CED 300

SOURCES OF FINANCING A NEW VENTURE IN NIGERIA: CHALLENGES AND OPPORTUNITIES

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INTRODUCTION

Generation of business idea abounds in Nigeria and with present level of poverty, ideal things should have been embracement of entrepreneurship even if at micro level by all and sundry but one of the major hindrances is the availability of finance. Existing business' growth or otherwise also depends by and large on funding. This is because, the implementation of new innovation (new method; new processes; new materials; new markets; new products or new organizational structures) cannot be without research which thus requires adequate funding.

The production of goods and services in a most efficient manner has continued to be the only viable and reliable option for growth, development, and survival of world economies. Despite the importance of production, it is impossible to attain a high productive level without a welldeveloped industrial sector. Industries normally operate either on a large or small scale both in the public and private sector. Akinola and Iordoo, (2013) In Nigeria for example, the private enterprises cover a wide range of different types of industries as distinguished by various criteria such as size, sector, ownership structure, employment and technology.

Without finance, the oil wheel of economy which acquires the service of skill labour, modern technology, and machinery for creation of value to meet the perceived needs for profit, makes the pursuit of economic advancement a mirage. The law of scarcity is profound when it comes to finance; hence, the need to formulate appropriate strategy for its acquisition is significant. There is no doubting the fact that Nigeria is blessed with abundant natural resources and of which land, one of the natural resources still remain uncultivated. The majority of Nigerian youth who are supposed to have been drafted into this sector (agricultural) of the Nigerian economy by the government do not show positive interest in it. Among major reason responsible for this is due to lack of modern machinery, a by-product of perceived lack of finance for their acquisition. Meanwhile, it will be wrong to conclude that the country lack financial capability of providing these modern farm machineries.

Lack of capital for execution of projects/business ventures could be traced to industrial era of 18th century when inventors attempted to produce or turn their invention into products in commercial quantities but which lack of finance hampered Chinoye, (2008). He further observed this to be the beginning of separation of users of capital from providers of capital. Also, when Ozor,(2007) said “deregulation is expected to release and give vent to the entrepreneurial spirit, thus assisting in the creation of value and growth the competition” and that is exactly what eventually played out as people hitherto in paid in employment or with funds seized the opportunities to venture into the production of goods. The act of employing various resources for the production of goods and services is termed enterprises.

In broad term, enterprise is all about idea which is translated into a planned action and implemented. It is any identifiable idea that is satisfactorily implemented. Kilby, (1971) in Ogundele and Oghojafor, (2004) defined an entrepreneur as the man (woman) who perceive business opportunities and take advantage of scare resources to use them, while Chinoye, (2008) claimed that Bagby,(1988) to have seen an entrepreneur as “a person that utilizes the opportunity of instability, turbulence, lack, to produce something new or modifies an existing one for profit motive. Generally, the saying that necessity is the mother of invention is most instructive in entrepreneurship. The emergency of entrepreneurship is therefore borne out of identified opportunities within an environment which when properly harnessed with adequate commitment of resources (human, finance and material) will not only create avenue to meet societal needs but will also provide returns for entrepreneurial.

However, Enikanselu, (2008) is of opinion that entrepreneurship as people who have ability to see and advance business opportunity, gather the necessary resources to take advantage of them and to initiate appropriate action to ensure success. Entrepreneurs are ‘ice breaker’, they are visions, and they see opportunities in glaring challenges. Enterprises is therefore a process of recognizing a peculiar need within an environment or development of products which remain unknowing but which availability will awaken consumer to the derivable utility.But efforts at various levels to redress this issue of non availability of finance is on-going while the real impediment to finance in Nigeria today could be said to be “how do I benefits from various available sources of business finance”? These facts have not been given adequate attention by various studies in entrepreneurial financing. Earlier studies consecrate on the issue relating to role of entrepreneurship to economic growth: Ogbo and Agu, (2012) Ogechukwu and Latinwo (2010); the determinants of successful entrepreneurship: Bosma et al, (2000); financial problems of entrepreneurship: Ekpenyoung and Nyong, (1992). Therefore, this study reveals strategies into entrepreneur financing and funding.

