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Research Article

# Strategic effect of sources of fund on the performance analysis of small and medium enterprises in Delta State

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Abstract

**The focus of this research work was on the strategic effect of the sources of fund on the performance analysis of SMEs in Nigeria using the SMEs such as No More BoroBoro Ltd, Kinston Hair Salon, and Fountain Fashion Design in Effurun Delta State as case study. Data were sought through structured questionnaires and analyzed using tables, frequencies, percentages, charts while chi square was used to test the study hypothesis. This thesis tried to review this challenging problem of SMEs financing in Nigeria with a view of identifying alternative financing options besides the traditional banks credit system. The study thus attempt to examine the various sources of fund available to SMEs, the preferred source by the entrepreneur and the difficulties experience in acquiring loans. It was found that many of the SMEs were not aware of the credit scheme available and those aware complained about the high interest rate and short repayment period. It was thus recommended that regulatory and statutory bodies should be made to monitor the interest rate on loans and advances as well as accessibility of Micro Entrepreneurs to finance. Also, Micro Finance policy should be further publicized to create more awareness to attract patronage from members of the low income group who would then have better knowledge of the Finance banks' offers and how to access their services to enhance their business performances.**

**Keywords:** SMEs, Micro Entrepreneurs, Micro Finance policy

## INTRODUCTION

Small and Medium Enterprises are critical to the development of any economy has they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large scale industries. In Nigeria there has been gross under-development of SMEs sub-sector and this has undermined its contribution to economic growth and development. The key issue affecting the SMEs can be group into four: unfriendly business environment, poor funding, low management skill and lack of access to technology (FSS 2020 SME Sector Report, 2007).

Among these, shortage of finance occupies a central position. Globally commercial banks which remain the biggest source of funds to SMEs have in most cases shield away because of perceived risks and uncertainties. In Nigeria the fragile economic environment and absence of requisite infrastructure has rendered SME practice costly and inefficient, thereby worsening their credit competitiveness.

Occasioned by the unfriendly interest changed by financial institutions, among other factors, Nigerian SMEs have moved to explore financing options that will enable them stay in business, in the absence of bank credit. SMES dominant the private sector of the Nigerian economy, but almost all of them are staffed of funds.

A consultant in the area of entrepreneurship, however, is of the view that financial institutions need not be the only source of funding to SMEs, saying big firms can do a lot to help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SMEs solvency with financial institutions.

The persistent lack of finance for operations of SMEs sequel to the ability or unwillingness of the deposit money banks to grant long-term credit to operators of the real sector of the economy, led to the establishment of microfinance institutions and introduction of numerous funding programmes for the development of small businesses in Nigeria. The continuous decrease in commercial banks and merchant bank loans to small scale enterprises can be attributed to the lack of collateral from the SMEs to secure the loans and the high lending rate from the banks.

SMEs often operate at such a low state that is unattractive to banks. Many of them are unincorporated and banks are not forthcoming in investing in a multiplicity of small ventures that are scattered all over the country. Besides SMEs are mostly family business and they are therefore reluctant to open their businesses up, that they regard as intruders. The concomitant effect is that less financial facilities are made available to SMEs.

Firms depend on a variety of sourcing of financing both internal and external (Terungwa, 2012) .the relationship among these sources and their effects on investment; however remain unclear in the literature. In the cases of SMEs, bank loan and credit is a major alternative of external funding. According to Valverde et al. (2005) bank credit play a crucial role in providing external financing to SMEs. But in Nigeria context, this crucial sources of finance for SMEs is apparently non-functional (Kadri, 2012). This is evident in the ratio of loans to SMEs to commercial banks' total credit, which shows that a meager 0.16% of commercial banks' total credit was granted to SMEs in the last quarter of 2011 (CBN, 2011). More worrisome is the fact that this ratio has been falling over the years and continued unabated in the post-consolidation era.

