

CONSTRAINTS OF FINANCING SMALL – SCALE BUSINESSES BY WOMEN ENTREPRENEURS THROUGH BANKS IN ENUGU NORTH LOCAL GOVERNMENT AREA.

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Abstract

The study was designed to address the constraints of small scale women entrepreneurs in accessing funds from banking institutions in Enugu North Local Government Area. The study which was a survey, was carried out in Enugu North Local Government Area of Enugu State. Two research questions guided the study. The population for the study comprised 241 of 33 registered small-scale women entrepreneurs in the local government, and 94 staff of six banks in the area. The sample for the study were 54 small scale women entrepreneurs, and 33 management staff of the six banking institutions were randomly selected using purposive sampling. Two sets of 23-items questionnaire were used for the two groups of the sample. The result of the study determined the constraints of small scale women entrepreneurs in accessing funds from banks. The result also identified the constraints that prevented banking institutions from accessing loans to small-scale women entrepreneurs in Enugu North Local Government Area. Recommendations were made in line with the findings of the study.

Introduction

Entrepreneurship involves the ability to set up a business enterprise as different from being employed. Nzom (2006) defines entrepreneurship as the process of creating value by bringing together a unique package of resources to exploit an opportunity. Oloka (2008) perceives entrepreneurship as an application of personal qualities, finance and other resources within the environment for the attainment of business success. Udeh (1999) also describes entrepreneurship as the art of generating business ideas, identifying investment opportunities, making decisions towards exploiting the opportunities, formulating organizational objectives, conducting market researches and surveys. Entrepreneurial endowments in man are made manifest through different forms of

business enterprises. Small scale women enterprises serve as seedbed for the propagation of innovative ideas.

In the same vein, Osadi (2007) defines small-scale enterprise as a business that is independently owned and managed in its dominant field of operations by private individuals to meet up their desired income and their employment needs. Nwoye (2009), Okoh and Egberi(2008) view small scale business enterprise as one which possesses the following characteristics: usually, the managers are also the owners, capital is supplied and the ownership is held by an individual or small group, the area of operation is mainly local, and the relative size of the firm within its industry must be small when compared with the biggest units in its field.

Further, the main features of small scale enterprises that are universally

recognized are that they are typically small. They are also characterized by simple management structure, which generally combines ownership and management in one person. They are widely dispersed in any economy and they usually feature as family businesses. Okoh and Egberi (2008) observe that performance standards are almost impossible to establish and enforce under the kind of informality that prevails in small-scale women enterprises. They keep little or no written records; hence, their risk levels are difficult to access. The need for small-scale women enterprises in the development of any nation cannot be overemphasized. This particular sector of the economy plays a very significant role in the process of any nation in addition to being sources of potential entrepreneurs. It is universally acknowledged that small and medium enterprises have immense potential as a propellant for sustainable development in areas of poverty alleviation, wealth creation, employment generation and private sector development. It is in recognition of this fact that governments of developed and developing countries have given priority to them. In another development, Chiejina (2010) notes that in most industrialized countries across the globe, there is a conscious effort to drive the micro, small and medium enterprises sectors, which are undoubtedly the engine of wider economy.

Given all these instances and successes achieved in these countries across the globe, developing countries like Nigeria need to utilize this sector to develop their economies in micro enterprises.

However, despite the invaluable contributions of this sector to a nation's economy, small scale women entrepreneurs in developing countries are plagued by limited access to financial resources. Oborah and Osazevbary (2008) remark that the problem of small-scale women

enterprises was not that of non-availability of finance but inability to access funds available particularly from banks and other financial institutions.

In the capital market, which is the market of long-term funds, most small-scale women entrepreneurs cannot access the market due to the tight requirements and their unwillingness to be listed for fear of losing the control of their enterprises. Government financing efforts through its financial institutions have not yielded significant impact. The pertinent questions here are, if other sources of funds failed, why do small-scale women entrepreneurs lack access to funds in banks. Studies carried out by Okafor, (2007) and Nzom (2006) showed that banks were not willing to extend finance to this sector. Small-scale women enterprise operators on their own lament that they had good business ideas but banks were not willing to lend them money. This apparent constraints by banks in lending money to small scale women entrepreneurs were the focus of this study.

Purpose of the Study

The objectives of the study were:

1. To determine the constraints of small scale women entrepreneurs in accessing funds from banks in Enugu North L.G.A.
2. To determine the constraints of banks providing loans to small scale women entrepreneurs in Enugu North L.G.A.

Research Questions

The following research questions were answered by the study:

1. What are the constraints of small-scale women entrepreneur in accessing funds from banks in Enugu North L.G.A?
2. What are the constraints of banks in extending loans to small-scale women entrepreneurs in Enugu North L.G.A?

