COURSE GUIDE

CRD 332
MICRO-CREDIT POLICY & INSTITUTIONS

Course Team

Dr. Lawal Kamaldeen .A .A (Course Writer/ Reviewer)
Faculty of Management Sciences,
Department of Entrepreneurial Studies
National Open University of Nigeria

Dr. Mure Agbonlahor (Course Editor)
Department of Agricultural Economics,
Federal University of Agriculture Abeokuta,
Nigeria

LAWAL, Kamaldeen .A .A PhD (HOD)
Department of Entrepreneurial Studies
Faculty of Management Sciences,
National Open University of Nigeria, Lagos

Dr. Ishola T.O (Dean)
Faculty of Management Sciences
National Open University of Nigeria.

NATIONAL OPEN UNIVERSITY OF NIGERIA

National Open University of Nigeria
Headquarters
University Village
Plot 91 Cadastral Zone
Nnamdi Azikiwe Expressway
Jabi, Abuja.

Lagos Office
14/16 Ahmadu Bello Way
Victoria Island, Lagos

e-mail: centralinfo@noun.edu.ng
URL: www.noun.edu.ng

Published by:
National Open University of Nigeria

ISBN:

Printed: 2017

CONTENTS **PAGE**

INTRODUCTION

The Course CRD 332: Micro-Credit Policy & Institutions is a semester two credit unit course which will assist students in appreciating the role of micro credit policy and institution activities in Nigeria.

This course material introduces you to the back-ground of micro financing featuring micro credit: features of micro credit or micro finance institution, the beneficiaries smallness of the loan or credit facility adoption of credit plus approach focus on rural women group delivery methodology pre-loan training programmes and all the elements of microfinance: activities towards the poor, the benefits of micro credit or micro financing, reasons for micro financing and benefits of loan to the beneficiary and others.

COURSE AIMS

This course is geared towards equipping you with the basic tools, knowledge and necessary strategies in understanding and managing micro credit policies and institutions.

COURSE OBJECTIVES

On the successful completion of this course, you will be able to:

- gives an overview of micro-credit policy and institution
- how to manage it effectively,
- understand the peculiar nature of Micro finance institutions in Nigeria
- know the basic Contemporary Management Practices in Small Business

Course Materials

Course Guide
Study Units
Textbooks
Assignment Guide

STUDY UNITS

There are fifteen (15) units in this course which should be studied carefully:

Module 1

Module 2

Module 3

Each study unit, is made up of the introduction, objectives, main content, self-assessment exercise, conclusion, summary, tutor-marked assignments, and references/further reading.

Each unit will take at least two hours. You are expected to study the materials carefully and attempt the exercises. You are also expected to consult the textbooks under reference/further readings for additional information. Practice the tutor-marked assignment exercise as well.

ASSESSMENT

The assessment for this course will be in two parts:

a) Continuous assessment using the tutor-marked assignment questions (TMA)
b) Written examination of three (3) hours' duration.

TUTOR-MARKED ASSIGNMENT

The NOUN will direct further on the number of TMA you are to answer, when to do them and when to turn them in to your facilitator for grading. However, you are expected to utilize the information gathered from the study material and the references in doing the assignments. The assignment will count for 40% of the total course mark.

FINAL EXAMINATION AND GRADING

The final written examination for the course which will be scheduled for three hours will attract the remaining 60% of the total course grade.

You are to expect that all the areas of the course will be assessed during the examination.

SUMMARY

On the successful completion of the course, you would be a better manager having been equipped with the tools and knowledge needed for the management of Micro-credit policy and institutions.

MAIN CONTENT

CONTENTS **PAGE**

Module 1

Module 2

Module 3

MODULE 1

UNIT 1 MICRO FINANCING

CONTENTS

1.0 INTRODUCTION

This unit introduces you to back-ground of micro financing featuring micro credit: features of micro credit or micro finance institution, the beneficiaries smallness of the loan or credit facility adoption of credit plus approach focus on rural women group delivery methodology pre-loan training programmes and all the elements of microfinance: activities towards the poor, the benefits of micro credit or micro financing, reasons for micro financing and benefits of loan to the beneficiary and others. This preamble is a typical case study of micro finance lending to a petty trader.