FINANCING ENTREPRENEURSHIP IN NIGERIA

It is important to ask this cogent question as it relates to an entrepreneur. Where does an entrepreneur go to obtain the needed finance? The source of finance can be categorized into three distinct classifications, namely, short , medium and long term Olowe, (1997) while according to Enikanselu, (2008), source of finance can be classified into two, that is short and long term.

In actual sense, what a business requires is finance but not the class of finance. However, appreciating the class of needs is as crucial as the need itself. Knowing the class will go a long a way to ease the accessibility of needed finance. The source could also be viewed by nomenclature of the provider e.g. Financial Institutions, Financial Institution and government support agencies /institutions. In Nigeria, both classifications abound and so also the instruments designed in all the classifications.

There are arrays of traditional and technical/specialized sources of finance in Nigeria. The most potent is the entrepreneur personal savings. It is most often found to be the take-off (initial) capital. This source is largely found to be inadequate for promotion of expansive enterprise to meet those needs.

The sources are as follows:

(I) Trade Credit: Suppliers could be a veritable source of finance through granting of short term delay payment of supplies. It is the practice of buying goods now and paying for them at a future date Enikanselu, (2008). This is a cheap form of finance as it attracts no conditionality than supplier reposing confidence.

(II) Customers/ Clients Advance Payment: At times, the supply of finance could be from customers pending production and supply of goods to the customers' stores. In fact, this could be of great assistance in financing working capital need of entrepreneurs, free of cost. Wade and Anarson, (2001) captured the importance of this when they submitted that "leveraging customers advance payments……. ahead of bank funds to survive the early stages, and manage to get to point where they can raise it (funds) externally" is a crucial and effortless means of obtaining needed funding hence advance payments by various clients could be a crucial source of finance but this also depends on the market structure where the entrepreneur operates.

(III) Overdraft: This is a special arrangement between an entrepreneur and his or her bankers to overdraw his/her demand (current) account. Under this arrangement, the account can be overdrawn at any time during the period of the facility but must revert to credit position on or before the end of the facility period. It is easier to obtain and cost friendly than loan to the entrepreneur as interest is only payable on actual amount with which the account is overdrawn and for the very number of days at which the account stands overdrawn. As good as this, yet all tenets of lending will be observed before the drawdown by the entrepreneur.

(IV) Bankers Acceptance: When a banker is not willing to grant direct short term credit facility but consider the entrepreneur lending proposition viable, they could help facilitating discounting of accepted bill of exchange in money market. The bill will arise in the course of normal trading activities with the entrepreneur's customer who had taken possession of goods for payment to be effected at a later date. The entrepreneur draw a bill on the customer and after acceptance by the customer, the entrepreneur can then approach the banker for immediate cash assistance either directly from the banker or from other source in money market using the bill as collateral. It is not just the bill as collateral but the bill becomes first source of the credit facilities.

(V) Bank Loan: This is a term credit facility granted to an entrepreneur by his/her bankers to finance a specific need of a business and with definite repayment programme which could runs for over twelve months. Generally, bankers will want to measure all loans/advances propositions with canon of good lending.

(VI) Hire Purchase: When an equipment such as heavy machinery, tractor or other similar items are needed for production activities such that a banker is not comfortable to finance such equipments can be procured through hire purchase agreement. The vendor sells and delivers the machine for entrepreneur's use for installment payments. The ownership however remains with the vendor until last installment is effected but actual possession of the equipment is that of hirer. This source is costly than some other sources but could be most appropriate for contingent of time.

(VII) Factoring of Debtors This is an arrangement made by an entrepreneur with a firm (factor) to buy over the book debt of the enterprise for commission. The factor will out rightly pay for entrepreneur say 95% (or certain percentage as may be agreed) of the debt. It could be arranged in such a way as for the factor or make immediate payment of 70% of the book debt and 25% when the debt is fully recouped from various debtors of the entrepreneurs. However, the mode of purchase will be mutually agreed by the parties. This arrangement may be with recourse, and this is to say that the entrepreneur will make good any unrecouped below agreed percentage while without recourse indicate that the factor bears fully the consequence of default of any of the debtors in the assigned book debt.

