulate central depository companies and clearing and settlement companies, custodians of securities, credit rating agencies and such other agencies and intermediaries;

13. Protect the integrity of the securities market against abuses arising from the practice of insider trading;

14. Act as a regulatory apex organization for the Nigerian capital market including the promotion and registration of self-regulatory organization and capital market trade association to which it may delegate its powers;

15. Review, approve and regulate mergers, acquisition and all forms of business combinations;

16. Promote investors education and the training of all categories of intermediaries in the securities industry;

17. Call for information from and undertake, inspect, conduct inquiries and audits of the Securities Exchange, Mutual funds, Capital Trade Point, Futures, Options, and Derivative Exchange as well as other intermediaries and self-regulatory organizations in the securities industry;

18. Call for information or furnish any agency as may be considered necessary by it for the efficient discharge of its function;

19. Levy fees or other charges on any person for carrying out investment and securities business in Nigeria;

20. Conduct research into all or any aspect of the securities industry;

21. Prevent fraudulent and unfair trade practices in relation to the securities industry;

22. Advice the minister on all matters relating to the securities industry;

23. Disqualify unfit individuals from being employed anywhere in the securities industry;

24. Liaise effectively with the regulators and supervisors of other financial institutions locally and overseas;

25. Perform such other functions and exercise such other powers not inconsistent with this Act are necessary or expedient for giving full effect to the provision of this Act.

SELF ASSESSMENT EXERCISE 2

Outline the functions of the Securities and Exchange Commission

3.3 The Activities of Securities and Exchange Commission

The Securities and Exchange Commission, as earlier explained, is the apex regulatory body of the capital market. In regulating the market, the Commission undertakes the following activities meant to protect investors, market operators, and also ensures that market integrity is maintained:

1. Regulatory Activity: This is aimed at strengthening investors' confidence in the capital market by creating the necessary environment for the orderly trading of securities and ensuring that fair and equitable prices prevail. To achieve this, the Securities and Exchange Commission ensures:

a) The registration of securities and market intermediaries to ensure that only fit and proper persons/institutions are allowed to operate in the market;

b) The surveillance over the exchanges and trading systems in order to forestall breaches of market rules as well as to deter and detect unfair manipulations and trading practices to prevent market disruption.

c) The investigation of alleged breaches of the law and regulations governing the capital market and enforcement of sanctions where appropriate.

2. Price Determination/Share Valuation: This was necessitated by the desire to protect investors given that most Nigerian investors are prone to easy price manipulation and deceptive information. Over-valuation could also lead to huge losses on the part of the investors. The Commission ensures that the approved prices which are fair to both buyers and sellers.

3. Capital Market Development: In order to develop the capital market, the Commission builds up public confidence, by embarking on public enlightenment programmes through seminars and symposia. It also creates a forum for the dissemination of information on the operation of the capital market by embarking on publications, e.g. SEC

Fact book, Securities Market Journals etc., which is aimed at ensuring public awareness on the role of capital market in economic development. SEC also makes proposals to the government from time to time on specific measures that would encourage the growth and development of the capital market.

4. Monitoring the Capital Market: Securities and Exchange Commission helps to monitor operations of the capital market in order to prevent unscrupulous practices and to uphold investors' confidence.

5. Timing of Issues: The Commission is equipped to carry out the role since all issues are channeled through it. This is important since the success of any issue is substantially dependent on its proper timing.

The timing of issues is also important to prevent problems of over-saturation of the capital market resulting from it being flooded beyond its absorptive capacity. Thus, SEC considers the market absorptive capacity before releasing securities to the market.

SELF ASSESSMENT EXERCISE 3

Mention and describe the activities of the Securities and Exchange Commission.

4.0 CONCLUSION

The Securities and Exchange Commission (SEC) of Nigeria is the apex regulatory institution of the capital market. The Commission has evolved over time, having started with the establishment of the Capital Issues Committee in 1962 as a non-statutory committee, which later change into the Capital Issues Commission (CIC) in 1973. Following a comprehensive review of the Nigerian Financial System, the Securities and Exchange Commission Decree of 1979 was enacted to provide the statutory backing for the establishment of the Securities and Exchange Commission (SEC). SEC replaced the CIC, and was given enlarged powers and functions relating to capital market activities.

The SEC decree has been reviewed several times. The last was in 1999 and it paved way for the promulgation of the Investments and Securities Act (ISA) of 1999. The ISA enlarged the powers of the SEC and also saddled it with dual responsibility of regulating the capital market with a view to protecting the interest of all investors in the market and developing the capital market in order to enhance its efficiency.

5.0 SUMMARY

This unit examined the Securities and Exchange Commission of Nigeria. It analysed the historical evolution of the Securities and Exchange Commission and discussed the functions of the Securities and Exchange Commission. An evaluation of the activities of the Securities and Exchange Commission was also treated.

6.0 TUTOR-MARKED ASSIGNMENT

1. Describe in detail the activities of the Securities and Exchange Commission

2. Outline the functions of the Securities and Exchange Commission

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UNIT 9 THE ROLE OF CENTRAL BANK OF NIGERIA

CONTENTS

1.0 INTRODUCTION

In the previous unit, you studied the Securities and Exchange Commission of Nigeria, which is an apex regulatory body of the Nigerian capital market. In this unit, you will learn about the Central Bank of Nigeria.

The Central Bank is the apex regulatory authority of the financial sector in any country. The principal role of a central bank in an economy is to nurture an efficient financial system through the application of application of appropriate instruments to influence the levels of the monetary and credit aggregates in the pursuit of low inflation, economic growth and balance of payments viability. In developing economics, Central Banks usually go beyond these traditional roles to engage in developmental activities in order to speed up the economic development process and enhance the environment for the performance of their primary role.

This unit highlights the history of the Central Bank of Nigeria and also examines its functions and role in the economic development of Nigeria.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Describe the history of the Central Bank of Nigeria.
- Outline and explain the functions of the Central Bank of Nigeria.

- Highlight the role of the Central Bank of Nigeria in the economic development of Nigeria.

3.0 THE ROLE OF CENTRAL BANK OF NIGERIA

3.1 The establishment of the Central Bank of Nigeria.

According to Nwankwo (1980), Ekezie (1997), and Mai-Laifia (2003), the history of the Central Bank of Nigeria is traced to the establishment of the West African Currency Board (WACB) in 1912, following the recommendations of the Emott Committee. It was established mainly to issue legal tenders to all the West African British Colonies. The WACB religiously discharged its other functions such as its exchange of existing currencies, the repatriation of existing currencies, and the investment of its reserves.

In the process of discharging these functions, the board's activities were characterized by the following elements:
a. fixed parity of local currency with sterling, b. automatic issues and c. 100 percent sterling coverage. This 100% sterling coverage ensured the exchange stability of West African currency in terms of sterling while the automatic link with sterling ensured that in times of financial stress, Nigeria could look up to London for help. In effect, London acted as Nigeria's money market.

The WACB invested all its reserves in sterling over-seas though there was no legal obligation on the part of the board to do so. No local investment outlets were developed. These and many deficiencies of the board led to the urgent need for the establishment of an institution in the nature of a central bank.

Besides these deficiencies, the period between 1892 and 1952 was known as the Free-Banking Era, which was characterized by the absence of any banking legislation, experienced massive bank failures. Thus, there was an urgent need this time, for legislation to control banking in Nigeria, if not for any other reason, at least to protect depositors.

The Nationalists had to mount pressure on the Colonial Government and as a result, the PATON Commission was set up by the Colonial Government in 1952. Consequent upon the report of his commission, the first banking legislation in Nigeria was passed in 1952 known as "The Banking Ordinance of 1952".

This Ordinance among other things, vested the power of control of banking in the Financial Secretary. With this power vested on the

Financial Secretary (a colonial master), it triggered off two opposing camps, first was the Nationalists, who were of the view that a central bank was needed to perform this function and secondly was the colonialists, who believed that it was premature to introduce a central bank in a country where there was no financial system.

To resolve the conflicts, the colonial administration appointed Mr. J.L Fisher, an adviser of the Bank of England in 1952, to inquire into the desirability and practicability of establishing a central bank in Nigeria as an instrument for promoting the economic development of the country. Mr. Fisher reported that it was not feasible to establish a central bank on the grounds that the financial environment did not exist and that it would be impossible to find the local staff to man it.

In 1953, a World Bank Mission visited Nigeria to also examine the desirability and practicability of establishing a central bank in Nigeria. The mission, however, agreed with Mr. Fisher's analysis that Nigeria was not financially equipped enough for the proper operation of a central a bank. The mission, instead, recommended the establishment of a State Bank of Nigeria to take over the banking control function vested on the Financial Secretary, which was still not acceptable to the Nigerian Nationalists.