Mrs. Adeawo, a petty trader in Agbala town started her mat weaving business, using a family savings of ₦30 in 1988. She could not get money from the bank because she was poor and could not present the required document as well collateral as a tender at any commercial bank or any formal financial institution. She operated the business for 12years without much success until she was introduced to a bank that was giving out loan to petty traders. She collected ₦75, 000 which was a huge sum of money to her. She used the money to boost the growth of her business. She was able to repay the loan at the appropriate time. The business grew and increased beyond her little town to other States of the federation.

In many developing countries, Nigeria inclusive, women constitute a major percentage of micro entrepreneurs in the informal sector. Many of them are illiterate, and live in the rural setting. They set up their business, living from hand to mouth and never been able to move above the poverty line due to lack of credit or house or land or collateral to secure loan from commercial institutions. About 85 percent of people in developing countries derive their incomes from the informal sector, thus the need for good financial sector, infrastructure and national strategies to reduce poverty by a half. They only access loan from money-lenders who are extortionists charging high rates of interest which reduce the profit that would have accrued to the entrepreneur. It is therefore important to put in place policies and institutions that will promote micro finance or micro credit services to the poor or small scale entrepreneurs.

2.0 OBJECTIVES

The aim of this unit is to enable the student understand the meaning of and the need for micro credit or micro financing. Specifically, the objectives are that the student should be able to recall the definition of micro financing recount the benefits of micro credit to the beneficiaries.

At the end of unit you should be able to:

- discuss micro credit
- define micro finance terms
- state features of micro credit or micro finance institution
- identify the beneficiaries
- explain smallness of the loan or credit facility
- discuss adoption of credit plus approach
- explain focus on rural women
- apply group delivery method
- discuss pre-loan training programmes
- state elements of microfinance
- enumerate activities towards the poor
- specify the benefits of micro credit or micro financing
- discuss reasons for micro financing
- explain benefits of loan to the beneficiary and others

3.0 MAIN CONTENTS

3.1 Micro-Financing

A micro-financing is an act of providing micro banking services such as savings, loans, domestic funds transfer, and other financial services needed by the efficiently active poor, micro, small and medium enterprises to expand their businesses as defined by the guidelines establishing microfinance banks.(FGN, 2005:3)

Micro Financing is an activity of microfinance banks (MFBs) in the provision of credit to its customers, including formal and informal self-help groups, individuals and associations.

Micro financing is operation of micro-leasing facilities, microfinance-related hire-purchase, and arrangement of consortium lending and supervision of credit schemes to ensure access of microfinance customers to inputs for their economic activities.

Micro-financing means the provision of micro-finance-related guarantees for MFB customers to enable them have greater access to credit and other resources, etc.

3.2 Micro Credit

Micro credit or micro financing is the means of providing the economically active poor and low income households with financial services such as credit or loan to help them engage in income generating activities or help them to expand their small business as experienced in the story earlier recounted. They also provide services such as savings, micro leasing, micro insurance and payment transfers. The implementation of the additional services will be enhanced by the newly introduced Micro Finance Institutions (MFIs).

Traditionally, especially in village setting, workmen such as bricklayers, well diggers etc lease various implement such as hand pans, shovels, cutlass in order to carry out their daily activities.

a) Definition of Terms

It is necessary to define some of the terms which are used in this unit.

Entrepreneur: An entrepreneur is a sole trader. He can also be referred to as a business man. He is the owner of the business which may be a retail business, a micro business, small scale enterprise or medium or large scale enterprise. He decides the type of business he wants to engage in. If the business succeeds, he owns all the profits, if it fails, he bears all the losses. He uses his money to buy the machines, tools, equipment and employs labor as well as buys materials for production.

Collateral: It is a property pledged as a guarantee for the repayment of a loan. It could be a landed property, a car, a stipulated amount to be deposited in the bank as a guarantee against the loan to be advanced. Collateral is usually a request of the commercial bank.

Loan: It is an amount of money lent to a customer by a bank. This amount attracts a cost or a charge which is referred to as interest.

