

LEASING AS A MAJOR FINANCING DEVICE FOR SMALL SCALE ENTERPRISES IN ENUGU URBAN: A STUDY OF HAPEL NIGERIA LIMITED AND FEEDWELL FARM ENTERPRISE

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Abstract

The study examines the issues and challenges involved in “leasing as a major financing device for small scale Enterprises in Enugu Urban”. Hapel Nigeria Limited and Feed Well Farms Enterprise were used as the study of the work. The importance of leasing as a major source of financing small scale enterprises in Nigeria cannot be over-emphasized. This is the reason why the researcher wants to investigate on the topic. The data utilized in this work consists of primary and secondary data, as survey and field work approach was adopted in this study. Out of 30 questionnaires distributed, 27 responded forming the targeted population. Taro Yamane formula was used to determined the sample size of 25 staff of the two firms. Tables and percentages were used to analyze the responses from the questionnaires. The work revealed that the two small scale farms are into production of feeds and other Agro-allied products. Also, that there is 72% of awareness among small scale enterprises over lease financing techniques. The study concludes that Government should create a good atmosphere and platforms for leasing to strive by granting loanable funds to small scale business in Nigeria. Finally, the recommendation states that leasing should be increasingly used by small scale enterprises in order to solve the problem of capital financing among small businesses.

Keyword: Small-scale enterprises, leasing, financing techniques and economic growth

Introduction

It is unquestionably true that the development of a nation’s industrial sector hinges greatly on the development of small scale enterprises operating in that economy. This is because small scale enterprises are significantly spring boards for the industrial base of any country. This has yielded fruits in economic empowerment of teeming youth in the country, provision of employment and promotion of indigenous technological development, utilization of local resources and low cost of inputs, and services for medium and large enterprises in Nigeria. Small scale enterprises have been defined as those industries whose fixed assets value do not exceed N10 million (Ani and Nwandu, 2009). Small scale enterprises are important not only because they account directly for significant proportion of investment, output and employment in a nation but also even more significantly because they provide vital links in the chain of the economy as a whole, motivating, energizing and connecting various sectors and subsector for greater output in area of employment and productivity of indigenous materials and products. It is an established fact that for a country to have a meaningful industrial development and economic growth, the small enterprises should not be relegated to the background and government should give a full support to its financing.

Small scale business generally have weak capital base since the majority of them are either sole proprietorship or partnerships. They have no opportunity to draw money from the financial institutions as big companies do. Consequently, they are lured into option of borrowing money at times with unfavorable terms. Small business operators rely primarily on own equity, bank loans and lease options to finance their business. However, in recent years, small scale industries in Nigeria are being given increasing policy attention and financial incentives. Other financing revenues such as owner's capital retained earnings and direct government assistance are virtually ineffective. Before going into the sources of finance, it is important that the potential investor has an idea of an estimated level of fund needed for this particular type of business. He needs to count how much money of his own (equity) he is prepared to put into the business before he thinks of borrowing and other financial assistance. To this end, budgeting becomes an absolute necessity.

Adequate finance is indispensable for the successful operations of small scale business enterprises in Nigeria. The various institutions of finance has identified with the finance of small scale firms. The small and medium scale enterprises for growth purpose rely considerably on bank loans. In Nigeria, there have been various schemes meant to provide institutional finance for SMES, including the Nigeria Bank for Commerce and Industry (NBCI) finance. The bank is to administer loans to the small scale industries in Nigeria.

In the light of the above circumstances, the case of Hapel Nigeria Limited and Feedwell Farms were used to buttress how two enterprises had adequately finance the fixed capital needs under the present economic situation. Leasing appears to be a viable financing alternative. Lease has been defined as the financial arrangement or contract between lessor and lessee, of the right to use a tangible asset usually for a consideration called rent, Orjih (2008). Thus, this study will attempt to provide the rationale for leasing as a major financing device for small scale enterprises.