**Statement of problem**

However, in spite of these institutions and funding programmes, there continue to be a persistent cry against adequate finance for the development of SMEs in the country. The following are the problems to be considered in this study:

(a) The limited availability of funds for SMEs affects its performance
(b) The lack of awareness of available credit scheme affects the performance of SMEs
(c) The high interest rate on loans affects SMEs' performance
(d) The short time of payback of loans given by loan providers affects SMEs' performance

**Research questions**

(a) To what extent has the availability of fund affected SMEs' performance?
(b) To what extent are the SMEs aware of the available credit scheme?
(c) To what extent has been the effect of high interest rate on loan taken by SMEs on its performance?
(d) How has the long process involve in acquiring loans affected the performance of SMEs in Nigeria?
(e) How has the short time loan payback affected the performance of SMEs?

**Objectives of the study**

(a) To determine the effect of the limited availability of funds on SMEs performance
(b) To determine if the SMEs are aware of the available credit scheme to them
(c) To determine the effect of high interest rate on loans acquired by SMEs in their performance
(d) To determine the effect of the long process involve in loan acquisition on the SMEs ' performance
(e) To determine the effect on short time loan payback on the performance of SMEs

**Hypothesis of the study**

Ho the high interest rate on loans do not hinder the performance of SMEs
Hi the high interest rate on loans hinders the performance of SMEs
Ho the bureaucratic procedure involve in loan acquisition do not limit the performance of SMEs
Hi the long process involve in the acquisition of loans limits the performance of SMEs
Ho the limited availability of fund do not affect the performance of SMEs
Hi the limited availability of fund affects SMEs' performance

**Scope and limitation**

The project work covers the small and medium businesses in effurun environment in Delta State and limited only to SMEs not including larger enterprises

**Significance of study**

This work is to prove helpful to existing and potential entrepreneur of SMEs since this study lends assistance in strategic effect of sources of finance in the performance of a business in order to plan ahead.
The research work could also serve as a source of future reference to future researchers who may find it helpful in carrying out a research work of similar nature or related topic.

**Basic assumptions**

The basic assumption in this research work is assuming sources of finance are the only determining factor of the performance of SME.

## LITERATURE REVIEW

Micro, Small and medium enterprises have no universally acceptable definition. There is no single uniformly acceptable definition of a small firm (Storey, 1994). Thus, the definition became relative and varies from institution to institution and from country to country depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations. The definition is individual country specific and is based on the size and level of development of each respective economy. Varying definitions among countries may arise from differences in industrial organization at different levels of economic developments in part of the same country (Anamekwe, 2001). For instance, it has been suggested that a firm that can be regarded as a micro or small in an economically advanced country like USA, Great Britain or Japan, given their high level of capital intensity and advanced technology may be classified as medium or even large in a developing country like Nigeria (Sule, 1986).

So far, most of the definitions given to SMEs have revolved around the number of employees, relative size, initial capital outlay, sales volume, financial strength, asset base and so on. There is a consensus, however, that the firm's size is quantitatively measured in terms of its number of employees and size of capital employed. Akande (2010), looked at a small business as an enterprise that is self - initiated, largely self-financed, closely self-managed and relatively small in size when compared as part of the industry. The definitions adopted since 1996 at the 9thNational conference of industries in Port Harcourt, defined enterprises with the following categorization;

a. Micro-cottage industry: An industry whose total cost, including working capital but excluding cost of land, is not more than N1million and a labour size of not more than 10 workers.

b. Small-scale industry: An industry whose total cost, including working capital, but excluding cost of land is over N1million but not more than N40 million and a labour size of between 11 and 35 workers.

c. Medium scale industry: An industry whose total cost including working capital but excluding cost of land, is about N150 million, with a labour size of between 36 and 100 workers.

d. Large scale industry: An industry whose total cost including working capital but excluding cost of land, is higher than N150 million, with a labour size of over 100 workers.

In furtherance to this, National council of industry (NCI, 2001) offered the following definitions, for micro, small medium and large scale enterprises in Nigeria.