Informal Sector: It refers to the sector of the economy that is not categorized under the range of operation of the organized economic activities. This sector is categorized by the International Labour Organization (ILO) in 1990 into three broad groups:

- owner-employers of micro enterprises, which require the services of a few paid workers, with or without apprentices
- Own account workers who own and operate one-person business, working alone or with the help of family members and apprentices who are usually unpaid; and
- Dependent workers paid or unpaid. This includes wage earners in micro enterprises, unpaid family workers apprentices, contract labor, home workers and paid domestic workers.

b) Features of Micro Credit or Micro Finance Institutions

The organizations that are solely involved in micro credit or micro financing have certain distinguishing features which differentiate them from the commercial banks. These are:

- the smallness of loans advanced (to the debtors)
- the smallness of savings collected (from the depositors)
- the absence of asset-based collateral (that is, landed property to stand as a guarantee to secure loan)
- the simplicity of operations (the beneficiaries are not expected to have extensive accounting procedures in place).

c) The Beneficiaries

The beneficiaries are mostly small or micro business owners who are mostly in the informal sector. They could be in business such as shoe mending, retail selling, pepper and tomato selling, agro-allied food production and farming. They are generally classified as the poor or small business owners.

Most of the beneficiaries have little or no education and lack modern skills. They also have little knowledge about record keeping, planning, cash management and other modern management techniques.

d) Smallness of the Loan or Credit Facility

The financial need of micro enterprises is very low. A loan of as small as ₦10, 000 can change the business volume and profitability of a micro enterprise. In spite of the fact that the loan is small, each beneficiary must have proper record with the MFI. This will make the cost of processing the loan to be high. In order to solve this problem, group delivery methods are used for both the savings and loan operations.

e) Adoption of Credit plus Approach

Micro Finance Institutions look beyond credit provision, and perform such operations like micro-leasing facilities, micro-related hire-purchase, and arrangement of consortium lending and supervision of credit schemes to ensure access of microfinance customers to inputs for economic activities.

MFBs engage in receiving of re-financing or other funds from the CBN and other sources, private or public, on terms mutually acceptable to both the provider of the funds and the MFBs.

MFBs issue micro-finance-related guarantees for MFB customers to enable them have greater access to credit and other resources.

The MFBs adopt such approaches like buying, selling and supplying industrial and agricultural inputs, livestock, machinery, and industrial raw materials to poor persons on credit and acting as agents for any association for the sale of such goods or livestock; etc.

f) Focus on Rural Women

They concentrate mainly on rural women who are mostly farmers and petty traders. MFBs provide loans and advances to rural women for home improvement and consumer credits.

g) Group Delivery Methodology

MFBs perform non-banking functions that relate to microfinance business development services, such as cooperatives and group formation activities. Rural industrialization and other support services needed by microenterprises.

Beneficiaries are encouraged to form a group or a cooperative society which could be based on type of business activities e.g. Pepper sellers' association. The usage of the loan, monitoring of the savings and repayment of loan are done at group meetings. However, the individual is held responsible for the utilization and repayment of the loan. It is also possible for a group to take a loan together for joint business.

Group delivery methodology has some advantages. These are:

- **Reduction of the Cost of Lending:** The repayment is done at the meeting rather than on individual basis.
- **It Aids Credit Discipline and High Number of Repayment:** The group exacts pressure on its members to pay up so that they would not be disqualified from having access to further loan.
- **Solidarity among Members:** There will be cordial relationship between members.
- **Absence of Collateral Requirement:** The loanees are not required to present any guarantee towards the loan. They are given on trust.
- **Saving Components:** Loanees are encouraged to make regular deposit with the institution or credit group. Some group expects them to make some savings before credit can be collected.
- **Loan Structure:** The amount of money saved can be considered as a security for the loan. Members can borrow up to three times the amount saved. This amount is referred to as the Maximum Credit Limit. No withdrawal is allowed until the loan is repaid since the deposit is taken as the security for the loan.

The excess money deposited after the loan would have been repaid, accrues to the depositor.

- **Interest Rates**

The interest charged on the loan is usually between 6.5% and 8%, although some Non-governmental Institutions charge as high as 36 % per annum.

h) Pre- Loan Training Programmes

Pre-loan training programmes re conducted for members. Training such as record/book keeping, cash management, marketing skills and techniques are organized for members.

3.3 Elements of Micro-Finance

3.3.1 Activities towards the Poor

The poor needs a safe place to keep his money and as such he will readily save money with the Micro Finance Institutions (MFIs).

The poor also desired to have access to credit whenever it is required. The poor needs to have a capital base of his business. This will reduce his economic vulnerability. He can use the savings when business falls. The money also becomes useful when the need arises for some social obligation such as burial ceremonies, children education.

The procedure for savings, loan and withdrawal is simple and convenient.

The interest rate paid on the savings is high.

Micro finance institutions help to develop the savings and thrift ability of the poor.