However, things began to change, when in 1957 Nigeria gained an internal autonomy. Backed by the report of the World Bank Mission on the subject, the Federal Government appointed a Commission headed by Mr. J.B. Loynes of the Bank of England in 1957, this time, to make recommendations on the establishment of a Nigeria central bank, the introduction of Nigerian currency and other associated matters. This Commission reported six weeks later and its recommendations culminated in the establishment of the Central Bank of Nigeria on March 17th, 1958 by the Central Bank Ordinance of that year.

The Central Bank effectively came into existence and fully operational on the 1st of July, 1959. The core mandate of the CBN, as spelt out in the Central Bank of Nigeria Act of 1958 and Subsequent amendments (1991, 1998) include:

1. Issuance of legal tender currency notes and coins in Nigeria;
2. Maintenance of Nigeria's external reserves to safeguard the international value of the legal currency;
3. Promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria;
4. Acting as a banker and financial adviser to the Federal Government;
5. Acting as a lender of last resort to banks.

SELF ASSESSMENT EXERCISE 1

Examine the factors responsible for the establishment of the Central Bank of Nigeria.

3.2 Functions of the Central Bank of Nigeria.

1. Issuance of Legal Tender Currency Notes and Coins

The Central Bank of Nigeria has the sole authority to print and issue new notes and coins within the economy. These currencies are circulated through the Deposit Money Banks.

According to CBN Brief (2004/2005), the Bank assumed this important function since 1959, when it replaced the WACB pound, then in circulation, with the Nigerian pound. The decimal currency denominators, Naira and Kobo, were introduced in 1973, in order to move to metric system which simplifies transactions.

In 1986, a higher denomination note ₦20 joined the currency profile. In 1984, a currency exchange was carried out whereby, the colours of existing currencies were swapped in order to discourage currency hoarding and forestall counterfeiting. In 1991, a currency reform was carried out, which brought about the phasing out of 2kobo and 5kobo coins, while the 1K, 10K, and 25K coins were coined, and the ₦ note was put in circulation.

In the quest to enhance the payments system and substantially reduce the volume and cost of production of legal tender notes, the ₦100, ₦200, and ₦500 notes were issued in December 1999, November 2000 and 2001, respectively. Finally, in 2005, the ₦1000 note was issued.

2. Maintenance of Nigeria's External Reserves.

In order to safeguard the international value of the legal tender currency, the CBN is actively involved in the management of the country's debt and foreign exchange. CBN manages the domestic debt of the Federal Government and services external debt on the advice of the Federal Ministry of Finance. The Bank advices the Federal Government as to the timing and size of new issues, redeems matured stocks, pays interest and principal as and when due, sensitizes the government on the implication of the size of debt and budget deficit, among others.

3. Promotion and Maintenance of Monetary Stability and a Sound and Efficient Financial System.

The attainment of monetary stability rests on a central bank's ability to evolve effective monetary policy and to implement it effectively. They control the money supply in the country in order to maintain monetary stability. Since June 30, 1993, when the CBN adopted the market-based mechanism for the conduct of monetary policy, Open Market Operations (OMO) has constituted the primary tool of monetary management, supported by reserve requirement and discount window operations, for enhanced effectiveness in liquidity management.

4. Bankers and Financial Adviser to the Federal Government

The Bank assumed this function by undertaking most of the Federal Government banking businesses within and outside the country. The bank also provides banking services to the State and Local Governments and sometimes acts as banker to institutions, funds, or corporations set up by the Federal, State, and Local Governments. As financial adviser to the Federal Government, the Bank advises on all financial matters.

5. Banker and lender of Last Resort to Banks

The Bank maintains current accounts for deposit money banks. It also provides clearing house facilities through which instruments from the banks are processed and settled. Similarly, it undertakes trade finance functions on behalf of bank customers. Finally, it provides temporary accommodation to banks in the performance of its function as lender of last resort.

SELF ASSESSMENT EXERCISE 2

Mention the functions of the Central Bank of Nigeria.

3.3 The Role of the Central Bank of Nigeria in Economic.

The Central Bank of Nigeria, since its inception to date, has been actively involved in developmental activities in all the sectors of the economy, in order to bring about growth and development in the Nigeria economy. These include:

1. Promotion of the Growth of Financial System: The Central Bank of Nigeria helps to promote the growth of financial markets, which are made up of the money and the capital markets. In the money market, the CBN initiated some money market instruments such as Treasury Bills (TBs), CBN Certificates, Development Stocks etc, for the mobilization of short term capital for investors. The CBN actively participates in the growth of the capital market for the mobilization of long term capital.

CBN has continued to influence the development of the Nigerian financial system through the promotion and assistance of development finance institutions such as the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), etc

2. Establishment of Special Scheme and Funds: The Bank has been active in the promotion of special schemes and funds to enhance economic development. These are in the areas of agricultural finance, export promotion, small and medium scale enterprises and collaborative research/services to third parties.

3. The Central Bank of Nigeria controls the money supply in the economy. CBN uses monetary policy to control money supply in order to maintain stability in the economy.

4. It organizes borrowing from abroad on behalf of the nation, hence, it deals with the International Monetary Funds and the World Bank.

5. It keeps the country's external reserves and advices the government on actions to take in case of the deterioration of such reserves. This helps to foster economic growth and development.

SELF ASSESSMENT EXERCISE 3

Highlight the role of the Central Bank of Nigeria in the economic development of Nigeria.

4.0 CONCLUSION

The Central Bank of Nigeria is the apex regulatory authority of the Nigerian financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July, 1959. The functions of CBN are: issuance of legal tender currency notes and coins in Nigeria; maintenance of Nigeria's external reserves to safeguard the international value of the legal currency; promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria; acting as a banker and financial adviser to the Federal Government; and acting as a lender of last resort to banks. The Bank has contributed in so many ways to the economic growth and development of the Nigerian economy.

5.0 SUMMARY

This unit described the history of the Central Bank of Nigeria and also explained the functions of the Central Bank of Nigeria. The role of the Central Bank of Nigeria in the economic development of Nigeria was also highlighted.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the functions of the Central Bank of Nigeria?
2. List and explain the role of the Central Bank of Nigeria in the economic development of Nigeria.

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MODULE 3 FINANCE OPTIONS AVAILABLE FOR SMALL BUSINESS

UNIT 10 TYPES OF FINANCE

CONTENTS

1.0 INTRODUCTION

In the previous module, we focused on the Nigerian financial system, where we treated the money market, capital market, CBN, SEC, etc in each unit of the module, to enable us understand how and where finances are mobilized. This module focused on the finance options available for small businesses.

Thus, this unit dwells on the types and sources of finance. An individual who intends to start a small business needs capital and a steady source of finance.

Capital occupies a very important position in the life of a small business like in any other business. Just like blood is the life to the body, capital is the life in a business. When blood is lacking in the body, such a person dies, so when capital is lacking in a business, such a business will die.

The type of finance sourced will depend on form of business concern. For example, a sole proprietorship cannot access equity, since there is no means of owing shares. The stage of development of a business also depends on the type of finance to be sourced.

There are usually three types of finance needed by small business. They are short-term finances, medium-term (intermediate) finances, and long-term finances, which will be extensively discussed in this unit.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Identify and explain the sources of short-term finance
- Outline and describe the sources of medium-term finance
- Mention and discuss the sources of long-term finance

3.0 TYPES OF FINANCE

3.1 Sources of Short-Term Finance

Short term finance is the money borrowed from various sources, which will be paid back over a period of time, usually with interest. It is used in financing immediate short term needs or requirements of the enterprises. The duration of this type of finance ranges from over night to one year. Short term finance can be sourced from the following:

1. Personal financing: An entrepreneur who intends to startup a business will initially use his personal savings and sometimes sell some of these assets to enable him obtain funds to start his business. Such assets include shares bought from public companies, valuable properties like cars, houses, land, etc

In Nigeria, the commonest source of short term source of financing small businesses is the entrepreneur’s personal savings. This may be due to the nature of the business and the difficulty associated with obtaining credit from other sources.

2. Loan from friends and relatives: Most entrepreneurs usually seek for additional financing from friends and relatives; because it is often informal, private, and unsecured (no collateral is required). Sometimes it requires little or no interest. However, such borrowing could be a source of doom for the enterprise if the friends and relatives later become unnecessarily jealous of the success of the enterprise.

3. Trade credit financing: This is an important source of finance open to small business, which comes inform of goods being bought for resale and payment made at a later date. Suppliers of these goods indirectly finance the business. This is the largest source of short term financing for most small businesses at any stage of development (startup or growing/matured stage).

4. Deposit money banks' borrowing: This is a common source of financing business on a short-term basis as part of bank's loan portfolios are mostly committed to trade and commerce. Most banks are interested in borrowing on short-term basis because of the need to promptly satisfy the cash needs of their depositors. However, many small business entrepreneurs do not succeed in obtaining these bank loans as they do not always meet the requirement for obtaining loans.