Theoretical Review

Definition of Small Scale Enterprise

Small scale enterprise has been defined according to Central Bank of Nigeria by its credit policy for commercial and merchant banks as any business whose total worth is above N1million(one million naira) but not more than N10 million (ten million naira) excluding of land but including working capital. Ani and Nwandu (2009) explained that the main criteria used to classify small scale business include initial capital entry, ownership structure, management style, profit level market share, type of industry, relative position of the firm within its industry or a combination of two or more of the above criteria. Anyanwu (2012) states that a small business is any business that is independently owned and managed, started with little capital, and is being operated using a few number of employees to produce goods and services to satisfy the needs of a local community and also make some profit.

Sources of Fund for Small Scale Business

Oboro and Ighoroje (2011) listed the following as sources of funds to small scale enterprises:

- a. Loan or overdraft from the bank or lending financial houses with an agreed periodic repayment.
- b. Leasing this is another source of fund where the proprietor of a business will take some of the assets used for the period on lease coupled with an agreement on how periodical interest will be paid on the leased terms.

Concept and Evolution of Leasing

Okechukwu (2011) opined that leasing is a means of financing the acquisition and use of fixed assets, such as land, buildings, plant and equipment. The high cost of fixed asset makes leasing the viable option for acquisition and use of fixed assets. Also, leasing involves huge financial commitments and contractual agreement between the owner (lessor) and another party (lessee) which conveys to the lessee the right to use the leased asset for an agreed period of time in return for a consideration, usually periodic payment called rent. For Orjih (2009), lease is an important source of finance for business organization. They influence capital formation, project planning and cash flow management.

Empirical Literature

Works that are related to “leasing as a major financing device for small scale enterprises” have produced mixed conclusions.

Kehinde (2011) explained that there is poor liquidity in most small businesses in Nigeria which affect their mode of operation, the working capital of the firm and the production capability of enterprises. The small scale businesses have current asset in excess of current liability leading to shortage of fund. When small firms have weak financial position they rely on credit facility to finance their operations. This credit facility most times comes from account payable. Most small firms becomes insolvent and fail because they often than not could not access financial assistance from the financial institutions due to lack of the necessary requirement needed by the financial institutions. There is poor record keeping system in most small firm which reduces the ability of the firm to monitor the proper flow of their working capital. The small and medium scale business remains the most dynamic force and agent of economic growth and development of a nation. The small and medium scale enterprises generate at least 60% of the U.S.A GDP. In Nigeria, the SMES are all around us, the fact that only few amount is required to start on SMES make it the most popular term of business.

Eriki and Inagbenebor (2009), revealed that only a small percentage of SMES succeeded in accessing the funds, while only about 45% were aware of the scheme even when the management capacity of the firms was high and the scheme was given mass media coverage. On the basis of legal status criteria only 36% of the firms indeed qualified to access the funds.

Adediran and Kayode (2012) discovered that financial institutions have not contributed much in financing capital investment but they have however contributed towards stock market development. Financial institutions should be encouraged to mobilize more deposit for lending to the small scale enterprise for increasing their capital investment. Oluleye and Oyetayo (2010) revealed that there is the need to develop and test outreach and training programmes for introducing quality assurance system with enterprises. Inadequate equity base, inadequate working capital, lack of technical skill, infrastructural deficiencies and unfavorable timing of policy are some factors militating against the growth of SMES in Nigeria. Unsound financial system, poor management practices and low entrepreneurial skills, banking sector disturbance and overbearing regulations and operational environment are the major constrains facing small scale enterprises in Nigeria. Unstable macro-economic environment, inadequate infrastructural support and inadequate financing are responsible for the woes of small enterprises in Nigeria.

Enang and Udah (2010) analyzed the causality result revealed on unidirectional relationship without feedback effect between labour and electricity supply. The results of the long run and error

correction model showed that the index of industrial development, electricity supply, technology and capital employed are important determinants of economic development. The long run result indicates that capital, technology, index and electricity supply are significant factors influencing GDP per capital.