They enhance capital accumulation and capital building among the poor. The poor is able to build capital for his businesses through the savings initiative of the micro finance institutions. Improved self-esteem of the poor.

3.3.2 The Benefits of Micro-Credit or Micro-Financing

It is the source of capital for local private sector development. Most of practitioners in this sector are low income earners and would need assistance in order to expand their businesses. The Taiwanese economic growth was propelled by a vibrant and buoyant private sector. There are thousands of private industries in Taiwan, which explains her tremendous growth.

It provides capital requirement for small and medium enterprises development.

It enhances the growth of micro enterprises. Most micro enterprises are the suppliers of inputs, spare parts and other services to the large scale business. So it provides expansion of suppliers of inputs and services needed by the large scale business.
It creates new consumers and markets for business of all sizes because it creates increased wealth for low income individuals.

It supports home improvement, home building in slumps and villages through special savings and loans. Villagers are able to build their houses and living apartments that are neat and decent, thus improving their standards of living.

Mrs Abeni was a stock fish seller at Agege market. She started the business by collecting the stock fish on credit from the wholesalers. She had a box in which she keeps the profit. She has a husband who is a transporter, so she needs to assist her husband in educating the children. At the beginning of each school year, she will spend all her profit to buy books, uniform and stationery for the children. This will bring down the business. She will have to start again. This means that her business succeeds or thrives only after the children are settled at school.

Baba Ade is a welder. He fabricates hand-net, which is required by fish farmers. This additional item opens another market opportunity for him. This will result in the expansion of his business and profit; but he has no money to buy iron rod, nets and the machine that he needs for the business.

Tola is a trained Vulcaniser. He wants to work in order to earn a living but he has no workshop although he has the required machine. He got a location along Garki road, but was told to pay ₦350, 000.

Alabi runs a business center. He has IBM typewriter. The number of customers that come to his shop has reduced to the level that he can no longer earn enough money to cater for himself. This is because most of his customers prefer to type their document on the computer. He went to a computer training school but was told to pay ₦94, 000 before he could be trained.

3.3.3 Reasons for Micro-financing

Adeoye is a computer repairer, but he got fed up with the job and wanted to become a poultry farmer. He went to a management consultant who asked him to pay N25, 000 in order for him to acquire the knowledge he would need to raise poultry birds.

The different stories indicate the need for micro credit. These are:

- The need for the fund to start a business. For example, Abeni had no money, and as such her business scale was small so also her profit.
- Need for machinery, inputs, tools and equipment. For example; Baba Ade had no money to buy the machine and other inputs he needs to make the hand net.
- Office space/location for business: for example Tola had no

money to rent a space to be used as his work-shop.

- Capacity building/Training: for example: Alabi a typist needs to be trained to use the computer. He needs further training or retraining.
- Skill acquisition: for example: Adeoye needs to acquire a new skill in order to be able to carry out the new business he wants to start.

3.3.4 Benefits of Loan to the Beneficiary and Others

The benefit depends on the need of the businessman:

- **Expansion of business**

Abeni was able to expand her business. She was able to educate her children, build a house and her standard of living improved. She was able to stay healthy because she has money to eat balanced and adequate diet.

- **Acquisition of machines, tools, and equipment**

Baba Ade got assistance to buy the machine, tools and equipment as well as the required inputs to make the hand net. The hand net was formerly imported by the fish farmer.

- **Savings of foreign exchange**

The local production of the hand net that was formerly imported resulted in the savings of foreign exchange.

- **Employment generation and Income generation**

Baba Ade could not cope with the level of production so he had to employ more workers. He created employment and guaranteed income which his workers need to maintain their families.

- **Increased activities of other workers**

The use of local product for the production of the hand net also increased the activity of the net weaver in Jankara. So Baba Ade's activity has led to increased activity of other people (multiplier effect).

- **Additional skill acquisition**

Adeoye acquired additional skill. He was able to raise birds.

SELF ASSIGNMENT EXERCISE

i. List the benefits of micro credits to the beneficiaries.
ii. Define micro credit-financing.
iii. What are the features of micro financing?

4.0 CONCLUSION

In conclusion, the micro credit is expected to extend to those in the informal sector to enable them contribute their quota to the economy by being actively involved in the productive and service sectors. The benefit that accrues to them will further expand economic activity and thereby accelerate growth.