5. Overdraft: This is an important short-term source of finance provided by banks, which is different from the bank loans. An overdraft is a privilege granted to a firm or an individual, who is a customer of a bank, to withdraw money above the deposit in his current account. The interest rate accruing to such overdrawn amount is calculated on daily basis.

6. Factoring: Factoring involves turning over the responsibility for collecting a firm's debt to a specialist. A bank can offer to buy the debtor's account of their business customers, usually at discount. For example, if the total debtors' account of an enterprise is ₦20million, diamond bank could be approached to buy this debt at a discount of 2.5% and so it becomes the responsibility of Diamond Bank to make the debtors' to pay up.

7. Other financial institutions and societies: They include insurance companies, finance houses, cooperative societies, traditional money lenders, etc. They give short-term loans to entrepreneurs.

SELF ASSESSMENT EXERCISE 1

Mention the sources of short-term finance

3.2 Sources of Medium-Term Finance

Medium-term sources are financing sources of 1 year to 5 years duration. They can be sourced from the following:

1. Term loans: This is a negotiated loan between a lender and a company beyond one year and up to about five years maturity, usually at a fixed rate of interest. The lenders are usually institutions set up to give medium term loans to entrepreneurs, for example, investment houses. Repayment of a term loan is at specific agreed date, usually by fixed equal installments in accordance with the borrower's ability.

2. Equipment leasing: This is a method of financing in which equipment or other fixed assets are loaned out by the owner (leasor) to a user (leasee) , granting the user (leasee) the exclusive right to use the asset for an agreed period, in return for the payment of rent. Usually, an agreement is drawn up between the leasor and the lease, which will specify the terms of the contract and the amount of rental to be paid at a given period. Under this agreement, the legal title of the assets still remains with the lessor but the lease, who has possession of the asset has a complete use of the asset.

3. Sale and lease-back arrangement: This is an arrangement by which a firm sells its asset to a financial institution or a leasing company for cash and the financial institution or leasing company immediately leases it back to the firm. The main advantage of this arrangement is that the firm (leasee) can raise a large amount of money from the sale of the asset.

4. Hire purchase agreement: This is a credit sale agreement by which the owner of the asset or supplier, grants the purchaser the right to take possession of the asset but ownership will not pass until all the hire purchase payment or installments have been made. A hire purchase agreement conserves the firm's resources and liquidity for another purpose.

5. Loan/lease syndication: This is a situation where two or more participating banks pool their funds together to provide lending/lease to a single borrower.

SELF ASSESSMENT EXERCISE 2

Identify the sources of medium-term finance

3.3 Source of Long Term Finance

Long-term sources are financing sources of more than 5 years duration. They can be sourced from the following:

1. Equity Financing: This is a form of long-term finance contributed by the owners of the business. The contributors (investors) exchange cash or other assets for a share of business ownership. The owners of the business will be able to exercise control of the business depending on the extent of ownership.

The investors of equity finance share the risk of profit and loss of company. They have a claim to all assets and earnings of the business after all fixed obligations have been met. Equity financing allows the firm to obtain funds without incurring debts. (Olowe, 2008:583).

The type of equity financing which the small business can raise depends on the form of business organization. Sole proprietorship and partnership forms of business cannot access equity due to the nature of the business but limited companies can easily access equity. There are two types of equity namely preference shares and ordinary shares.

Preference Shares: In this case, the investing public contributes to the finance of the company. Preference shareholders are entitled to dividend but do not have any voting right in the company. There are variations of preference share and they are summarized below:

1. Cummulative preference shares: in this case, arrears of dividend payment can be carried forward to future years.

2. Participating preference shares: shareholders that fall in this group are entitled to fixed dividend as well as extra profit that remain after the ordinary shareholders must have been paid.

3. Redeemable preference shares: this type of preference shares is associated with a fixed maturity period.

4. Convertible preference shares: they are preference shares that can be converted into ordinary shares of the company at a future date.

Ordinary Shares: They are raised by investors who automatically become the part owners of the company. Ordinary shareholders have a voting right in the company. The extent of voting rights a shareholder has in a company will depend on the number of ordinary shares he or she owns. The ordinary shareholders earn dividends and bonus, and are paid after the creditors and preference shareholders have been paid in full.

5. Loan Stocks/bonds: As mentioned earlier in unit 7, a bond is a long term debt instrument, which comes in the form of a legal document that shows a promise to pay interest periodically, over a period of time and the principal at some specified date in future. The maturity period ranges from 1-30 years. Generally, bonds are less risky than shares, but they give lower rates of return.

Stocks are also long term source of financing for firms. They are associated with fixed interest rates and maturity dates.

3. Retained earnings: This is a cheap source of financing open to small businesses. A small business could be financed by ploughing back part of the accumulated profits into the business. In order words, profits made by the enterprise are set aside for reinvestment. This continues as long as the enterprise makes profits and is still in business.

The retained earnings make business expansion possible especially in small business. Retained earnings are important source of financing for firms that do not have external access to the capital. This source of financing may be referred to as plough back, undistributed profit, reserve funds, or capital reserve.

4. Development Finance Institutions: These are specialized financial institutions specially charged with the responsibility of providing long term financing to entrepreneurs of small businesses. There are federal development finance institutions as well as state government owned development finance institutions. Federal development institution includes Bank of industry etc.

SELF ASSESSMENT EXERCISE 3

Mention the sources of long-term finance

4.0 CONCLUSION

The above analyses show that there are three types of finance needed by small business. They are short-term finances, which ranges from over night to one year, medium-term (intermediate) finances, which are financing sources of 1 year to 5 years duration. and long-term finance which are financing sources of more than 5 years duration.

5.0 SUMMARY

The unit has thrown light on the various types of finance. It specifically analyzed the short-term, medium-term and long term sources of financing. In the next unit, the financing of small businesses in Nigeria will be examined.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify and explain the sources of short-term finance
2. Outline and describe the sources of medium-term finance

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UNIT 11 THE FINANCING OF SMALL BUSINESS IN NIGERIA

CONTENTS

1.0 INTRODUCTION

In the previous unit, we studied the types of finance available to small businesses and identified the short-term, medium term and long term types of financing. In this unit, an assessment of the financing of small business in Nigeria is done, by reviewing past and current effort made by government, the private sector (principally the industrial and the banking sectors), and the donor agencies in financing small businesses in Nigeria.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Discuss the past efforts aimed at financing small businesses in Nigeria.
- Evaluate the current efforts aimed at financing small businesses in Nigeria.

3.0 THE FINANCING OF SMALL BUSINESSES IN NIGERIA

3.1 Past Efforts at Financing Small Businesses in Nigeria.

The need to finance small businesses in Nigeria became apparent during the collapse of the oil boom in the early 1980's, which led to a drastic reduction in capacity utilization in most Nigerian Industries and consequently, massive retrenchment. This led to economic depression in the country, which informed the adoption of the structural adjustment programme in 1986 and the new industrial policy in 1988. The new industrial policy accorded pivotal role to the private sector and shifted priority focus of policy from large scale industries to small and medium scale enterprises. Since then so many schemes and programmes have been initiated to finance and promote small businesses in order to bring about development in the country. Notable among them are:

3.1.1 National Directorate of Employment (NDE)

The establishment of NDE in 1986 constituted a channel by which government aimed at promoting small and medium scale enterprises (SMEs) in Nigeria. Prior to this time, Nigeria witnessed a serious problem of employment. According to Olagunju (2008), at 1985, a conservative estimate of unemployment in Nigeria was put at 8.5%.

As an effort to solve the problem of unemployment, the federal government of Nigeria on March 26, 1986, appointed a think tank known as the National Committee on Strategies for Dealing with Mass Unemployment, Labour and Productivity. The reports of the committee eventually gave rise to the establishment of the National Development of Employment (NDE) on November 23 1986. Through the directorate, a number of programmes emerged such as

The Rural Employment Program
The Vocational Skill Development Programme
The Small Scale Enterprises Programme
The Special Public Workers programmes

Under these schemes, NDE provides financial and technical assistance to small businesses in Nigeria. Otiti (2007:242) noted that about 70,000 apprentice were trained in different skills all over the country by the end of 1987.

3.1.2 The World Bank SME II Loan Scheme: The scheme is a follow-up to the Bank's supported SME I programme. Under the SME II, a loan of US$270million was approved in 1989 to finance small businesses by the World Bank, while approvals and disbursements began the following year. It is administered by the SME II Apex Unit in the Central Bank of Nigeria.

The primary objective of this scheme has been to promote the development of small and medium scale enterprises. It covers three types of credit facilities- project loans, equipment leasing and urban mass transit scheme. As disbursement was below expectation at the earlier stage, the size of the loan was reduced to US$142million in September 1992 and approval of new project ceased in March 1994 when the fund was exhausted.