Asma, Aiman, Mudassar, Muhammadu, Muntaha, Sayyida and Taimoor (2012) pointed out the factors that affect the market concentration as follows; term of loan, size of enterprises and self employment significantly associated with SMES establishment. SMES are facing inappropriate credit facilities and poor management because of unskilled and untrained workers and thereby decreasing the productivity.

Amusa and Salman (2011) reveals among other things, that for any financial institution to thrive well, they must plan ahead in order to determine the future direction of the organization. Increase in business planning will lead to increase in profitability. Planning is not a wasted time but an important pre-requisite for any successful organization. Planning reduces the likelihood of a venture collapsing hence is essential to the success of the venture.

Azende (2011) found out that there was no significant difference between the loan disbursed by banks to SMES before and after the introduction of SMES and the conditions for accessing SMES funds was beyond the reach of the predominant SMES in Nigeria. For him, dynamic SMES subsector is needed for Nigeria to attain industrialization and sustainable economic development and for it's vision 20-20-20 to be achieved; hence banks should lend to SMES where they have exhausted their retained earnings to finance their investment.

Oboro and Ighoroje (2011), like other researchers discussed above, recognize that adequate finance is imperative for the successful operations of small scale business enterprise in Nigeria. Hence, they enjoin the government to increase loan able funds to small scale business in Nigeria.

Adu, Ajiboye, and Wojuade (2007), the impact of GSM on job creation for rural people were shown in their study. They reported that a majority of school leavers, who hitherto have been idle and jobless, now engage themselves in retailing of GSM materials as local service providers. In most parts of the urban cities, towns and villages in Nigeria, there have spring up services centers for repairing phones. Due to the small capital required to set up such a business, many who were unemployed hitherto now enter into such businesses. This has reduced the number of unemployed youths in our cities and rural communities. It could be noted that crime detection and report to law enforcement agencies have improved following the availability of the GSM service. In fact, a particular GSM operator provides a service that helps trace stolen vehicles in the country. This service has led to the recovery of many stolen cars in the country.

Small Scale Enterprises is a panacea and bedrock for industrialization of our country and sustainable economic growth. Small Scale Enterprise through leasing financing device can transform the country Nigeria from consumption-driven country to production-driven nation. This could be achieved by empowering our Small Scale Industries as a subsector of the economy that can cause a tremendous turn around in our country that is facing economic recession which renowned economist in Nigeria had advised that if the country didn't diversified the economy by encouraging our infant industries and priority attention given to Agricultural sector, our economy will enter into depression, which is a crisis level. I am of the opinion that Nigeria should embraced Small Scale Enterprises as a way forward to prevent economic recession and depression in our country.

Research Methodology

Research Design

This study adopted descriptive and sampling survey research design to describe leasing as a major financing device for small scale Enterprises (specifically, Hapel Nigeria Limited and Feed Well Farms) in Enugu urban.

Area of the Study

The areas covered by the researcher are mainly small scale enterprises located within Enugu urban.

Population of the Study

The population was gotten from staff of two small scale enterprises (Hapel Nigeria Limited and Feed Well Farms) in Enugu Urban. The two firms are into production of Feeds and other Agro-allied products. The population of the two firms of our study is thirty (30) staff. Out of the 30 staff of the two firms, 27 staff were selected as the target population.

Sample and Sampling Techniques

In this research work, the researcher selected the area of the study by the use of simple random sampling method. The sample size is determined as shown below using “Taro Yamane” sample method.

Where n= Small Size, N = Population, e = Level of Significance

$$\text{ie: } n = \frac{N}{1+N(e)^2}$$

$$\frac{27}{1+27(0.05)^2}$$

$$\frac{27}{1+0.0675} = \frac{27}{1.0675}$$

$$=25.29 =25 \text{ Approximately}$$

Instrument for Data Collection

The main instrument used in data collection was the questionnaires and direct interview was used to obtain technical information necessary for this study.

Reliability of the Research Instruments

The reliability of the instrument was achieved by applying test – retest method. To test the reliability of these responses, the results were computed and analyzed using tables and percentages which indicated that the results were consistent over a time and therefore, the research questionnaires are reliable.