5.0 SUMMARY

Micro credit is a form of assistance extended to those in the informal sector that is, business men who run micro enterprises. It does not require the beneficiary to present any detailed accounting records or collateral. It is meant for the poor who do not have the accounting skills or have the money to employ the services of an accountant. Some benefits accrue to the beneficiaries and the economy at large.

The money can be used for various activities that will lead to the expansion of the business, improvement in the standard of living and income/employment generation.

6.0 TUTOR-MARKED ASSIGNMENT

Write short notes on the following:

1. Why did Abeni need microcredit?
2. What did Baba Ade Need?
3. What are the benefits of micro credit to the beneficiaries?

7.0 REFERENCES/FURTHER READING

Ehigiamusoe, G (1998). *Understanding NGOS.* Benin City: LAPO Development Center.

UNIT 2 TRADITIONAL MICRO FINANCE PRACTICE IN

NIGERIA

CONTENT

1.0 INTRODUCTION

Micro credit of micro finance is not a new package of financial services to the Nigeria people. There have been traditional groups or set who work together for the members' benefit. Some of these groups provide credit or savings services to their members. They have different methods of operating in different communities. It is known as '*Adashe*' in the North, '*Esusu*' or '*Ajo*' in the south. Another variant is 'save group'.

2.0 OBJECTIVES

The aim is to explain the existence of traditional microfinance in Nigeria before the advent of the modern Micro Finance Loan Scheme (MFLS). Specifically, the learner should be able to explain the characteristics of the Traditional Micro Finance (TMF) and the advantages and limitations.

In most cases, it is a daily or weekly collection and the collector is itinerant, that is, he moves about to collect the money from the members.

3.0 MAIN CONTENT

3.1 Traditional Micro Finance Practice in Nigeria

3.2 Characteristics of Traditional Micro Finance (TMF)

3.2.1 Savings Component

Savings is a very important aspect of the scheme. In Esusu', members agree on a specific amount to be contributed or saved at specific period. Members are given loans from the pool. The loan can be a multiple of the amount saved by the member. The credit a member is entitled to, that is, the credit limit is determined by the amount of money saved. Interest charged on the loan is very low.

The 'safe group' is a bit different in the sense that each member collects the amount of money saved at the end of a specified period usually a year. The saved money would be refunded to individual members.

3.2.2 Group Method

Groups are formed by persons on the basis of family ties, occupation, professions or residential area or market place, e.g. farmers' association, hair dressers' group. Some of these groups are involved in other activities apart from credit services. These activities include religious, cultural, and social activities.

3.2.3 Informality

It is an informal group, in both its operations and organization. The groups are usually not registered under any statutory instruments. Leadership structure and function are not very clearly defined. Most of the laws and transactions are based on unwritten code. There are no written laws that are followed or that guide their activities or operation. It is peer pressure and communal norms that are applied in order to check fraudulent practices. Loans are granted without formal operational procedures and the cost of transaction is therefore reduced.

3.2.4 Low Rates of Interest

Indigenous savings and credit group charge lower rates of interest on credit facilities. Money lenders charge as high as between 240% and 360%, while the credit group charges between 36 and 60% per annum.

The low interest rate is explained by the following reasons:

- **Savers are usually the borrowers**

Fund for loan is sourced from the savings of the members who are paid little or no interest. There is therefore no cost tagged to the fund. This is because interest paid on loan is seen as a cost.

- **Low cost of operation**

The mode of operation which is uniform and of limited scope leads to low cost of operation. The officials perform their duties without being paid and no money is paid for office space and staff as known.

3.3 Operations of *Esusu*

It is a contribution made by a person to an itinerancy collector or banker. The contribution which is usually a fixed amount is made either on daily or weekly basis depending on the agreement.

'Ajo' encourages the development of the habit of savings. The savings made can be collected at the end of the month or at a mutually agreed time. At times, the depositor can make an appeal to collect her money earlier if an urgent need arises, sometimes, when additional money for business is required, you can also borrow from the '*Ajo*' collector. This is also a source of money for business.

Please be warned: Some '*Ajo'* collectors can make away with the contribution, so be careful how you contribute.

ESUSU

It is a system whereby every member contributes some money periodically. It is common among women especially in the rural areas; in spite of the level of illiteracy among them. Each member must love or share a common interest. They could belong to the same social and economic group e.g. same age group, occupational group, wives of an extended family.

They pay a certain amount of money which is collected by one member of the meeting. A minimum amount of money is stipulated to be saved by each member but a member can save more than the minimum.