3.1.3 National Economic Reconstruction fund (NERFUND)

The problem of funding SMEs in Nigeria has been of serious concern to both the government and entrepreneurs. All efforts made by government to persuade banks and other financial institution to give loans to small and medium scale business have not yields much results. In an attempt to solve this problem, the NERFUND was set up through NERFUND Decree No 2 of 1989 to provide medium to long-term funds for wholly owned Nigeria SMEs. The objectives of the fund include:

1. To correct any observed inadequacies in the provision of medium to long term financing to small and medium scale industrial enterprises especially manufacturing and agro-allied enterprises and ancillary services;

ii. To provide medium to long term loans to participating banks for lending to SMEs, for the promotion and acceleration of productive activities in such enterprise;

iii. To facilitate the provision of loans with 5-10 years maturity including a grace maturity period of 1-3 years depending on the nature of the enterprise or project;

iv. To provide such loans either in Naira or in foreign currencies or both according to the sources of funds available to the fund and the requirement of eligible enterprise or project;

v. To provide employment to our teeming population of employed people;

vi. To ameliorate the pressure on prices and inflation often associated with supply shortages.

Thus, it was conceived that the NERFUND, in partnership with banks will act as a catalyst in the effort to stimulate the rapid growth and development of SMEs in Nigeria. (Olugungu, 2008). The NERFUND decree specified that eligible SMEs must be 100% owned by Nigeria, most have fixed assets, plus cost of new investment (land excluded) not exceeding N10 million in the case of a manufacturing project, not less than 40 percent of the raw materials were to be sourced locally and a participating bank must accept on behalf of the SMEs to assure the credit risk.

3.1.4 Second Tier Securities Market

The second-tier securities market was introduced in the capital market for listing smaller companies that cannot meet the requirement of being listed on the exchange. This gives opportunity to small firms, with sound management practices, to be registered and source for money on the stock exchange, by trading on securities.

3.1.5 The Central Bank of Nigeria (CBN)

CBN has over the years been playing a leading role in promoting SMEs in Nigeria. The CBN, especially during the regime of direct monetary control, was determining the rate for lending to specified sectors of the economy with the aim of encouraging lending to those sectors.

The Bank ensured that the lending rates to SMEs were lower than the rates for further sectors of the economy. It also required mainstream banks to make available to indigenous industrialist a certain percentage of their credit portfolio.

There were institutions that provided financial support to small businesses in Nigeria before the adoption of SAP. They include the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDB), etc.

SELF ASSESSMENT EXERCISE 1

Outline the past efforts aimed at financing small businesses in Nigeria.

3.2 Current Efforts at Financing Small Businesses in Nigeria

Efforts in the past to finance or support small businesses in Nigeria were either not successful or they achieved only marginal success. In view of this, there were new programmes and schemes aimed at financing the small business sector in Nigeria. They are outlined and explained below.

3.2.1 Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN)

It was established by the SMEDAN act of 2003, to promote the development of Micro, small, and medium Enterprises (MSME). Its functions are: to stimulate, monitor and co-ordinate development of MSME sector, to initiate and articulate policy ideas for MSME growth, to promote and facilitate development programmes, instrument and support services to accelerate the development and modernization of MSME operations, serving as a vanguard for rural industrialization, poverty reduction and job creation and enhanced sustainable livelihood, link MSME to internal and external service of finance, technology and technical skills, provide appropriate information and improved access to industrial infrastructure, mediate between MSME and government, work in concert with other institutions, among others

3.2.2 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The scheme is an initiative of the Bankers committee, representing banks contribution to the efforts of the federal government towards stimulating sustainable economic growth, development of local technology, poverty alleviation and employment generation. Through the initiative, banks are required to set aside 10 percent of their Profit After Tax (PAT) for equity investment and financing to small and medium scale enterprises. The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises.

To be eligible for equity funding under the scheme, a prospective beneficiary shall register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990); Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities; Engage or propose to engage in any of the businesses as indicated by the scheme. The scheme covered the following activities: manufacturing information technology and telecommunications Agro-allied, Tourism and leisure, Educational, solid mineral, construction, service (Financial and Insurance services) and other legal activities as may be determined by the Bankers' committee.

3.2.3 Micro Credit and Donor Support to Small and Medium Scale Enterprises.

Most of the small business supports from government are in the form of micro credit schemes. These schemes are either managed independently or in collaboration with financial institutions or the donors. A few notable schemes are the 31.0 billion SME scheme by the Delta State Government and four banks, the 30.5 billion scheme by the Lagos State government, etc. except in the instances where bank funds are involved, these schemes may not be sustainable due to the culture of non repayment of government

In order to ensure adequate funding of SMEs, the Federal Government, through CBN, initiated a micro finance scheme in 2005. The objectives of the micro finance scheme, as noted by the Central Bank of Nigeria (2005) are:

1. To make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.

2. Promote synergy and main streaming of the informal sub-sector into the natural financial system.

3. Enhance service delivery by micro-finance institutions to micro, small and medium entrepreneurs

4. Contribute to rural transformation

5. Promote linkage programmes between universal/development banks, specialized institutions and micro finance banks.

Donors programmes to support SMEs have been in the form of micro credit funds with a capacity development component. The major donor is the United Nations Development Programme. Some oil companies eg. Shell, have also initiated SME funding.

SELF ASSESSMENT EXERCISE

Mention the current efforts aimed at financing small businesses in Nigeria.

4.0 CONCLUSION

This unit reviews current and past efforts aimed at financing small business in Nigeria. It explains that so many schemes and programmes have been initiated in the past and present to finance and promote small businesses in order to bring about development in the country. Notable among them are National Directorate of Employment (NDE), the World Bank SME II Loan Scheme, National Economic Reconstruction fund (NERFUND), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), and Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

5.0 SUMMARY

This unit reviewed past and current efforts made by government, the private sector (principally the industrial and the banking sectors), and the donor agencies in financing small businesses in Nigeria. It also highlighted some programmes and schemes initiated to finance small business in the country.

6.0 TUTOR-MARKED ASSIGNMENT

1. Outline and discuss the past efforts aimed at financing small businesses in Nigeria.
2. Mention and explain the current efforts aimed at financing small businesses in Nigeria.

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MODULE 4 BUSINESS PLANNING

UNIT 12 BUSINESS PLAN

CONTENTS

1.0 INTRODUCTION

It is said that when someone fails to plan, he/she plans to fail. This means that planning is very imperative for success.

Running a business enterprise, at whatever stage, be it startup, growing or matured stage, without a plan is like embarking on a trip without a direction or purpose. Thus, a business plan serves as a roadmap for the enterprise, describing, where it is now, where it intends going and how it intends to get there and so, it should be capable of helping the entrepreneur achieve his goals in business. A comprehensive and well thought out business plan is very essential to the success of any business.

This unit, however, has been prepared to teach and assist you in preparing and developing a good business plan in order to achieve business goals and attain success in business.

2.0 OBJECTIVES

It is hoped that by the time you complete this unit, you will be able to:

- Define a business plan and highlight its importance
- Prepare a business plan
- Write a business plan

3.0 BUSINESS PLAN

3.1 Definition and Importance of a Business Plan

A business plan is a formal statement of a set of business goals, the reasons why these goals are believed attainable, and the plan for reaching those goals. It may also contain background information about the enterprise and the entrepreneur. Thus, a business plan involves the formulation of objectives, decision making and organizing the management of scarce resources in order to achieve set goals or targets within a period of time. Ubom (2006: 49) defined a business plan as a deliberate and conscious effort of a business firm from the onset to clearly state its goals or objectives, the manner to utilize its resources and assets in order to achieve profitability and meet other goals.

A business plan precisely defines your business, identifies your goals and serves as your firm's resume. It helps you allocate resources properly, handle unforeseen complications and make good business decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers and others about your operations and goals.

A business plan seeks to recognize the need for action and a search for, for example, the easiest, cheapest, fastest, most cost-effective, most economical and most coordinated and articulate way of accomplishing that action. It is primarily concerned with establishing goals or objectives and by empirical guidelines stating or laying down the steps to be taken to achieve these set targets, while taking cognizance of the scarce resources available. It bridges the gap between where we are and what we want to achieve.

Therefore, a business plan is a decision making tool. Every business plan revolves around four questions of what, how, where and when.

What? This implies that the entrepreneur needs to find appropriate answers to questions like what is the nature of the business, what are the goals/objectives of the business, etc. Thus, business plan must define and state the firm’s objectives clearly.

How? This involves the method of achieving the set objectives. It involves the steps that should be taken to achieve the set objectives and how to design a specific programme of action. In this case, the entrepreneur needs to carry out a review of the strategic or functional planning areas in a business, which includes finance, market and human capital and production plans.

Where? It has to do with the location of the business. The entrepreneur must find appropriate place for his business, taking into consideration factors such as access to raw material, manpower, nearness to market, etc.
When? There should be a time lag within which to complete each step outlined in the business plan. Without this, progress cannot be measured.