(i) Micro/cottage Industry: An industry with a labour size of not more than 10 workers and total cost of not more than N1.50 million, including working capital but excluding cost of land.

(ii) Small-scale Industry: An industry with a labour size of 11 – 100 workers or a total cost of over N50 million, including working capital but excluding cost of land.

(iii) Medium Scale Industry: An industry with a labour size of between 101 – 300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land.

(iv) Large Scale Industry: an industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding cost of land. In Nigeria however, for micro (enterprises, the number of employees range from 1 to 5 including self-employed and from 6 – 20 for a small enterprise.

**Characteristics of micro-enterprise**

In view of the foregoing on the nature of Small businesses in Nigeria, Yeshiareg (2008) highlighted the following as the characteristics of Microenterprises:

a. Small level of capitalization (N50,000 – N1,000,000)
b. Ease of entry
c. Self-employment (owner is manager and worker)
d. Simple technology and equipment
e. Utilization of local resources and raw materials
d. Transactions are often informal.

**Demand for SMEs finance**

SMEs are very significant to the economic success for most countries and their citizens and in recent times have been observed to employ an increasing proportion of the workforce of most countries .There is a fast growth in the number of privately owned small and medium-sized companies worldwide, however, this category of business is plagued by several issues that deter this growth. A key challenge for most SMEs is the problem financing, according to Da Silva et al. (2007), all small firms live under tight liquidity constraints, therefore making finance a major problem for them.

According to Ogujiuba et al. (2004) generating an entrepreneurial idea is one thing but accessing the necessary finance to translate such ideas into reality is another. Many novel entrepreneurial ideas have been known to die simply because their originators could not fund them, and banks could not be convinced that they were worth investing in. Finance, whether owned or borrowed, is needed to expand so as to maximize profit and given the nature of SMES, there is a need for financing. As described by the South African reserve bank (2004) in a report conducted by the Task Group of the Policy Board for Financial Services and Regulation, SMEs generally have four key funding requirements: i) initial infrastructure investments, ii) lumpy operations costs, iii) „next-step‟ expansions, and iv) unexpected opportunities requiring quick access to funds. Despite what the funding requirement maybe, SMES often prioritize the source of financing from internal (cash flow or entrepreneur‟s own capital) to external, according to relative availability and (opportunity) cost (Ogujiuba et al., 2004). This is because for most firms, the internal funds are always insufficient to undertake the required level of transactions for profitable projects hence the call for external finance to fill the finance gap.

Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small-firm financing. As early as the MacMillan Report in 1931, there has been recognition that British small firms suffer from what is termed the „finance gap‟. In a first-world setting like that in the UK, this situation arises when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries it is probable that such a 19 finance gap arises at even earlier stages of the enterprise's lifecycle (South African reserve bank in a report conducted by the Task Group of the Policy Board for Financial Services and Regulation 2004)

**Sources of SMEs finance**

The focus of this chapter is to look at the various sources of finance for SMEs

Informal Sources, Personal Funds/ Retained Earnings

Most SMEs in Nigeria are observed to get funding from personal savings, informal lending schemes known as "esusu", savings collectors, and moneylenders, rotating savings and credit associations and family members. This is further confirmed in a survey by USAID (demand survey; 2005) where 24 percent of the surveyed respondents agreed to use informal finance services in a report conducted by the EFInA Fin Scope survey. 33

**Leasing**

A creative financing alternative for SMEs that is seemly more popular in Nigeria is known as equipment leasing. The equipment needs of SMEs are increasing being met through this unique form of financing.

