Chapter 14
Uncommon Sources of Finance and Sustainability, Growth and Development of Small Medium-Scale Enterprises in Nigeria

Abraham Oketooyin Gbadebo
Osun State University, Niger

ABSTRACT

This chapter presents uncommon sources of financing SMEs. Finance is indispensable factor for development and growth of SMEs everywhere in the world. However, few people are acquainted to alternative sources of financing SMEs other than the traditional mediums. In Nigeria, lack of knowledge on non-traditional sources of funding has either contributed to the death or slow pace of development of SMEs. Some of the uncommon sources are crowdfunding, merchant cash advance, elusive business grant, and small business administration. In the chapter, the author exposes these sources as well as present guidelines on how they could be accessed.

INTRODUCTION

The idea of Small and Medium Enterprises (SMEs) was introduced into the development landscape as early as the late 1940s (OECD, 2004). The prime goal of SMEs has encouraged countries all over the world to improve trade and industrialization. The definitions of SME are usually derived in each country, based on the role of SME in such an economy, policies and programmes designed by particular agencies or institutions empowered to develop SMEs. In case of a small business in the developed economy like Japan, Germany or United States of America (USA), be described as a medium or large-scale business in a developing nation like Nigeria.

The definition of SME varies over time from one agency or developing institution to another, contingent on its policy focus. The above variation notwithstanding, SME can be defined quantitatively and qualitatively. According to Filion, (1990), SMEs can be quantitatively defined based on certain criteria

DOI: 10.4018/978-1-7998-1005-6.ch014

such as turnover, the number of employees, profit, capital employed, available finance, market share and relative size within the industry. As an example the 1975 Companies Act in the United Kingdom stated that an enterprise with a turnover of less than one million, four hundred thousand pounds (£1,400,000) was small, those with turnover between one million four hundred thousand pounds (£1,400,000) and five million, seven hundred pounds (£5,700,000) were medium, while those enterprises having turnover above five million, seven hundred pounds (£5,700,000) were described as large. It also went further to classify the enterprises based on a number of employees: those with fewer than fifty (50) workers being small, between fifty (50) and two hundred and fifty (250) workforces being medium and businesses that employ above two hundred and fifty (250) employees were considered as large. Similarly, the European Union (EU) in 1995, defined SME as any enterprise employing less than 250 employees, went further to break down the SME into micro (less than ten (10) employees, small (from ten (10) to forty nine (49) employees and medium (between fifty (50) and two hundred and forty nine (249) employees.

In Nigeria, the National Council of Industry, 2003 categorized SMEs as Micro, Small and Medium. A Microenterprise is a business with between one (1) and ten (10) staff strength with a total cost of less than one million (N1, 000,000) including working capital but excluding land. A small size business is the one with a workforce of between workers of eleven (11) and thirty-five (35) with total assets of a minimum of one million (N1, 000,000) and less than forty million (N40, 000,000) including working capital but excluding land. A medium scale enterprise is a business with thirty-six (36) and one hundred (100) employees and asset base of a minimum of forty million (N40, 000,000) and less than two hundred million N200, 000, 000) including working capital but excluding land. On the other hand, the qualitative methods are independent ownership and independent capital (Recklies, 2001), entities not publicly traded (Osteryoung, & Newman 1993). In addition, IFRS IASB (2003) defined SME as an entity that does not have public accountability and publishes general purpose financial statements for external users it also classified it as enterprises by their nature.

According to Lawson (2007) access to finance has been identified to be one of the crucial factors militating against the survival and growth of Small Medium Enterprises especially in emerging economies like Nigeria. Abereijo and Fayomi (2005) noted that majority of loans offered by Deposit Money Banks to SMEs are usually for a short period and grossly inadequate for initial capital of a sizeable business let alone their expansion purposes.

Other essential factors hindering the survival and growth of SMEs in Nigeria are erratic power supply, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services incompetence of the entrepreneur, incessant changes in government policies, multiple taxation, and lack of tax holiday for infant enterprises; high interest rate on lending, inflation rate and exchange rate (Essien, 2014). According to Ossai (2017), the challenges enumerated do not prevent the prospects of SMEs in Nigeria which include: Employment Generation, Wealth Creation, and Poverty Reduction, Promotion of Local Entrepreneurship and Indigenous Technology Development, Mitigation of Rural-Urban Drift, Income Redistribution and Industrial Dispersal and Export Promotion.

However, SMEs have been regarded as the bedrock for employment generation and technological development not just in Nigeria but all over the world. On the crucial problem of finance on SMEs, some scholars: Ubesie, Onuaguluchi, and Mbah, (2017) examined the effect of deposit money banks' credit on small and medium scale enterprises growth in Nigeria; Abdulsaleh and Worthington (2013), identified sources of finance for SMEs to range from original private sources of the owner and manager's savings and retained earnings. Other sources included financial support from family and associates, trade credit,