Method

Design of the Study

The design for the study was a survey research. The study was carried out in Enugu North Local Government Area of Enugu State.

The women of Enugu North Local Government Areas are very industrious and are known for their entrepreneurship in production, organization of goods and services and marketing. Their entrepreneurship therefore, gave rise to the existence of a large number of small scale enterprises in the areas.

Population

The population for the study comprised of 335 staff of two groups of respondents. These were 241 small scale women entrepreneurs of 33 registered small-scale enterprises in Enugu North Government Area, and 94 staff of six banks in the Local Government Area (three Commercial Banks, and three Microfinance Banks).

Due to large number of small-scale women enterprises in the Local Government Area, only 54 of them were randomly selected using purposive sampling. Considering the fact that most staff of the enterprises were mainly semi-skilled and unskilled labourers, there were some cases where interpreters assisted the respondents. All the six banks in the local government were used. However, due to the nature of information needed, only 22 top management staff of these banks were purposefully selected from the banks. Thus, the total respondents were 76.

Instrument for Data Collection

The instrument for data collection was a structured questionnaire based on the two research questions. There were nine and

14 questionnaire items for the two research questions of Strongly Agree (5 points), Agree (4 points) Undecided (3 points), Disagree (2 points) and Strongly Disagree (1 point) were adopted for the items. Three experts in the area of measurement and evaluation, banking and entrepreneurship education validated the instrument. In ensuring the reliability of the instrument, a test-retest approach was adopted using Pearson Product Moment Correlation Coefficient and reliability co-efficient of 0.95 was obtained which guaranteed its reliability.

The two sets of the questionnaire were personally distributed by the researcher to the respondents. All the copies of the questionnaire administered to bank staff were returned, while 50 out of 54 of the questionnaire copies given to small-scale women entrepreneurs were completed and returned.

Data collected were analyzed using mean based on the upper and lower limits of the mean:

- Strongly Agree = 4.50 - 5.00
- Agree = 3.50 - 4.49
- Undecided = 2.50 - 3.49
- Disagree = 1.50 - 2.49
- Strongly Disagree = 1.00 - 1.49

Data Analysis and Results

Table 1 and 2 below contain the results of the study.

1. What are the constraints of small-scale women entrepreneurs in accessing funds from banks in Enugu North?

Table 1: Mean Response of constraints of small scale women Enterprises in accessing funds from Banks in Enugu North L.G.A.

N=50

S/N	ITEMS	SA	A	UD	D	SD	Mean	Remark
1	Monetary and Fiscal policies of government	25	15	2	4	4	4.10	Agreed
2	Stiff collateral and security condition	35	10	-	3	2	4.70	Agreed
3	Banks' request for detailed and audited financial statement	20	13	5	8	4	3.70	Agreed
4	High interest charges	33	12	1	3	1	4.50	Agreed
5	Short repayment period of loan when granted	36	8	1	2	3	4.50	Agreed
6	Rigorous process involved in loan processing	22	10	5	8	5	4.50	Agreed
7	Discrimination in favour of bigger firms	38	10	-	2	-	4.70	Agreed
8	Additional cost in obtaining financial advice from banks	26	18	2	2	2	4.30	Agreed
9	High administrative charges involve in loan processing.	18	20	6	2	4	3.90	Agreed
	Grand Mean						4.30	Agreed

Information contained in Table 1 above addresses the first research question of the study. The contents of the table show that entrepreneurs in small-scale women enterprises express their views on the items posed to them. All the items mean scores of 4.30 and above. The result of grand mean of means is 4.30 which show that the respondents perceive the items listed in the table 1 above as the constraints of entrepreneurs of small-scale women entrepreneurs.

Research Questions 2

What are the constraints of in extending loans to small-scale women entrepreneurs in Enugu North L.G.A?

Table 2: Mean responses on constraints of banks in Extending Loans to small-Scale Women Entrepreneurs in Enugu North L.G.A. N=22

S/N	ITEMS	SA 5	A 4	UD 3	D 2	SD 1	Mean \bar{x}	Decision
1	Ownership structure of small - scale women enterprises	18	3	-	1	-	4.70	Agreed
2	High risk associated with small business loans	17	2	1	2	-	4.50	Agreed

3	High rate of loan default	17	4	-	-	1	4.60	Agreed
4	Poor education of entrepreneurs	13	5	2	1	1	4.30	Agreed
5	Misapplication of loans	15	4	-	2	1	4.40	Agreed
6	Unwillingness of insurance firm to cover bank credit.	10	5	1	4	2	3.80	Agreed
7	Low capital base of small scale women enterprises	2	4	3	3	10	2.30	Strongly Disagreed
8	Inadequate information base of the borrower	14	4	1	2	1	4.30	Agreed
9	Low equity base in relation to debt.	16	2	-	2	2	4.30	Agreed
10	Lack of required financial management expertise to manage the funds.	10	8	-	4	-	4.10	Agreed
11	Failure to provide business plans detailing survival strategies.	10	6	1	4	1	4.00	Agreed
12	Poor banking habits of small entrepreneurs	8	5	4	2	3	3.60	Agreed
13	Failure to maintain good accounting records	17	5	-	-	-	4.80	Agreed
14	Administrative cost of running numerous accounts for numerous entrepreneurs	12	6	-	2	2	4.10	Agreed
Grand Mean =							4.20	Agreed