Equipment leasing is described as a contractual accord between two parties known as the equipment owner "the lessor" and the user of the asset a "lessee" whereby the lessee remits to the lessor a periodic rental fee as compensation for the usage of the equipment. The two major types of leasing are known as finance lease and operating lease. In the Finance lease, the lessee is transferred all the risks and benefits of ownership, while the lessor retains the title of the equipment .The lease is usually non-cancelable by either party before the expiration of the primary tenor and payments are sufficient in total to amortize the capital outlay of the lessor and to provide for the lessor's cost of funds plus a

desired return. In operating lease, the asset is not fully amortized during the primary tenor. The lease is therefore usually shorter than the estimated useful life of the asset and can be leased out on a secondary lease.
Between 2003 and 2007, the Equipment Leasing Association of Nigeria (ELAN) recorded a quadrupling of leasing volumes granted by its members In Nigeria, however only a number of Small independent financial and leasing companies provide support for the SME industry. The commercial banks tend to serve larger companies (predominantly for oil and gas) with bigger leasing amounts. An estimate of 33 leasing companies out of the 250 in Nigeria, are non-financial companies that do not accept deposits (and are not regulated by the CBN). These companies typically face high costs of funds, as they borrow at commercial rates from the banking system. According to ELAN most leasing companies are able to access loans from the financial system at rates between 22 and 30 percent per annum. With such margins, the final cost to the SME customer is between 35 and 50 percent. The fact that such leasing is growing in spite of the high costs involved is a clear indication of the lack of financing alternatives.

**Micro-Enterprises and government initiatives in Nigeria**

Recognizing the indispensable role of private sector enterprises, in general economic development, many countries have instituted enterprise support networks and structure to fuel the development of these enterprises and Nigeria is no exception. A number of monetary, fiscal, and industrial policy measures have been introduced by the Nigeria government over the years, for the exploitation of established and potential benefits of Micro, Small and Medium enterprises. These policies are either changed or modified from time to time to suit the economic intentions and objectives of a particular government in administration. According to Olorunshola, 2003; Oyekanmi, 2004; Ariyo, 2005, Ike, 2006; some of the prominent of these measures include:

a. Setting up and funding industrial zones as a means of reducing overhead costs. The objectives of establishing these industrial development centres is to provide SMEs services which include technical appraisals for loans applications, entrepreneurship training, management of product development, production planning and control

b. Provision of local finance through government agencies including the Central Bank of Nigeria (CBN), the Federal Ministry of Industries, (FMIs) and the Nigerian Industrial Development Bank (NIDB), which was established in 1964 to provide credit and other facilities to industrial enterprises in the small, medium and large scale category. For example, in 1971, the Small Industries Development Program was set up to provide technical and financial support to the SMEs.

According to Ike (2006) this later led to the establishment of the Small Industries Credit commission (SICC), and the associated Small Industries Credit Fund (SICF). Decree number 2 of 1986 established the National Economic Reconstruction Fund (NERFUND), with the main objective of providing soft, medium-to long-term loans to wholly Nigerian-owned SMEs in manufacturing and agro-allied enterprises, mining and quarrying.

**SMEs' economic significance in Nigeria**

There is no doubt that SMEs have been credited with massive contribution to the growth of developed economics of the world, they afford the platform on which any country's economic growth and stability lies. According to the SBA Report (2000), the American economy which is arguably the largest economy of the world depends largely on the success of SMES for "innovation, productivity, job growth and stability" (Ojukwu, 2006), according to the report, SMEs represent about 99% of all employers, employ 51% of private-sector workers, employ 38% of workers in high-tech occupations, provide about 75% of new jobs of the private sector output and represent 96% of all goods exporters" (Twist, 2000). 23

This account is also true for economies of several countries, such as the United Kingdom where a report in 2002 indicated that SMEs accounted for 99.8% of all businesses, 55.6% of employment and 52.0% of turnover (ODPM, 2005). In Canada also, the SMEs deliver 60% of the country's economic output, generate 80% of national employment and 85% of new jobs (Net Impact Study Canada, 2002).

In addition, it could that the rapid transformation of the "Asian Tiger" countries of India, Malaysia, Indonesia, Taiwan and Hong Kong, was largely due to the development of the SMES of these countries , thereby hailing the proof that SMEs are major catalysts to economic development.