Three main officials are involved in the organization *'Olori-egbe*' (the president) is elected by virtue of age, or because of his social status, or ability to manage people or ability to carry people along (Charisma). The success of the people depends on the charisma of the President.

The 'Akapo' (the treasurer) is the next official to the '*Olori-egbe'*. She is elected on the basis of the opinion of the members. She's considered to be thrifty and trusted with money.

Next to the '*Akapo*' is the '*Asipa*' (Secretary or organizer). Her function is to inform members of any social function and remind them of the meeting days. She organizes visit to function and gift to be given to members on occasion such as memorial ceremony, burial, wedding ceremony etc. It is rotational since it involves so much time and dedication.

3.4 Requirement to Be a Beneficiary

- You must register and get a card for a fee usually a small amount.
- Daily or weekly contribution must be made.
- You must agree on the modality for payment.

Once you are a member and your contribution is regular, you are entitled to your savings and you can apply for a loan. The terms of repayment are usually not too stringent. You would need a guarantor who in most cases would be a member of the group.

3.5 Advantages of '*Ajo*'

- Encourages savings
- It is a ready source of credit for business
- It is a ready source of monthly income for the contributors
- It is a source of money for sudden or unexpected expenses

3.6 Disadvantages of '*Ajo*'

- The collector sometimes runs away with the contributors' money

3.7 Limitation of Traditional Micro Finance Practice

Lack of Proper Record Keeping - Informality is a key feature of indigenous savings and credit schemes. Proper records are not usually kept. Accounting procedures are not put in place. Even where records are kept, there are no provisions for scrutiny. It is therefore difficult for them to keep a good track of the loan and saving rate. The groups therefore have short life span as the members scatter. As a result of lack of proper record, mistrust and in-fighting ensue.

Limited Number of Membership - The expansion of members is limited because of the informality of organizational structure, and procedures. Services are limited to small number of contribution. They have no plan to expand their scope.

Absence of Legal Recognition – Existing financial laws and regulation do not accord indigenous credit groups any recognition. Largely due to their limited scope of operations, these credit groups do not consider it necessary to press for recognition. They hardly enter into contractual agreements with other institutions. They are deprived of adequate funds from the capital market. The disbursement of loans to borrowers is done at contributor's risk.

3.8 Advantages

- Provision of fund for the rural women
- Development of savings habit in the rural area.
- Expansion of business activities among members.
- Development of organizational skills among members.

SELF ASSESSMENT EXERCISE

i. Explain the organizational structure of the traditional microfinance group.
ii. Define Cooperative Association
iii. What are the benefits of '*Ajo*'

4.0 CONCLUSION

The savings and credit scheme has been existing before the advent of the MFLS. They have leaders who organize how money is given out for loan, for the benefits of the beneficiaries.

5.0 SUMMARY

The savings and credit scheme is an advantage leading to the expansion of business activities among the beneficiaries. It is a simple and informal organization but it impact among the members is immense. It becomes possible for these people to have access to fund for business expansion, and social activities.

6.0 TUTOR-MARKED ASSIGNMENT

List the advantages of traditional micro-finance scheme.

7.0 REFERENCES/FURTHER READING

Ogunleye B (1991). *Lend Me a Hand*. Redd Burna.

Olatunbosun D (1975): *Nigeria Neglected Rural Majority*. London: Oxford University Press.

UNIT 3 MICRO FINANCE INSTITUTIONS (PART 1)

CONTENTS

1.0 INTRODUCTION

Some institutions are not particularly involved in micro credit financing. Some of them provide advisory, training and consultancy services for entrepreneurs. Some of these agencies which are spread throughout the country are discussed below.

2.0 OBJECTIVES

The objective of this unit is to discuss some agencies that provide professional advice to the SMEs. At the end of the study, you should be able to list the agencies and explain their activities.

