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ANALYSIS OF THE SOURCES OF FINANCE OF MICRO, SMALL AND MEDIUM SCALE TRANSPORT ENTERPRISES IN NIGERIA: THE CASE OF COMMERCIAL MOTORCYCLISTS.

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ABSTRACT

This paper discusses the concept and relevance of micro, small and medium scale enterprises to the socio-economic development of the nation as well as examining the place of commercial motorcycles as a public transportation mode in a developing economy like Nigeria. Furthermore, it critically examines the various sources of finance for the micro, small and medium transport enterprises and their limitations while it concludes by making some policy recommendations on the way forward.

Key words: *Sources of finance, Micro/Small/Medium Scale Transport Enterprises, Commercial motorcyclists, Socio Economic Development.*

INTRODUCTION

Since the independence of many countries including Nigeria, Micro, Small and Medium Scale Enterprises (MSMEs) has been an organic part of a viable structure for the attainment of meaningful economic development according to Ekpenyong and Nyong (1992). It was believed that they are more effective in bringing up development than larger enterprises because of the linkage and multiplier effects which they have on the performance of the economy and economic growth in general.

Prior to independence, most of the developing countries were mainly

agricultural exporting and manufactured goods importing nations. The need for self reliance after independence now led to a new economic order for these countries especially Nigeria with efforts in providing finance to small scale enterprises which began in 1945 with the establishment of the Nigerian entrepreneurs and public bodies. The Federal Government moderated this scheme in 1974 when they established the Small Industries Credit Scheme (SICS) in all states of the federation and they were to provide credit assistance to small-scale businesses. These were decentralized and replaced by a two-tier credit scheme

administered by the State and Federal Government.

Attempts were also made by the Central Bank of Nigeria to develop policy measures to bridge the resources gap in finance of small-scale enterprises. Despite all these efforts the problem of inadequate funding continued and this led to the recent programme such as NERFUND, the World Bank Sponsored SME loans scheme like NEXIM Scheme, the People's Bank, and the Community Bank.

It is common knowledge that if an average potential entrepreneur in Nigeria is asked to mention the major problems he faces concerning his business, the answer would point to lack of capital either to start or expand the business

The focus of the paper is to identify the characteristics and the various financial options for micro, small and medium scale transport entrepreneurs in Nigeria with the commercial motorcyclists in focus.

An Overview of Micro, Small and Medium Scale Enterprises in the Socio-economic Development of Nigeria.

The Micro, Small and Medium Scale Enterprises (MSMEs) are now very much in the public policy limelight. This is as a result of the dynamic role they play in developing countries as engine through which the growth objectives of developing countries can be achieved. It has been estimated that MSMEs employ 22% adult population in developing countries according to Wapiong and Ahmed (1997).

The ability of micro and smaller firms to create job is clearly a major attraction for governments in the short term, but by encouraging more MSMEs to flourish, we can realize other economic and

social objectives too, like expanding worker skills or even alleviating pockets of local property in inner cities or declining regions.

One major problem that keeps on resurfacing in our day-to-day lives is how to get adequate money for our daily activities. It is real truth that no individual, organization, public or private, small, or medium large even government can function satisfactory and effectively without adequate funds. Not only the source alone, the flow must be constant and at the right time. The problem of inadequacy of funds cuts across the whole world though much more compounded in Nigeria as a result of generally low level of income with its resultant effect on savings culture which is almost at zero point according to Osoba (1987)

No business can thrive no matter how standard is its business plan or feasibility study without good source of finance. Finance is the most important factor that would make or break a business. Of all the resources that a business would need, be it human, technology or money itself, having various human or technological resources would depend on money resources according to Adekanye (1990).

Furthermore, Adekanye (1990) observed that to attract best employees in, an industry, retain them and to an extent motivate them, will on the short run depend so much on money, so also to get the best in respect of technological advancement lies so much on issues of finance. This portrays how an important issue of finance is to a business. Several factors have been associated with the difficulties small and medium businesses face in securing finance from established sources. These may include lack of information on the part

of lenders to evaluate loan proposals, the loss of transaction and risk associated with small and medium business concerns, and small business inability to deal with deficiencies in the business environment.