SELF ASSESSMENT EXERCISE 1

1. Define a business plan.
2. Highlight the importance of a business plan.

3.2 Preparing a Business Plan.

To plan successfully, It is crucial to ascertain that market exists or can easily be developed for the product; the raw materials and other relevant inputs can easily be obtained; sufficient labour supply is readily available; all necessary infrastructural facilities and social services are available; reliable sources and costs of machinery and equipment, raw material inputs, labour, etc are known; sources of revenue for the business are determined; and the income to be generated from the business should exceed costs.

It is also very essential to commence with a feasibility study. A feasibility study is a scientific investigation and analysis of a proposed project in order to determine its economic desirability or value, technical feasibility, organization and manpower profitability. It is a comprehensive and vigorous business planning process. (Nwoye, 1994 as cited by olugunju, 2008).

A feasibility study shows the viability of a business project. It provides the necessary guide towards the planning, preparation and execution of the business project. It also aids rational decision making on whether or not to embark on the business.

There is certainly no fixed approach or procedure to the issue of economic feasibility study. What is important is that, the study must be sufficiently detailed and comprehensive enough to assist the entrepreneur in making the right business decision.

3.2.1 Features of a Feasibility Study

A good feasibility report must be able to highlight the following:
1. Background information on the business
2. Market study
3. Technical study
4. Financial analysis

We will now discuss each of them

1. Background information: The feasibility study or report should content basic information about the project. These information include:
a. Name of the business enterprise
b. The location of the enterprise in terms of registered address- county, telephone and fax numbers, e-mail and/or Web site address
c. A brief description of the project
d. History of business
e. The nature of business
f. Type of organization
g. Organization chart showing the different positions in the organization

2. Market study: This should include the following:
a. General market information, which include: area of coverage, method of transportation, and channels of distribution.
b. Demand analysis, should include: consumption projection for at least five to ten years, major consumers of the product and current demand and potential demand.
c. Supply analysis should include: The sources where the product is to be procured, quantities of material to produce at a time and factors affecting past and future supply.
d. Competitive position, which should include: The price setting practices, the major competitors and their strength, competitiveness of the product as compared with others.
e. The marketing programme required to market the product.
f. Sales projection, which includes expected annual sales and sales expenses.

3. Technical study: This includes:
a. Products to be produced involving: the description of the product, uses to which the product will be put and the constituent of the product
b. A description of the market process to be adopted
c. Plant size and production schedule

d. Machinery and equipment layout, which include a list of machinery and equipment specified to be purchased and source of purchase, and comparative analysis of alternative machine in terms of cost, reliability etc.
e. Plant location
f. Building and facilities needed to carry out production process, raw materials and labour needed, utilities required, and production cost.

4. Financial analysis: This should highlight the following:
a. Financial projection for five years (for an existing business)
b. financial analysis which involves all costs and earning on the business to show the rate of returns.
c. Analysis of how the funds needed are to be acquired for a new project, thus, the following is essential: Total project costs, initial requirements, pre-operation cash flow, financial projection, financial analysis to show rate of returns and how capital is to be acquired.
d. General appraisal- to ascertain whether or not to embark on the business project, given the above analysis. This general appraisal should clearly state the following:
i. Total initial investment in capital and recurrent expenditures
ii. The income projections which must show profit profile
iii The cash flow projection
iv The rate of returns
v The capital needs of the project.

We should bear in mind that feasibility study and business plan are not the same. A feasibility study shows viability of a business. It entails gathering of data, analyzing them and coming up with a report, thus, it a kind of a research study.

But a business plan is a statement of what and how a feasible and a viable business is to be carried out. A business plan is developed after a feasible study. Thus, a feasibility study becomes an input for developing a business plan.

SELF ASSESSMENT EXERCISE 2

1. Define a feasibility study and identify its features
2. Prepare a feasibility study for a business enterprise of your choice.

3.3 Writing a Business Plan.

When an entrepreneur has finished preparing a feasibility study and has taken a decision to establish the business, the next thing is to develop or write a business plan, explaining what has to be done, how, where and when it should be done. The business plan should contain activities to be done in each area of the basic business function, that is, production, marketing, finance and personnel. Some of the contents of the plan will be based on some of the contents of the feasibility study done earlier.

The various elements of the business plan for a business enterprise, as noted by Olagunju (2008: 225) are as follows:

1. The purpose of the business: The purpose of the business must be defined in terms of the society's needs. Thus, the question of what to produce comes in. Entrepreneurs should focus on the consumers for the product and the products that are required otherwise resources will be wasted. From the purpose, the mission of the business can be derived. The mission is the unique statement of aim that sets the enterprise apart from other enterprise. For example, for a sawmill business, the purpose will be to provide the housing needs of the people and the mission may be to produce planks that are needed for all housing projects in Nigeria

2. Objectives of the business: This is what the business enterprise intends to achieve. There are usually many objectives that are stated. They should be measured in order to know whether or not the objectives have been achieved.

3. The scope of the business: This refers to definition of the business operations, which include:

i. The line of the products to be produced and their sizes
ii. Other products that can still be produced
iii. Prices of the products.
iv. Services to be provided to customers
v. Sections branches of the enterprise to be created

4. Production plans: The various elements under this section are:

i. Products/services to produce- i.e. type and grade of product
ii. Product analysis, which in terms of durability and affordability
iii. Quality specification- the quality of the product should cater for all categories of customers.
iv. Source of raw material
v. Plant and equipment required
vi. The site of the factory
vii. Method of production
viii. Production expenses budget
ix. Services for plant and equipment (maintenance)
x. Risks envisaged

5. Marketing plans: This following are examined under marketing plans:

i. Markets to serve
ii. Who the customers
iii. Market analysis, which involves analyzing the market demand, competition trend and marketing outlets.
iv. Promotion, which is based on type of advertising techniques will be used (i.e., mail, radio, television, Internet, magazines, newspapers, etc.) to help promote your product.
v. Pricing- the various prices operating in the market should be adopted

6. Personnel administration: this will focus on the following:

i. The organisational structure to adopt
ii. The human resources to be needed based on manpower planning
iii. How to secure the needed manpower
iv. What training to be given to workers
v. How to remunerate the workers
vi. Incentive packages for workers

7. Financial plan: This involves specifying use of funds because entrepreneurs are very interested in knowing how their money will be spent. The capital needs and how the needed capital is to be acquired should also be specified. This has been adequately treated in units 10 and 11

SELF ASSESSMENT EXERCISE 3

1. Identify the elements of a business plan for a business enterprise.
2. Develop a business plan.

4.0 CONCLUSION

This unit explains that a business plan is a formal statement of a set of business goals, the reasons why these goals are believed attainable, and the plan for reaching those goals. It may also contain background information about the enterprise and the entrepreneur. Thus, a business plan involves the formulation of objectives, decision making and organizing the management of scarce resources in order to achieve set goals or targets within a period of time.

To develop a business plan successfully, it is very essential to commence with a feasibility study, which shows the viability of a business project. After preparing a feasibility study and a decision to establish the business is taken, the next thing is to develop or write a business plan, explaining what has to be done, how, where and when it should be done. The business plan should contain activities to be done in each area of the basic business function, that is, production, marketing, finance and personnel.

5.0 SUMMARY

In this unit, the meaning of a business plan was explained and its importance was highlighted. It also discussed the process of preparing a business plan. The unit explained the key element for writing a business plan. In the next unit, we will analyse market opportunities for a business enterprise.

6.0 TUTOR-MARKED ASSIGNMENT

1. Define a business plan and highlight its importance
2. Identify and explain the elements of a business plan for a business enterprise.

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UNIT 13 ANALYSIS OF MARKET OPPORTUNITIES

CONTENTS

1.0 INTRODUCTION

In the previous unit, you studied the business plan of a small business, where you learned that a good business plan will help you to allocate resources properly, handle unforeseen complications and make good business decisions. A very important aspect of the business plan is the analysis of market opportunities. It is important because it, among others, helps the entrepreneur to identify the needs of consumers and identify the market that will serve his purpose.

Thus, the entrepreneur must have basic information of marketing. There are many information from so many sources which are required to analyse market opportunities. Proper techniques for gathering information must be understood.

This unit, therefore, examines the process of analysing market opportunities.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Define a market
- Evaluate the process of market analysis
- Discuss marketing research

3.0 ANALYSIS OF MARKET OPPORTUNITIES

3.1 Definition of a Market

A market is a place or institution in which buyers and sellers of goods and services are in close contact for business transaction. Originally, a market was defined as a public place or a building a where people meet to buy and sell goods and services; but the term 'market' has been generalized to mean any arrangement, system or organization whereby buyers and sellers of goods and services are in contact with each other for the purpose of transacting business.

This definition explains that the physical location of the market is not important as buyers and sellers could be in contact by using different types of communication systems, especially in today's electronic age where many goods and services are bought and sold electronically through the internet or through telephone.

Market could be classified on the basis of commodities bought and sold, for example, consumer goods market, capital and money markets, foreign exchange market, labour market, etc. Market could also be classified on the basis of prices, in relation to price determination. It could also be classified on the basis of area, that is, local, national or international markets.