(VIII) Leasing: This is more or less an agreement to rent an equipment or item by the entrepreneur. "It is a contract between owner of an asset (lessor) and the user of the asset (lessee) granting the user or lessee the exclusive right to the asset, for an agreed period in return for the payment of rent" Olowe, 1998. It was also defined by Mustapha and Fabunmi (1990) as an arrangement whereby the lessor convey to the lessee, in return of rent, the right to use an asset for an agreed period of time. There are two types of leasing: Finance leasing where it involve a medium term period for right of usage and the contract is not cancellable and Operating lease which only exist for short period of the asset's life span and is cancellable. The rent will be for a fixed period of time (time that almost cover the whole of useful life span of the item) after which the equipment revert back to the lessor (if financial leasing), it is also possible to have a clause of first right of recourse for the lessee to be given preference to buy the asset at a nominal price.This is usually embraced by entrepreneur as a means of acquiring right to use of asset without direct commitment of funds for its acquisition. In some instances, it could be that the enterprise has acquired the assets but find a leasing company to buy same and lease back the asset to the firm. Whichever way, it provides finance for the smooth operation of the firm

(ix)Venture Capital: An important source of financing which could be a means for entrepreneur to obtain take off "seed stage of venture" Amit, (1999) funds through equity contribution of other firms or high net worth individuals to. Indeed, venture capital is usually defined as the provision of equity and debt financing to young, private held firms. This could be Venture capital proper or inform of angel investor.Venture capital is the institutional investors that commit funds into equity of an enterprise. The venture capitalist will only want to play where their efficiency in selecting, monitoring investment and providing value-added services place them over and above other investors. Rin and Penas, (2009) explained capital venture as a specialized form of intermediation whose success in supporting innovative companies through provision of finance and monitoring and advice.This source is not only just to provide finance but it includes involvement of investors in direct affairs of the enterprises and this makes available the expertise to bear on operational abilities of the enterprise as well. Often, the capital brought in is not repaid but off load through capital market (public offer) when institutional investor feel moving elsewhere or at the expiration of the venture agreement. Angel investors are investors (individuals) who use their own funds to provide equity finance to new venture. Denis while citing Feen et al (1997) said that angel investors are typically invest "seed capital", that is capital required by the firm in at a very early stage of their development: they provide a bridging finance until the company is in a position to receive bank facilities or venture capital financing. (X) Debenture This is source for long term loan directly from the outside the financial institutions. It is a mean where a large scaled enterprise with high credit rating offer debts for sale to the public. Such debt when contacted is acknowledge under the enterprises zeal. At the times such debts could be convertible to equity at maturity or settled – off (discharge by redemption)

(IX) Preference share This is a class of shareholders that are partly regarded as partial (but not) owner of the enterprise as they have no voting right in the affairs of the enterprise. Their income is fixed as agreed from on-set unlike the real owners.

(X) Retained Earning. This is pool of undistributed profits earned over the years and plugged back to support the capital base of the enterprise. It is most risk-free and stress free source of finance especially for a profitable enterprise. (XIII) Owners'

Equity This could be from private savings of the entrepreneur and supplemented with borrowings from friends, relatives or Cooperative Society the entrepreneur belongs for initial take. When it is as stated then the available funds will be inadequate to execute any reasonable entrepreneur's innovation and generated business idea. However, when entrepreneur (like in the case of blue- chip enterprises) could approach capital market for equity the coast is clear to obtain funds as much as external environment dictate.

SUMMARY AND CONCLUSION.

Without adequate funding the best dream will fiddle away and innovations will have still-birth, finance is the grease that nurtures innovation to fruition. It is an essential ingredient to business success hence this paper has therefore explain various means of obtaining needed funds as serve as eyes opener to entrepreneur to take advantage of less talked sources of finance, for short term funding it has been explained that most appropriate should be funds that repayment will be conducted with less than three hundred and sixty five days, while capital projects should be financed by fund with maturity period over three years. This paper has also bring it to burner the opportunity of financing lease while early period equity funding should be through capital venture in the which is available through the Small and Medium industries Equity Investment Scheme. The major contribution of this paper is the fact that it goes beyond identification of problems but suggest home grown strategies to redress this which if well embraced will not only be a welcome development for Nigerians entrepreneurs but also other developing economies of the world.