The Concept of Micro, Small and Medium Scale Enterprises.

There is no universally acceptable definition of what constitutes micro, small and medium small-scale enterprises. The term micros, small, medium and large scales are relative and differ from industry to industry. There is hardly any unique or universally acceptable definition of Micro, Small and Medium scale enterprises (MSMEs) because the classification of business into small medium or large scale is subjective. Sanusi, (1994) observed that it is very vital to note that definitions change from time to time and depend on a country level of industrial organization and level of economic advancement.

For instance, Sule (1996) regarded small or medium enterprises in United States in term of large fixed investment and employment of labour force which in the third World may be of large scale while Wabot (1987) defined small scale enterprises in Nigeria as any servicing, processing or manufacturing industry with an investment in machinery and equipment not above N250,000. In India all manufacturing enterprises with an investment in capital of not more than 750,000 rupees except ancillary enterprises for which capital is 1.25million rupees are regarded as small scale enterprises while in United states of America according to Small Business Association, small scale enterprise, is an enterprise which has less than 250 employees and whose annual turnover is more than ten million dollars.

From the point of view of National Policy Enterprises, it may be classified by size, sector, organization, technology and location. These variables interact with one another in complex ways, which must be taken into understanding the nature, characteristics, performance, problems and challenges of business enterprises. However from the perspective of policy and planning, size provides the most practical basis for classification. The usual criteria include one or more of the following; employment, turn over, asset and paid up capital.

Basson (2000) gave a comprehensive definition of a MSME in South Africa as any business with one or more of the following characteristics. Namely, fewer than 200 employees, annual turnover of less than R5 million, capital assets of less than R2 million and the owners are directly involved in management.

However, the Bureau of Market Research (1992) agrees that a small Business is that which meets at least one qualitative criterion and two quantitative criteria. The quantitative criterion is that the business must be privately and independently owned, managed and controlled but may have more than one branch or unit while the quantitative criteria may include any two of the following:

Total annual turnover of less than R2.5 million (1992 price)

Total asset value of less than R2million including property building and fewer than 50 full-time employees.

Even though, different countries have different economies and therefore different views on MSMEs. Two main characteristics distinguish them according to ESC Business school. These are quantitative measures and

quantitative angle. The former deals with the number of people employed and the latter is linked with the management of the business ownership and the size of business.

The Nigeria National Policy on MSMEs adopts a classification based on dual criteria; employment and assets

(excluding land and building) as shown in Table 1. Where there exists a conflict in classification between employment and assets criteria, the employment-based classification will take precedence.

**TABLE 1: CLASSIFICATION OF ENTERPRISES BY
EMPLOYMENT AND ASSETS**

S/S	Size category	Employment of people	Assets (million)(Excluding land and building)
1	Micro Enterprises	Less than 10	Less than 5
2	Small Enterprises	10 - 49	5 - less than 50
3	Medium Enterprises	50-199	50 - less than 500

Source: National Policy on SMEs

Although quantitative measure differ from country to country and from one industry to the next one measure, namely independent ownership and control of the enterprise by the owner, is universally acceptable as the ultimate measure that distinguishes a small enterprises from a large one.

Commercial Motorcycles as a Means of Public Transportation in Nigeria

The use of motorcycle as a means of public transport has come to stay in both the urban and rural areas of Nigeria as a result of its high flexibility as well as the high cost of acquiring a taxi, car or bus which can be used for effective movement of people from one geographical location to another within a stipulated time.

Financing Micro, Small And Medium

Scale Transport Enterprises: The Case Of Commercial Motorcyclists.

Financing is the process of sourcing and deployment of financial resources to achieve a particular investment line to meet set objectives. Two major elements of financing commercial motorcycles are common which are the acquisition of the vehicles as well as the operating and maintaining of the vehicles. The formal one is a capital investment, which requires long term funds while the later one is recurrent investments, which require short-term funds. In other words, the operator of the commercial motorcycle (Okada) require the two forms of finances, that is, the long term and short time like overdraft.