Thus, the essence of a market, irrespective of these classifications, is that it enables buyers and sellers of goods and services to strike a bargain thus, facilitating trades in goods and services.

SELF ASSESSMENT EXERCISE 1

Define a market

3.2 The Process of Market Analysis

In the light of our discussion of a market, analyzing market opportunities is very important to an entrepreneur (seller) as it enables her/him to investigate and locate his consumers (buyers) and their needs so as to satisfy them with the goods or services s/he has to offer and achieve her/his aim in business. It also enables the entrepreneur to identify the various stages involved in selling a product.

Moore (1983: 95) explained that a good market analysis is predicated on certain key concepts. They are marketing management philosophy, market segmentation strategies, and consumer behaviour.

Marketing Management Philosophy: In this case, the philosophy of a person influences the plan and method used in achieving a particular goal. A small business owner may employ a particular philosophy, in order to achieve his goals/ aims in business.

The type of market analysis performed depends on the marketing management philosophy selected. In small business enterprises, there are three different philosophies which are referred to as production-oriented, sales-oriented, and consumer-oriented philosophies.

Production-oriented and sales-oriented philosophies are old marketing concepts, while the former emphasizes on the quantity of goods produced, the latter emphasizes on personal selling and advertising as the major marketing activities. The consumer-oriented philosophy also referred to the marketing concept, is a modern marketing concept aimed at discovering consumers needs and preferences before producing and selling the product. In other words, the needs of the potential consumers or buyers are first identified and then, the firm uses all its resources to provide the goods and services that will satisfy the consumers' needs while making a profit for the firm

The marketing concept emphasizes that the product to be produced should depend solely on the needs, wants and value of the consumers.

Market Segmentation Strategies: In this case, the entrepreneur takes note of different sellers or consumers that exist in the market in terms of sex, age, occupation, taste, colour, style, sizes, etc. Thus, market segmentation strategies is the process of analyzing one market to find out if it should be viewed as more than one market, in order to cater for the needs of the consumers.

Consumer Behaviour: This is based on all marketing efforts which include product designing, packaging and branding, product pricing, promotion and distribution, aimed at meeting the needs of the consumers and realizing organizational goals.

SELF ASSESSMENT EXERCISE 2

Explain the marketing management philosophy and market segmentation strategies of market analysis

3.3 Marketing Research

Entrepreneurs of small business need to have sufficient, accurate and up-to-date information to enable them make good marketing decisions.

Entrepreneurs need to have some marketing information like suitable consumers for the products or services, the location of these consumers, when do they buy and at what quantity, their tastes in terms of colours, styles, sizes, etc. These information can be obtained by carrying out a marketing research.

Marketing research is defined as the collecting, organizing, processing, presenting and analyzing marketing information, in order to define marketing problems. Thus, information about various elements that make up buying and selling is obtained and evaluated through marketing research.

Marketing research is mostly carried out by large enterprises because of the huge cost involved. Most small business owners have completely neglected the practical application of marketing research for their firms, while those that apply it, usually organize marketing research in an informal way due to limited financial resources and expertise.

Steps in Marketing Research

1. Defining the Problem: the first step in the marketing research procedure is the identification of the problem. Correct identification of the problem makes it possible to determine the issues that are involved in the research, the type of information needed to be collected, and the type of solutions to be proffered. If the problems are not defined clearly, the information gathered will be useless.

2. Conducting a Preliminary Investigation: After identifying the problem and type of information that are required, a preliminary investigation should be conducted to develop a sharper understanding of the problems and a set of tentative answers. These answers are developed by examining information that has already been complied or published data, which could be sourced within or outside the small business firm. The problem associated with the use of published data is that the information may be outdated, invalid or unreliable.

3. Planning the Research: If available information are insufficient to provide answers to the problem, a search for new and additional information must be made, which could be sourced from primary data. After collecting the additional information, the next step is to plan the research techniques to be adopted. Some of the techniques are survey, observations, experimentations, etc.

Survey: This is the method of gathering information from representation of a population. The survey method involves the contact of respondents through the use of mail, telephone and personal interview.

Mail survey is often used where the respondents are large and widely dispersed. The method entails the contact of respondents through post. In this case, questionnaires are posted to respondents, which are fill out and submitted to the researcher. However, the problem associated with this method is the low response rate on the part of respondents.

The telephone method of gathering information requires the researcher to collect information from the respondents through the use of telephone. Personal interview requires the personal interview between the researcher and the respondent either orally or through the use of a formal questionnaire, which the respondent fills out and submits. The method is associated with a high rate of response from respondents but very expensive to undertake as it requires traveling.

Observation: This technique of collecting information involves the use of a direct observation of phenomenon by a trained observer or electronic devices. For example, a trained observer may record comments of customers regarding the services of the firm for improvement or an automatic counting machine may count the number of customers entering the firm.

Experimentations: This method requires the investigation of cause-and –effect relationships between two or more variables. For example, the researcher may decide to examine the effect of price change on sales. The price is the experiment variable while the sales is the dependent variable.

4. Data Analysis and Evaluation: Information collected do not provide a sound solution to the market research problem unless they are organized and summarised into a meaningful and usable information for easy analysis. There are so many methods of organizing and summarizing information and they include tables, charts, diagrams, etc. when the analysis is done, the data should lead to the solution of the problem at hand.

5. Preparation and Presentation of Final Report: After the marketing research process is completed and information have been analysed and evaluated, the next step is to prepare and present the final report, which should be carefully written and should include the findings of the research.

SELF ASSESSMENT EXERCISE 3

Outline and discuss the steps involved in marketing research

4.0 CONCLUSION

The unit discusses the meaning of a market as any arrangement, system or organization whereby buyers and sellers of goods and services are in contact with each other for the purpose of transacting business. It explains that analyzing market opportunities is very important to an entrepreneur (seller) as it enables her/him to investigate and locate his consumers (buyers) and their needs so as to satisfy them with the goods or services s/he has to offer and achieve her/his aim in business. It also explains that a good market analysis is based on marketing management philosophy, market segmentation strategies, and consumer behaviour.

The unit explains that entrepreneurs of small business need to have sufficient, accurate and up-to-date information to enable them make good marketing decisions. These information can be obtained by carrying out a marketing research. Marketing research is defined as the collecting, organizing, processing, presenting and analyzing marketing information, in order to define marketing problems. The unit also highlights steps in marketing research, which are defining the problem, conducting a preliminary investigation, planning the research, data analysis and evaluation, and preparation and presentation of final report.

4.0 SUMMARY

The unit defined a market and evaluated the process of market analysis, Marketing research was also highlight.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the marketing management philosophy and market segmentation strategies of market analysis

2. Outline and discuss the steps involved in marketing research

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MODULE 5 THE IMPACT OF SMALL BUSINESS IN AN ECONOMY

UNIT 14 THE ROLE OF SMALL BUSINESS IN ECONOMIC DEVELOPMENT

CONTENTS

1.0 INTRODUCTION

Small businesses are universally acknowledged as catalysts for industrial development, employment generation, poverty alleviation and a sustainable economic development. They are generally regarded as the engine of growth for any nation. A well supported and developed small business sector translates to a healthy and developed economy.

Thus, small businesses make tremendous contributions in any economy they found. There is nothing sentimental in paying tribute to the valuable contributions they make to the quality of life and to an economy in general.

Small business can help achieve and have been contributing in achieving the following objectives: employment generation, output expansion, promotion of even development and reduction of income disparities, utilization of local resources, production of intermediate goods, transformation of indigenous technology, contribution to export, building managerial skills, increase in the revenue base of government, among others. This unit, therefore focuses on some of these objectives by explaining the role, which small business has played in achieving them.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Access the role of small business on employment
- Discuss the role of small business on output expansion
- Explain the role of small business on the development of domestic technology and the utilization of local resources in the economy
- Describe the role of small business on the Production of Semi-finished Commodities

3.0 THE ROLE OF SMALL BUSINESS IN ECONOMIC DEVELOPMENT

3.1 The Role of Small Business on Employment Generation

Small business normally constitutes the largest single employer of labour with its attendant buoyant income generation for the employed large labour force in any economy. The sector consists of a wide range of activities from small and medium scale manufacturing to services of all kinds. It provides the greatest opportunities for employment in countries where they are.

Small business sector creates more jobs per unit capital. In most developing economics, unemployment is the greatest threat to economic development. Hence, the proliferation of small businesses could be an antidote to large scale unemployment in these countries.

Countries experiences reflect that the small business sector contributes tremendously to employment creation for instance in the United State, of the 6,200,000 small businesses, 5,400,000 employ about 20 employers each. In Asia, small enterprises make up more than 90 percent of the industries in Indonesia, Philippines Thailand, Hong Kong, Japan, Korea, India, and Sri-Lanka. They account for 98 percent of the employment in Indonesia, 78 percent in Thailand, 81 percent in Japan and 87 percent in

Bangladeshi, (Beyene, 2002: 132). In a study carried out by Oluba (2009: 1), small business accounted for 65% of the employment in US, and 45% in Western Europe.