Method of Data Collection

Data used for this study were collected from both primary and secondary sources.

Primary Source of Data

The primary data were obtained through the distribution of structured questionnaires and oral interviews conducted in small scale industries.

Secondary Source of Data

The secondary source of data collecting is from information in textbooks and journals both published and unpublished.

Method of Data Analysis

27 questionnaires were distributed and 25 were received and this 25 returned questionnaires were used in the analysis of data. Some personal interviews conducted with the small scale workers were collected as part of investigation.

The techniques used were based on hypothesis testing after the information has been gathered. It was analyzed to enable the researcher draw empirical conclusion from it. This was achieved using table and percentages. Finally, the result were tested and proved using the chi-square.

Data and Result

In this analysis, only questions considered to be relevant to the topic or study are analyzed.

Question 1

How do you measure the impact of leasing as a financing tool in small scale enterprises via Hapel Nigeria Limited and Feed Well Farms?

Table 1

Response	No of Respondents	Percentage
Positively	18	72%
Negatively	2	8%
No idea	5	20%
Total	25	100%

Sources: Field work, 2016

Remarks: The table above shows that 18 out of 25 respondents, represented as 72% of the total respondents agreed that the impact of leasing as a financing tool in small scale industries is positive while 8% and 20% responded negative and no idea respectively.

Question 2

Would you say that the effort of merchant bank in making leasing available to Hapel Nigeria Limited and Feed Well Farm are alright?

Table 2

Efforts Alright	No of Respondents	Percentage
Yes	15	60%
No	10	40%
Total	25	100%

Source: Field work, 2016

Remarks: The above shows that 15 out of 25 respondents completely agreed that the effort of merchant banks in making leasing available to Hapel Nigeria Limited and Feed Well Farms, which is 60% indicated yes while 40% which represented 10 respondents says No.

Question 3

Do you think that in the effort of these banks facilitating this finance, that they reasonably comply with the directives of CBN regulating the class of financing?

Table 3

Response	No of Respondents	Percentage
Yes	20	80%
No	5	20%
Total	25	100%

Source: Field work, 2016

Remarks: The above shows that 20 out of 25 respondents represented as 80% of the total respondents completely agreed that merchant banks reasonably comply with the directive of CBN regulating the class of financing while 20% of the respondents do not agreed.

Findings and Conclusion

Among the small scale enterprises, a great number of them engage in manufacturing of feeds and other Agro-allied products and marketing of their products. The level of awareness among small scale enterprise for lease financing techniques is very high. To save the small scale enterprise from capital financing problem, they should be encouraged to resort to leasing as their major financing device.

Among the small scale enterprise in the sample that are aware of the lease financing technique, most of them had made efforts to use lease financing in their business while only few have not made any effort . Those that have made effort to use lease financing manifested that leasing had brought a lot of increase in their level of productivity and efficiency. Those that used lease financing have positive answers and said that they are in a position to advise other companies to resort to leasing as their major financing technique. Leasing should be increasingly used by small scale enterprise in order to solve the problem of capital financing among small scale enterprises.

This study examines leasing as a major financing device for small scale industries in Enugu urban. It notes the sources of funds, types of funds available to small scale business enterprises. Also, x-rayed are the problems militating against small scale business enterprises in securing funds in Nigeria. From what have been discussed so far, it can be concluded that adequate finance is imperative for the successful operation of small scale business enterprises in Nigeria.

In this circumstance, a financing technique that will enable small scale enterprises to obtain the use of required equipment without making outright payment for it is most appropriate. That financing techniques is leasing with respect to this state of affairs, Government can boost trade in leasing by creating the right kind of atmosphere for creating awareness for leasing products among small scale enterprises. Government should increase loan able funds granted to small scale business. Leasing should be embraced by policy makers and small scale enterprise as a major financing device

that can greatly ease the financing burden of small scale enterprises. Financial Institutions should be encouraged by means of incentives and policy guidelines to lend to small scale entrepreneurs.

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