Table 2 above shows the mean responses of bank staff on what discourage banks from giving out loans to small-scale entrepreneurs. The result of the mean responses showed that, with the exception of item number 7 with mean score of 2.30, all other items in the table are perceived by bankers as factors that discourage them from extending funds to small-scale women enterprises with mean of means score of 4.20

Discussion of Findings

Research questions determined the constraints of small-scale women entrepreneurs in accessing funds from banking institutions and why banks are not willing to extend credit to this sector of the economy. The study revealed the constraints of small scale women entrepreneurs in obtaining funds from banks. These constraints include; unfavourable government monetary and fiscal policies, stiff collateral and security conditions demanded by banks; bank's discrimination against small enterprises in favour of large

enterprises; relative high interest rate paid by small enterprises when compared to interest paid by large enterprises, and short gestation period of loans. Other challenges identified include long and rigorous process involved in processing bank loans; additional cost incur to obtain financial advice from banks, and high administrative charges handed to borrowers by banks. These findings agreed with the findings of Oborah and Osazebaru (2008), Agbawe (2009), and Okobe (2007). Oborah and Osazebaru (2008) note that the problem of small enterprises were not that of non-availability of finance, but inability to meet the requirements for accessing the funds available from both private and government financial institutions. Agbawe (2009) and Okobe (2007), observed that high interest rate, banks high administrative charges and additional fees paid by small entrepreneurs in order to obtain banks professional advice were impediments in accessing bank loans in Enugu North L.G.A.

Research question two, revealed that banks unwillingness to extend finance to small enterprises was due to ownership structure of small enterprises which is badly skewed towards sole proprietorship and partnership; high risk associated with small business loans, diversion of loans meant for business to satisfaction of personal needs, failure of loan beneficiaries to pay back the loan as and when due, lack of required financial expertise by entrepreneurs. Other constraints identified in the study included failure of intending borrowers to provide business plans detailing survival strategies, unwillingness of insurance firms to cover banks' credit to small firms in order to reduce the risk exposure, low equity base of small enterprises, high administrative cost of maintaining accounts for numerous small business enterprises, poor financial records kept by these enterprises and poor banking habits of small-scale women entrepreneurs

in Enugu North L.G.A.

Okobe (2007), alluded to these findings when he opined that banks shyed away from small and medium enterprises because these enterprises were unable to provide business plans, cash flow forecast, and financial statements as a result of poor education of the operators.

Conclusion

There was need for provision of effective legal framework to encourage joint entrepreneurship or broader-based business ownership pattern in Nigeria. This will help to make small enterprises more attractive for financiers. Banks and other financial institutions are advised to follow the example of Diamond Bank Plc initiative in business education. The bank organizes quarterly enterprises business seminar for its small business customers.

Recommendations

In line with the findings of the study, the following recommendations were made:

- (1) Government should ensure that its' monetary and fiscal policies are in line with the operations of small-scale enterprises.
- (2) Government, through the Central Bank of Nigeria, should apply selective credit guideline instrument of monetary policy to boost bank lending to small scale enterprises. This is the instrument of monetary policy used specifically to direct credit to the preferred sectors. It is the opinion of this paper that this instrument has not been effectively used in this country.
- (3) Poor knowledge in business management is one of the problems facing small-scale women enterprises in Nigeria. It has therefore become an urgent imperative to equip small entrepreneurs with skills necessary to run their businesses successfully. In this regard, government should establish training centres for small scale entrepreneurs all over the country.

These centres, at reasonable intervals, should organize training for entrepreneurs.

(4) There is need for insurance cover for bank credit to small-scale women entrepreneurs. In this regard, small credit risk fund should be established to provide insurance cover for default risk. Bank and loan beneficiaries should be made to pay premium into the fund.

(5) The issue of fund diversion by entrepreneurs should not arise if banks periodically review all credits to small entrepreneurs. It is therefore essential to exercise post-lending control to reduce the incidence of loan diversion and loan default.

(6) The major implications of the findings of this study was that banks perceive funding of small-scale women enterprises as highly risky and therefore specified stiff lending conditions as a way of securing their funds. If the stiff lending conditions were allowed to continue, small scale women enterprises will continue to have constraints of accessing funds from these institutions in Enugu North L.G.A.

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