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TOPIC 4 SMEs

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CONCEPT AND DEFINITIONS OF SMEs

SMEs are variously defined in Nigeria, as in other economies, on the basis of the size of amount of investment in assets, total annual turnover, and the number of employees. Within this framework, the classification of enterprises as "Medium" and "Small" naturally varies from one economy to another and from one period to another.

SMEs are divided into Medium Scale (MSE), Small Scale (SSE) and Micro Enterprise (ME). The Federal Ministry of Industries defines a medium scale enterprise as any company with operating assets less than 200 million and employing less than 300 persons. A small-scale enterprise, on the other hand is one that has total assets less than 50 million with less than 100 employees. Agriculture is not considered in its definition of an SME.

Also The Committee for Economic Development of United States of America identifies that if a business is characterized by two or more of the following four features =

- (1) It is a small business
- (2) One individual or a small group holds ownership

it is not a small business



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- (III) The capital for running the business is supplied
(IV) One individual or a small group holds ownership
(V) The area of business operations is mainly local and when compared to other business in the field, the business is small-

SOURCES OF FINANCE TO SMALL AND MEDIUM SCALE ENTERPRISES

Finance sourcing refers to the various ways through which capital is raised for business enterprises. The sourcing can be done either internally or externally.

Internal sourcing requires sourcing involving a third party.

Funds could be provided by entrepreneur by introducing capital or providing assets for the business. As for the third party, government, financial institutions like banks and individuals provide loans, grants and subsidies for the enterprise.

INTERNAL SOURCES

(A) Personal savings

- this is fund accumulated from personal savings. If firms parts of fund to must enterprises or entrepreneurs

(3)

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Small and medium scale business

It is a very cheap source of fund but when business commences operations, the expansion will depend on increase in personal savings of the owner and the profit of the organization. When this source is depended upon, limited rate of expansion will be experienced.

(ii) RETAINED EARNINGS

This is undistributable profit of the company which is ploughed back to the business.

(iii) Disposal of Asset

Assets are disposed when they become obsolete and this is a source of fund for the organization through outright sale of buildings, plant, machinery equipment or other investments.

⇒ Most small and medium scale industries prefer internal source because they are good for planning, flexibility, no incumbrances attached, less bureaucracy involved, from risk of relying on external sources. In addition, financing from within provides the opportunity to redeploy existing funds so as to achieve a more efficient utilization of capital.

EXTERNAL SOURCES

As stated above, the external sources of finance are sources of fund which the firm resorts to through the third parties. This is a result of inadequacy of internal sources, that is where internal sources fail to provide the needed finance for business organisation and also fail to meet the seasonal demand of the business.

⇒ These sources are further divided into short and long term sources.

Short term sources of finance

(a) Deposit from Customers - This is a system in which payment is made awaiting the provision of goods or services as another form.

(b) TRADE CREDIT -

- This refers to transactions which allows for the cash settlement to be done at a different period.

(c) ~~EQUIPMENT LEASING~~

~~In this system, the company instead of buying and owning assets, the company enters into an agreement with a leasing firm whereby the lessee is allowed to withdraw funds in excess of the balance in his account.~~

(a) Hire Purchase

this is a financial agreement between a Hire-purchase company (hires) and its customer whereby the latter (hiree) is allowed to take possession of an equipment or goods without immediate cash payments

LONG TERM SOURCES

- (1) ESusu, ISusu, or SUSu - different names given in Nigeria to this arrangement in which people contribute money at periodic intervals and disburse themselves in agreed succession. It is a method of saving used to finance business

(b) Development banks

Small and medium scale enterprises obtain financial assistance from development banks such as

- (1) Nigerian Bank for Commerce and Industry (NBCI)
- (ii) Nigerian Industrial Development Bank (NIDB)
- (iii) Nigerian Agricultural and Cooperative Bank (NACB)

Other sources

- (1) National Economic Reconstruction Fund (NERFUND)
- (ii) National Directorate of Employment (NDE)
- (iii) Bank of Industry (BOI)

1. Savings & Investment