With government effort in Mauritius, small business reduced unemployment from 21 percent in 1983 to 1.6 percent in 1996. During the same period the small business share of employment rose from 33 percent to 43 percent. It was also observed that between the periods 1992-1996, large enterprises generated only 7000 jobs while small business enterprises generated nine times more opportunities (Ukeje, 2003: 33).

In Nigeria, the sector accounts for about 70% industrial employment in the agricultural sector. Small business enterprises employ over 60% of the nation's work force.

Small –scale businesses spread to rural areas and with gainful employment as well at that level, there will be less migration of the masses from the rural to the urban centers in search of non-existent work. In this way, even development will be the result in the country.

SELF ASSESSMENT EXERCISE 1

Access the role of small business on employment

3.2 Small Business and Output Expansion

Small business enterprises have been contributing substantially to the national output in many economies both developed and developing. Oluba (2009: 1) observed that they accounted for 80% of the economic output in the United States and Japan while the sub-sector accounted for 45% in Western Europe.

While explaining the contribution of small businesses to Nigeria, Ojo (2004: 7) noted that the sector accounted for about 70% of the nation's GDP, generated mainly in the agricultural services, manufacturing and distributive trade sectors. Gbadamosi (1995: 4) observed that the high population growth rates in most developing countries and Nigeria have increased the demand for consumer goods. Thus, small scale industries produce mostly consumer goods which increase not only the variety to consumers but the products are more accessible to the poor majority.

Small business enterprises serve as a vehicle through which ideas for new products and services find their way to the consuming public, thus, help in meeting local demands and diversifying and expanding the nation's output.

SELF ASSESSMENT EXERCISE 2

Discuss the role of small business on output expansion of an economy

3.3 Small Business and the Development of Domestic technology and utilization of Local Resources

Small business enterprises rely very heavily on domestic technology for its production processes and to a large extent on local raw material inputs, as they do not require high level technology to process. This goes a long way in boosting the growth of the economy.

In Nigeria, small business enterprises are found in food processing, textile, woodworks enterprises, etc that require simple technology and their raw material are in abundance locally. These enterprises help in encouraging the use of local resources.

In addition, Gadamosi (1995:6) observed that small business enterprises have been argued to utilize mostly, local raw materials. Their orientation to local sourcing of raw materials facilitates, not only the taping and efficient allocation of resources but also encourages the generations of independent and adaptable technology. The emergence of indigenous technology in Nigeria will save the nation greatly form the amount which had been expended on imported technology or licensing feed, etc.

The utilization of a country's local resources enables the country resources to be effectively utilized and channeled into those economic activities that are capable of creating a self reliant economy.

SELF ASSESSMENT EXERCISE 3

Explain the role of small business on the development of domestic technology and the utilization of local resources in the economy

3.4 Production of Semi-finished Commodities

Small business enterprises produce semi-finished commodities needed by larger enterprises and the economy as a whole. These large enterprises could be located within or outside the country. For instance, with the development of this sub-sector in Nigeria, palm Kernel will be processed for palm Oil, for export to replace the current export of palm kernel with very meager returns. Solid minerals will also be processed to a more useful grade with better earnings in the market, where the semi –processed materials are to be utilized (Alim, 2002: 96).

These semi –finished products, produced by small business enterprises for use in large corporations, enable the sub-sector to supply their needs instead of competing with them in the production of final consumer goods in which small enterprises are relatively disadvantaged. The inter dependence of the sector accelerates backward and forward linkages between the small and big firms, feeding big firms with inputs at a relatively low cost, which an economy needs for self –reliance and sustenance.

SELF ASSESSMENT EXERCISE 4

Describe the role of small business on the Production of Semi-finished Commodities

Other contributions of small business to the economic development of an economy are:

i. Small business enterprises serve as a valuable training ground for development of indigenous entrepreneurs. Historical evidence indicated that most of today's granted corporations began as very small firms. These firms include dangote, dantata and many others.

ii. Small business enterprises increase the revenue base of the government through various forms of taxes

iii. Small business enterprises offer a very good avenue for the mobilization of domestic savings, which are channeled to productive activities for investment. Thus, they served as a major source of capital formation.

4.0 CONCLUSION

This accesses the role of small business in economic development in which we learnt that small businesses are universally acknowledged as catalysts for industrial development, employment generation, poverty alleviation and a sustainable economic development. Thus, Small business can help achieve and have been contributing in achieving the following objectives: employment generation, output expansion, promotion of even development and reduction of income disparities, utilization of localresources, production of intermediate goods, transformation of indigenous technology, contribution to export, building managerial skills, increase in the revenue base of government, among others.

5.0 SUMMARY

In this unit, the role of small business in economic development of an economy was discussed. We specifically analysed it role on employment, output expansion, development of domestic technology and utilization of local resources, among others. In the next unit, you will study the success of small business in order to learn how to sustain your business.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the role of small business on employment
2. Discuss the role of small business on output expansion of an economy

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UNIT 15 SUCCESS OF SMALL BUSINESS

CONTENTS

1.0 INTRODUCTION

The previous unit examined the role of small business in economic development, where we noted that small businesses are regarded as the engine of growth in any economy where they exist, as they help to create employment, reduce poverty, etc. Thus, if well supported, small businesses will help an economy to achieve their objectives. It therefore becomes imperative for small businesses to succeed.

The goal of every entrepreneur is to succeed or achieve the desired objectives for which the business was established. There are factors that contribute to the achievement of the business objectives. These factors are identified and discussed in this unit.

In this unit, therefore, the factors responsible for the success of small business are examined.

2.0 OBJECTIVES

It is hoped that by the time you complete this unit, you will be able to:

- Explain how macroeconomic stability helps small businesses to achieve success.
- Describe the relevance of improved access to financial resources in the success of small businesses
- Examine the extent to which a reduction in the cost of business operations will enable small businesses to thrive

- Explain how the encouragement of the demand for the products of small businesses will assist entrepreneurs to thrive in business.

3.0 SUCCESS OF SMALL BUSINESS

3.1 Macroeconomic Stability

For the growth and development of small business, there should be stability in the macro economy because small businesses cannot thrive in an economy characterized by macroeconomic instability. Macroeconomic stability can be attained with consistent or stable macroeconomic policies which come in form of prudent fiscal operations, low inflation, realistic exchange rate, interest rate, taxation, etc. these policies help to create and promote an optimal environment for small business to thrive

The country has witnessed much frequent policy changes in its administration and policy measures, which are inconsistent with its efforts to move forward and also constitute a big problem to small businesses in Nigeria. In most cases, successive government regime tends to change policies or measures being implemented by their predecessors.

For proper and orderly development of small business, there is need for stability in the polity. This will make for consistency in the planning activity of business.

Policies aimed at assisting and upgrading the small business sector should be pursed. There should be reforms aimed at ensuring increased liberalization Trade and investment laws need to be reviewed regularly to ensure the removal of those laws that are inimical to the success of small businesses.

SELF ASSESSMENT EXERCISE 1

Explain how macroeconomic stability helps small businesses to achieve success.

3.2 Improvement of Access to Financial Aid

Finance is very important in the life any business enterprise. It facilitates investment for the growth of a business. The functional activities of a business such as advertising, production, marketing, purchasing, transportation, etc require the use of money, without which these business activities will not be possible. Thus, in order to enhance the activities and competitiveness of small businesses, there is the need to improve the availability and accessibility of formal and informal financial resources.

Small businesses are seen as high risk ventures by most financial institutions, despite the recognition of the potential contribution to economic development, consequently, credit to them have been very low. Entrepreneurs find it difficult to obtain loans from financial institution due to the high default risks associated with the sub-sector and those that have access to loans, obtain such loans at a penal rate of interest. This affects the projects or operations of small business to move forward.

In view of this, development banks should be promoted with a view to providing medium to long term loans to entrepreneurs of small businesses.

SELF ASSESSMENT EXERCISE 2

Describe the relevance of improved access to financial resources on the success of small businesses

3.3 Reduction in the Cost of Business Operation

The reduction in the cost of carrying out business operation enables small businesses to thrive, as this will translate to low prices of their products. This high cost of carrying out business operations occurs as result of high cost of production, high taxes and levies on small businesses and inadequate infrastructural facilities, which makes the cost of their output very high.

This problem has to be addressed to enable small businesses thrive effectively. Grants and subsidies could be given to them produce at a low cost. A unified tax code for all small businesses should be introduced.

All these help to reduce the cost of business operations and enable small business enterprises to make huge success.

SELF ASSESSMENT EXERCISE 3

Examine the extent to which a reduction in the cost of business operations will enable small businesses to thrive

3.4 Enhancing the Demand for the Products of Small Businesses

Small business can thrive effectively, through the patronage of their products in the domestic market and the creation of linkages between small and large enterprises. In terms of patronizing their products, consumers should be educated on the need to buy the products of small businesses. Government on the other hand should also encourage them by buying their product. This helps them to grow.