In developing countries like Nigeria, the role of SMEs is equally of strategic importance as they facilitate Indigenous entrepreneurship, reduce poverty and provide employment for a large number of people amongst other important roles that they play.

Although there are no clear statistics on the number, geographical distribution, and activities of the SME sector and the available statistics could be very partial and highly unreliable. The best estimates available suggests that SMEs comprise 87% of all firms operating in Nigeria, although the total number of registered firms in Nigeria is also unknown (World Bank 2002a, Pp.127).6 In another study conducted in Nigeria by the Federal Office of Statistics, it is estimated that over 97% of all businesses in Nigeria employ less than 100 employees. This therefore means that about 97% of all businesses in Nigeria are SMEs (Ariyo, 2000)

In 1996, FOS poverty statistics indicated that 55.8 million were below the poverty line and that there are approximately five persons per household. A conservative assumption is that 75% of the total number of poor households (or 8.4 million) depend on a farm or non-farm SME for their livelihood.

**Internal structuring problems of SMEs**

Other concerns of the banks aside the external factors are the internal problems that exists within the structures of the SMEs themselves and these includes the lack of organization in SMEs, particularly in terms of human resources, accounting, administrative management and control functions. Most SMEs are often owned by a family and the business leaders even in the biggest SMEs – are oftentimes the sole decision-makers in their firms, and this modest, often fledgling, structure creates a breeding ground for errors, fraud and works against the regularity of processes. This can be particularly prejudicial for firms in the manufacturing sector, and notably for exporting firms. There is usually too little reflections prior to action yet such reflection could help ensure the stability of manufacturing and marketing processes. Control, both internal and by auditors, is pushed into the back seat which makes it difficult to swiftly detect a firm's weaknesses. This can also encourage inclinations towards non-transparency on the part of promoters and can cause banks to lose their equanimity towards SMEs (Paul Derreumaux, SME financing in Sub-Saharan Africa, page17, 2009)

In addition, the business leaders oftentimes lack good management skills to drive the organization yet they still lead the group. This can only lead to failure in the organization that the banks fears are too risky for them to put their money.

According to Ogujiuba et al. (2004), inadequacy of financial resources to recruit skilled manpower naturally restrains expansion and limits productivity and growth and the problem of financial indiscipline on the side the SMEs as Firms are most likely to divert funds meant for the business in funding other projects are also key Obstacles affecting the bank's lending attitude to the SMEs.

**Problems of SMEs in Nigeria**

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching:

1. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
5. High cost of packaging appropriate business proposals
6. Uneven competition arising from import tariffs, which at times favour imported finished products
7. Lack of access to appropriate technology as well as near absence of research and development
8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.

## A COMPARATIVE ANALYSIS BETWEEN INDIA'S SMALL SCALE INDUSTRIES (SSIs) AND NIGERIA'S SMEs

The magnitude of contributions as well as the impact of SSIs on the economic growth and development of India is highly significant as evidenced by the following figures. The SSIs represent ninety-five percent (95%) of the total industrial units in India, contribute forty-five percent (45%) of the total industrial output, account for eighty percent (80%) of all employment in the industrial sector, and contribute thirty-five percent (35%) each of total exports and value added by the entire manufacturing sector respectively in India. Between 1990 and 1991, SSI real growth in India recorded between a low of 7.1% in 1993/94 and a high of 11.3% in 1996/97.

As a result of commitment and focus on SSIs and driven by their all important role in the economic development, the government of India had as far back as in 1948 put in place, an effective and efficient industrial policy for developing SSIs such that by the year 2000, India had three (3) million SSIs with a production value of US$ 110billion, export volume of US$ 10billion and staff strength or employment figure of eighteen (18) million.