However, it has been noticed according to Abosede (1993) that most operators of commercial vehicles including commercial motorcyclists always ask for

loans without specifying the type of credit they want. Even though it is very prudent to use long term funds to finance both long term and short term investment, it is dangerous and imprudent to use short term funds to finance long term project.

Furthermore, it was observed by Abosede (1993) that there are four possible ways by which commercial transport business including the commercial motorcyclists can be financed and these are outright loans, overdraft, leasing and direct purchase.

From the above stated elements of finance, it becomes imperative that the commercial motorcyclists will have to choose between these modes of financing for the purchase of their motorcycles, either through outright loans, leasing and direct purchase of the motorcycle. The former two modes constitute debt investment, which will make the small, and medium scale entrepreneurs look up to financial institutions or cooperative societies for financial credits and this will lead us to the sources of finance to commercial motorcyclists in Nigeria.

Area of Study

The motorcycle as a mode of public transport was introduced in Ago-Iwoye in 1992 to complement the few taxis and buses available to the increasing number of people migrating to the town as a result of the location of Ogun State University (Now Olabisi Onabanjo University). The demand so much outstripped the supply that this created a further opportunity for an increase in use and the entrenchment of the motorcycle as a mode of public transport. Today, there are about 1650 registered motorcycle operators in Ago Iwoye and its

environs.

Ago-Iwoye is a university town and located in Ijebu North Local Government Area of Ogun State, Nigeria along with Ijebu-Igbo (Headquarter) Oru-Ijebu, Awa, Ilaporu, Agunboye to mention a few.

Source of Data

From the issue of interest outlined, two major sources of data were identified as source of supply of information to meet stated objectives. The use of questionnaires on the operators of motorcycles at their major terminals. This include Oru station, Ita Merin, Ago-Iwoye garage, Mini-campus and permanent site gates as well as Olopomerin where 200 questionnaires were administered using a random sampling procedure while participatory and observation methods were also applied in getting , enough information from the operators and union officers .

Result and Discussion

The analysis of sources of finance for the purchase of motorcycle by the motorcyclists in Ago-Iwoye and environs reveals that 25% of the respondents have an outright purchase from their saving and whatever money they can raise and 45% collected outright loan from the cooperative societies and banks; while the remaining 30% goes for leasing from cooperative societies, micro-finance banks, and Non-Governmental Organizations as well as religion and cultural organizations.

It was discovered that sourcing for fund through the cooperative societies was the easiest means of accessing fund and was ranked first with 40% of the respondents in Ago-Iwoye. From the analysis of the questionnaires, it was discovered that 130 of the respondents representing 65% belong to one cooperative society or the other. This was followed by personal saving which 23% of the respondents both in Ago-

Iwoye and environ agreed is their main source of fund for financing their motorcycle business operation. However it was ranked second and the contribution by family members ranked third with 15%. This demonstrates the family unity phenomenon in Africa in general and Nigeria in particular and the fact that we are our brother's keeper. The contribution from commercial banks and community banks to commercial motorcyclists ranked fifth in Ago-Iwoye having 10% of the respondents.

Furthermore, daily contribution in form of "Ajo" and "Esusu" was 8% while contribution from Government/Non-Governmental Organization was the last with 4%. However, from the analysis, bank loan seem to be the most difficult of all sources of funds for the commercial motorcyclists.

From the analysis of the difficulty encountered in obtaining finance, it was discovered that obtaining bank loan seems to be the most difficult of all sources of fund for the operator of commercial motorcycle

in Ago-Iwoye. 68% of the respondents attested to this, followed by Government and Non- Government Organization (NGO) with 13%, family member 19%, cooperative societies 5%, daily/weekly contribution 3% and personal saving 2%.

The reasons why bank and institutional loans are difficult to obtain is because of the conditions a borrower must satisfy before obtaining a loan and the fact that the disbursement of government institutional and Non-Governmental Organization loans are often done through banks, which also have conditions that must be met.

From the analysis of the responses of the respondents on whether they have an account or book of record, it was discovered that only 62% of them have the records which were not kept accurately and adequately while 48% of the respondents operate a saving or current account either for personal use or commercial (business) use.