There are small businesses that produce semi –finished products for use by large enterprises. This enables the small business enterprises to supply the needs of large enterprises instead of competing with them in the production of final consumer goods in which small enterprises are relatively disadvantaged. The inter dependence of the sector accelerates backward and forward linkages between the small and big firms, feeding big firms with inputs at a relatively low cost, which helps these small businesses to succeed.

SELF ASSESSMENT EXERCISE 4

Explain how the encouragement of the demand for the products of small businesses will assist entrepreneurs to thrive in business.

3.5 Traits of the Entrepreneurs

The entrepreneur must posses some traits that will help him excel in business and consequently expand his business. These traits include his drive, mental ability, human relations ability, communication ability, technical knowledge, honesty, discipline etc.

4.0 CONCLUSION

The above analyses examine the success of small business enterprises by explaining the factors that are required to be put in place for small business enterprises to thrive successfully in any economy where they exist. These factors include macroeconomic stability, improvement of access to financial aid, reduction in the cost of business operation, and enhancing the demand for the products of small businesses

5.0 SUMMARY

This unit discussed the success of small businesses. It identified and explained in details, the factors that are required to be put in place for small business enterprises to thrive successfully in any economy where they exist. In the next unit, you will be made to understand the causes of failure of small businesses

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain how macroeconomic stability helps small businesses to achieve success.

2. Describe the relevance of improved access to financial resources in the success of small businesses

7.0 REFERENCES/FURTHER READINGS

Stokes, D. & Wilson, N. (2006). *Small Business Management and Entrepreneurship (5th Ed.).* China: C&C Offset Printing Co., Ltd.

UNIT 16 FAILURE OF SMALL BUSINESS

CONTENTS

1.0 INTRODUCTION

In the previous unit, we examined the success of small business and noted that they hold a lot of prospects and potentials that will enable them succeed in any economy they are found. In this unit, we will examine factors that lead to the failure of small business.

These enterprises are equally beset with a number of problems which have constrained their ability to play the pivotal role expected of them. In Nigeria, development and growth of small businesses have been stunted or declined in last two decades, the result of the decline is a weak and unsustainable economy with excruciating poverty, joblessness, social disquiet, high crime rate and political instability as the major harvest.

Some of these problems which will be discussed in each section of this unit are shortage of capital and high cost of borrowing, inadequate infrastructural facilities, lack of manpower development and specialization and lack of adequate business plan.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Discuss the impact of shortage of capital and high cost of borrowing on small business.

- Examine the problem of inadequate infrastructural facilities on the performance of small business.
- Explain the problem of lack of manpower development and Specialization on small business
- Evaluate the problem of lack of adequate business plan on small business.

3.0 FAILURE OF SMALL BUSINESS

3.1 Shortage of Capital and High Cost of Borrowing

This is one of the greatest problems of small business and it comes up at the investment and operational stages of a business. Implementing and operating a project require funds. Money is required for plant, buildings and all civil works; the preliminary expenses, the working capital, etc.

An entrepreneur needs to ensure that the money for the business will be realized when and as needed. He has to locate genuine sources of funding the project and its working capital facilities, in accordance with the business plan and schedule. Any lapses in this aspect will lead to a business failure which is a common feature among small and medium scale enterprises.

Salami (1995: 10) noted that the problem of funding is usually regarded by entrepreneurs to be the most crucial factor in the implementation of an industrial enterprise. This state of affairs according to the small business entrepreneurs accounts for the slow rate of new business projects and the under capitalization of existing rate ones.

Small businesses are still classified as high risk ventures by most lending institutions, despite the recognition of the potential contribution to economic development, consequently, credit to them have been very low. Entrepreneurs find it difficult to obtain loans from financial institution due to the high default risks associated with the sub-sector and those that have access to loans, obtain such loans at a penal rate of interest.

High cost of borrowing reduces the prospects of profitability. When interest rate is high, the cost production rises and prices have to rise to prevent loses. Faced with virtually static income, consumers have to reduce consumption and this result to low sale and reduced profitability.

Currently, bank no longer charge very high interstate due to government intervention, but they include hidden charges which increase the cost of borrowing. In some cases, where loans are approved, these entrepreneurs experience delay in the disbursement of the loans especially during critical stages of the project. When loans are disbursed by the government through its officials, bribery and corruption of lending officials reduces the actual amount of loan received.

Small businesses are also severely limited in their ability to obtain finance through the capital markets. Apart from their inability to meet the conditions for quotation, even in the lower or 2nd ties security market, the cost of obtaining such quotation always forms a significant proportion of the amount of finance they are seeking.

SELF ASSESSMENT EXERCISE 1

Discuss the impact of shortage of capital and high cost of borrowing on small business.

3.2 Inadequate Infrastructural Facilities

These facilities include road networks, water, electricity, etc. This is common in the rural areas and this tends to increase the cost of operation, consequently rendering most of their operation unviable.

In Nigeria, the shortage and inadequacy of economic and social infrastructural facilities affect the development of small businesses. For instance, the services of PHCN have been very disappointing; there is always frequent interruption of power supply that is often not available in the right quality and quantity, thus affecting the activities of these enterprises as power is needed for production in factories. The provision of water in many cities and towns has not been impressive.

These problems hinder the entrepreneurs from performing to the best of his ability and make the cost of running a business very high. This reduces the production of enterprise.

The problem of inadequate infrastructural facilities makes entrepreneurs to seek for alternative sources which are very expensive, e.g. due to the interruption of power supply, entrepreneurs may resort to the use of generators, which is accompanied with the extra cost of obtaining fuel or diesel and maintenance. All these cumulate in high prices of the product of small business, which further discourages consumers from patronizing the products of small businesses.

Furthermore, the inadequacy of these infrastructures is also manifested in the absence of health facilities, good road network, poor transportation facilities, etc.

SELF ASSESSMENT EXERCISE

Examine the extent to which the problem of inadequate infrastructural facilities affects the performance of small business.

3.3 Lack of Manpower Development and Specialization

The availability of trained and skilled manpower is one of the determinants of development of the small business sector. This is because it directly or indirectly determines the effectiveness of other factors of production.

The Nigerian economy is blessed with rich human resources, that is, those who are competent enough to handle a business. However many small and medium scale industrialists, in their attempt to make huge profit from operations end up engaging the services of unqualified personnel, resulting to the failure of the business.

Very often, entrepreneurs on their own part have little or no managerial ability to run their business and when they engage in small businesses, they lack necessary training to make them succeed in business. Wealthy entrepreneurs usually hire professionals to help them manage their enterprise. There are cases where these hired managers realizes their importance in the business and decides to exploit the ignorance of the entrepreneur or mistrust may arise between the entrepreneur and the hired manager, leading to a chain of conflicts, which may eventually lead to the failure of the business.

SELF ASSESSMENT EXERCISE 3

Explain the way in which the problem of lack of manpower development and Specialization affect the performance of a small business

3.4 Lack of Adequate Business Plan

As we discussed earlier, to fail to plan is to plan to fail. Thus, planning is very essential for success to be achieved.

In most cases, entrepreneurs fail to plan for their business before embarking on them since they feel that they have access to funds needed to execute their business projects. To plan to realize the objectives for which the business is established, it is most essential to first of all plan and come out with a feasibility study which is a prerequisite for project implementation and operation.

Most entrepreneurs in Nigeria do make adequate plan for their business and so they hardly keep good account or record of purchases, sales, labour cost etc. This poor account keeping habits make any meaning assessment of their performance impossible. Distinction between personal money and business funds is hardly made.

Thus, entrepreneurs of small businesses are not known to keep acceptable accounting records and hardly maintain the ethnics of accounting. The result of this is that financial institutions find it difficult to assess viability of these enterprises when they are approached for credit assistance.

Since entrepreneurs do not have adequate business plan, cases abound where some entrepreneurs divert project funds to private and extravagant uses, thus starving the business of the needed funds which eventually results in failure to of the business.

SELF ASSESSMENT EXERCISE 4

Evaluate the extent to which the problem of lack of adequate business plan will lead to the failure of a small business.

4.0 CONCLUSION

Based on the discussion so far, small business enterprises are beset with a number of problems which have constrained their ability to play the pivotal role expected of them. Some of these problems are shortage of capital and high cost of borrowing, inadequate infrastructural facilities, lack of manpower development and specialization and lack of adequate business plan.

5.0 SUMMARY

This unit examined the failure of small businesses. It highlighted in details, the factors responsible for the failure of small businesses in any economy where they exist.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the impact of shortage of capital and high cost of borrowing on the performance of small businesses.

2. Evaluate the extent to which the problem of lack of adequate business plan will lead to the failure of a small business.

7.0 REFERENCES/FURTHER READINGS

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