Even though SMEs' performance in Nigeria shows that technology and fiscal incentives had made little positive impact on the sub-sector given the obvious lapses in implementation modalities as well as the constraining policy and infrastructural environment, recent estimates have put the contribution of SMEs to total industrial employment in Nigeria at seventy percent (70%) and to total manufacturing output at 10 – 15 percent. SMEs in Nigeria have been quite active in promoting the use of local raw materials with many of them also engaged in the processing of local inputs into either intermediate or final products especially agro-allied and solid minerals products. Many SMEs have also successfully adopted imported plant and machinery for local use and thus positioning themselves as veritable tools for promoting technical expertise and development of indigenous entrepreneurship. The Nigerian SMEs are mostly resource-based and dispersed throughout the country (in urban, suburban and rural areas) and hence have to some extent, facilitated the opening up of the rural areas, mitigated rural-urban drift, and significantly contributed to poverty alleviation.

The following represent a brief comparison between Nigeria's SMEs and India's SSIs:

**i. Definition**

a. Nigeria's SMEs cover enterprises with total cost of N200million excluding land and total employees of between 10 and 300 people

b. India's SSIs are defined as units in the manufacturing, processing or preservation of goods with investment in plant and machinery not exceeding Rupees 10million ($210,000).

The difference here hinges on the fact that India has no provision for medium scale enterprises; their focus is on the real sector thus excluding trading and services.

**ii. Credit Dispensation**

a. In Nigeria, there are universal banks, development banks, and other special institutions, which provide credit but not at subsidized rates.

b. In India, there is a multi-agency system for credit flows; term loans are provided by term lending institutions and working capital is provided by commercial banks.

**iii Funding Arrangements**

a. In Nigeria, no minimum quantum of credits to SMEs is mandatory anymore. In the past, a percentage of total credits used to be mandatory for SMEs. However, 10% of banks' annual Profit Before Tax (PBT) is mandatory for equity investment in SMEs under the SMIEIS program.

b. In India, 40% of total advances go to the priority sector, and 60% of net bank credit to the priority sector goes to SSIs.

**iv. Management of funds invested in SMEs/SSIs**

a. In Nigeria, the funds can be managed directly, or through a subsidiary or through a venture capital manager.

b. In India, the credits to SSIs are driven need-based limits on liberal terms with level and profitability as key factors and not linked to security or collateral. Flexibility is the watchword with each activity assessed on its own merit.

**v Structure of Businesses**

a. In Nigeria, an SME must be a limited liability company

b. In India, an SSI could be a limited liability company, or a partnership or a proprietary firm

**vi Incentives and support to the SME/SSI sector**

a. In Nigeria, it is mandatory for banks to set aside 10% of their annual profit before tax in support of SMEs.

b. The Bank of Industry (BOI) is expected to provide credits to SMEs but not on soft lending rates. It is only the Nigerian Export Import Bank (NEXIM) that provides soft loans to export oriented SMEs.
c. In India, the incentive and support schemes available to SSIs are much more elaborate and include official general and organizational support as well as support by other agencies.

The nature and levels of key incentives and support include but are not limited to the following:

(a) General: Bank credits to SSIs are on soft lending terms, there is selective exemption from and preferential treatment in excise duties, sales tax, etc. Capital funds are available for the development of the software and IT industry. Credit guarantees to cover loans to SSIs are available. There is capital investment and transport subsidy under specific schemes. Some items are reserved for exclusive manufacture by SSIs. There is a price and purchase preferential scheme for SSI products. Marketing and training needs support is provided. Industrial estates and parks, industrial growth centre, functional export processing zones, integrated infrastructure development centre and cluster development centre are among the infrastructural facilities provided.

(b) Organizational Support (Central Government Network): There is a dedicated ministry of SSIs, agro and rural industries. There is a Small-Scale Industries Board, which facilitates coordination and inter-institutional linkages and advises the government on SSI-related policies. There is a Small Industries Development Organization (SIDO) responsible for evolving an all-India policy and programmes for the development programmes of state governments and providing facilities for upgrading technologies. There are Small Industries Services Institutes for the provision of product cum- process development centre, establishment of regional training centre and effective operationalisation of National Small Industries Corporation (NSIC) Limited and Khadi Village Industries Commission (KVIC).