Table 2: Sources of Fund to Small Scale Commercial Motorcycle Operators in Ago-Iwoye

Source of finance	Frequency	Percentage (%)
Personal Saving	46	23
Family Member	30	15
Daily Contribution (Ajo or Esusu)	16	8
Cooperative Society	80	40
Bank loan	20	10
Non Governmental Institution (NGO)	8	4
TOTAL	200	100

Source: Author's field survey

The problems facing the commercial motorcycle entrepreneurs in Ago-Iwoye and environs can be divided into two major parts, namely, internal and external. Table 3 shows that finance is not the only problem facing the commercial motorcyclists but it is the major problem hindering the growth and expansion of these small scale entrepreneurs among the internal factors. 60% of those respondents attested to inadequate finance as the most serious internal problem and this was followed by management ability of the Okada operators with 16%; while the application of correct marketing strategy was next with 13% and inadequate

experience, skilled and God fearing motorcycle riders came last with 11 % of the respondents agreeing to it.

Among the external problems facing the small scale transport enterprises (Okada riders) is the problem of inadequate good road which has a frequency percentage of 34%; this was followed by high maintenance cost with 21% and inadequate spare parts came next with 16%. The various disturbances caused by security operatives to the smooth running of the enterprises come next with 13% and frequent changes in government policies has a percentage of 10% while the family influence on the transport business come last with 6%.

Table 3: Internal Problems Facing Small Scale Commercial Motorcycle Entrepreneurs in Nigeria.

Internal problems	Frequency	Percentage
Inadequate finance	120	60
Inadequate skilled labour	22	11
Inadequate Managerial ability	32	16
Inadequate Marketing strategy	26	13
TOTAL	200	100

Source: Authors' Field Survey.

Inadequate funding, lack of good road, high cost of maintenance including the cost of buying genuine spare parts that are available, inadequate managerial ability, lack of genuine spare parts inadequate marketing strategy, constant harassment by security agents, inadequate qualified, experienced and God-fearing staff as well as the frequent changes in government policy including the various level of interference from family members

hamper the growth and development of commercial motorcyclists as well as the diversification of micro small and medium scale enterprises in Nigeria. However the financial problem is mainly due to the inability of finance institutions to grant loans to owners of micro, small and medium scale enterprises while government assistance will aid in financing them.

Table 4: External Problems Facing Small Scale Commercial Motorcycle Entrepreneurs in Nigeria

External Problem	Frequency	Percentage (%)
Lack of good roads	68	34
Lack of spare parts	32	16
Frequent changes in government policy	20	10
Harassment by security agents	26	13
Family interference	12	6
High maintenance cost	42	21
TOTAL	200	100

Source: Authors' Field Survey

From the foregoing, the study has revealed some significant results, which are useful in formulating transport policy. Prime among this, is the fact that motorcycle has currently appeared as an alternative mode of public transport in order to meet the high demand for transport which the existing conventional transport system cannot cope with.

Definite pronouncements should be made by the federal and state governments on the continued use of motorcycles as a public transport. If it should continue to be used, the safety of the operators and the users should be paramount to the policy makers. The analysis of the study has shown that the key problem facing the MSMEs is inadequate capital. The government should therefore provide additional equity to meet increase funding requirement of developing and specialized schemes. Through the lease arrangement, financial institutions would have satisfied themselves that at least, the vehicles are purchased and legal ownership retained through out the period of lease rather than

a situation where loans granted can be diverted.

Financial institutions are in better position to monitor the activities of the lease programme such that when their positions are being jeopardized, they can invoke the sanctions contained in the lease agreement.

The micro, small and medium scale entrepreneurs as well as the motorcycle operators will need to create a conducive atmosphere that will guarantee the necessary confidence and integrity required before credits can be extended to them by the financial institutions and cooperative societies.

CONCLUSION

The contributions of micro, small and medium scale enterprises, as well as motorcycle operators to economic self reliance of the nation are indisputable. Consequently they deserve more support than what they are currently receiving. Moreover, they also require the

cooperation of their members, staff, family and government in particular in areas of financial discipline and compliance with stated objectives.

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