(c) Sate Government Agencies: There are industrial centre at district levels, each focusing on funding SSIs. There are industrial development corporations at state levels. There are small industrial development corporations at state levels

(d) Other Agencies: Other agencies, which contribute in the accelerated development of SSIs in India include apex-level financial institutions, commercial banks, industry specific associations, specialized training centre, industry-specific export promotion councils, research institutes and active role of NGOs in SSIs.

In Nigeria, the government has also, in August 2003, set up the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), whose primary responsibilities include:

a. To provide such information and data on SMEs as to how many there are, who they are, what they do, etc. so as to assist policy formulation and also to develop linkages
b. To develop a compendium of regulations as it affects business
c. To set up business support centre in every state of the federation preferably in collaboration with respective state governments
d. To set up industrial parks, preferably in partnership with the private sector

The European Commission (EC) has similarly put in place “top-class” services and supports for businesses especially the SMEs. These include among others, the provision of:

a. SME-specific training (start-up, growth and development, targeted training e.g. for women, etc.)
b. Professional information services (legislation, technical, financial, etc.)
c. SME-specific strategic measures (trade missions, cluster promotion, supply chain development, etc.)
d. Premises and environment (incubation, technology parks, etc.)
e. Finance (grants and subsidies, loans and loan guarantees, equity)
f. Reception facilities, basic information and referrals (includes initial diagnosis and signposting)

From the above, one can categorically affirm that the incentives and support given to SSIs by the government of India are quite wholesome and formidable. The package of support and incentives provided by the government of Nigeria can in fact, be said to be insignificant when compared with those of India. It is thus less surprising, the development gap between the SSIs of India and the Nigerian SME sub-sectors and hence the significant role SSIs are playing in the economic growth and development of India. The continuous reinforcement of incentives and support to SSIs by the government of India underscores the high degree of appreciation of the importance of the SSI subsector to the future of the Indian economy.

## SUMMARY

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. From a planning standpoint, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth and dispersal. In most countries, including the developed countries like Japan, USA, UK, etc, SMEs account for well over half of the total share of employment, sales, value added and hence contribution to GDP.

A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. With over 120 million people, vast productive and arable farmland, rich variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs. Unfortunately, SMEs have not played the significant and crucial role they are expected to play in Nigeria's economic growth, development and industrialization.

It is difficult to fathom out the reason why the SMEs would not lead Nigeria to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards.

The findings of this research point to a main causative factors as to why Nigerian SMEs are performing below standard which is the availability of funds. The solution to the problems of Nigerian SMEs can only be realized if both the leaders and the citizens concertedly work together.

In the past forty years or so, the government had established various support institutions specially structured to provide succor and to assist SMEs to contend with some of the hurdles along their growth path.

## CONCLUSION

The study attempted to evaluate the impact of sources of funds on the performance of selected micro enterprises in Effurun environment in Delta State. The results of the data analysis and hypothesis tested revealed that a positive and strategically significant relationship exists between performance of an enterprise and availability of fund.. Moreover, in the overall financial performance, the surveyed micro-enterprises were revealed to be doing very poorly. The conclusion was reached on the grounds that they were recording low profits in the three (3) years preceding the study because they were poorly capitalized. As revealed from the study, when entrepreneurs were asked from what sources they had requested funds, many reported that no request was made from any veritable source.

## RECOMMENDATION

The summary of the finding of the study indicated the need for local governments to be more actively involved in financing micro-enterprises especially women-owned enterprises which nature of businesses were mostly rural based. The Local government was to be mostly concerned in view of the federal and state governments' other overwhelming economic problems. This was also the view of Emma and Akamoibi **(**2009), who opined that government cannot reach out with the informal sub-sectors, but the federal government can grant micro-credit loans to MSEs through

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