3.0 MAIN CONTENT

3.1 Industrial Development Centers (IDCs)

The IDCs was set up in 1980 with the aim of providing technical support for industrialists. The services are performed free of charge. The activities are as follows:

- Technical appraisal of loan application and preparation of feasibility studies
- Training of entrepreneurs and staff including managerial training
- Application of the output of industrial research in the design of products for small-scale industries
- Provision of extension services to owners and managers of Small Scale Enterprises(SSEs)
- To help SSEs in bulk purchases of raw materials
- To assist the SSEs in plant installation and servicing
- The IDC in order to achieve the above renders the following services for the rapid development of SMEs
- Selection of viable small scale industries for prospective entrepreneurs
- Selection of proper manufacturing process along with machinery and equipment for the product lines
- Installation of machinery and equipment
- Quality control and improvement of the end-product
- Repairs and maintenance of machinery and equipment
- Manufacturing of spare parts and components
- Training of small industry technician and artisans in the use of the new technology
- Improvement of product design and manufacture of prototypes
- Adaptation of technology and process that will improve production for the SMEs
- Appraisal of loan application of small scale industrialists for grant of loan under the Small-Scale Industries Scheme(SSIS)
- Assist in training of SMEs in book-keeping, accounting and cost analysis, production planning and control
- Counseling for credit arrangement

3.2 National Directorate of Employment (NDE)

The NDE is set up to perform the following functions

- To help the participant translate his business ideas into viable commercial ventures
- Organization of pre-loan courses for prospective obligor
- Development of business for SMEs

- Creation of enabling environment and opportunities for beneficiaries and those wishing to start their businesses
- Provision of funds for emerging entrepreneurs to start their businesses
- Reorientation of graduates/school leavers to be self-employed
- Introduction of information technology to the fresh school leavers
- Creation of different schemes – National Open Apprenticeship and Basic Business Training Schemes to enable the NDE achieve its objectives.

3.3 The Federal Institute of Industrial Research (FIIRO)

FIIRO was established in 1956 with the aim of quickening the pace of industrial development. It is to carry out the following:

- Research and development into the usefulness of local raw materials for industrial purposes
- Improve on local technology and adaptation of imported ones
- Routine technical and consultancy services to industries, government establishments, and private organization and individuals.
- Design and development of production processes and the fabrication of equipment for mechanizing the production processes

3.4 The Nigeria Association of Small Scale Industrialists (NASSI)

The NASSI is established to carry out the following activities:

- To establish and maintain an association for the exchange of ideas and techniques on issues relevant to the development of SMEs.
- To promote technical and management training programmes by organizing seminars, workshops, trade fairs and other public enlightenment programmes.
- To source and facilitate credits for SMEs
- To source and provide information on relevant technologies for increased and improved quality among the SMEs.
- To organize for the export of products of members
- To establish contact with government and governmental institutions and other non-or governmental organization for the advancement and promotion of SMEs.
- To contact, consult, confer and cooperate foreign agencies, Institute and organisations.

3.5 Nigeria Association of Chambers of Commerce, Industry,

Mines and Agriculture (NACCIMA)

Undertakes the:

- Collection and dissemination of vital business information;
- Monitoring the performance of the economy and making representation to Government and its agencies with regard to the effects of various economic, fiscal monetary measures;
- Identification of obstacle to the establishment and profitable operation of commercial industrial and other enterprises, especially, those arising from government policies or the administration of such policies and the exertion for the removal of such obstacle;
- Organizing seminars and workshops on various aspects of the economy, business and management;
- Promoting commercial, industrial and, in general, economic operation between Nigeria and other countries;
- Assisting to protect Nigeria's image and business interest abroad by meditating in commercial disputes

3.6 Nigeria Opportunities Industrialist Centre (NOIC)

Nigeria Opportunities Industrialist Centre (NOIC) Gbagada, Lagos was established:

- To contribute to National effort in transforming unemployed youths into productive members of Nigeria labour force.
- To provide vocational and agricultural skills, training for school leavers especially those without certificate who usually fall outside formal educational institutions and who are consequently unemployed
- To train in shorter time than the traditional institutions do, with emphasis on 70% practical and 30%theory.
- To provide training, job placement and follow up at cost and time effective manner.
- To adapt the training programmes to meet the challenges of changing technological advance and current need.
- To develop in the trainee a positive attitude to self and work.
- To provide a regular source of dependable highly motivated skilled workers for industry and business; and
- To encourage entrepreneurship and self-employment among youths by providing them with the skills necessary to start small business
- Apart from those primary objectives, the centre also has specific objectives for Small Scale Enterprise Development (SED) like

- To encourage self-employment among young school leavers (unemployed graduates and unemployed people).
- To encourage setting up of cottage industries in the rural areas and reduce urban drift.
- To support the effort of government to alleviate poverty among the Nigerian populace.
- To satisfy the yearning of aspiration of unemployed and underemployed people of different educational background
- To provide means of life sustenance for maximum number of people at the least possible cost
- To reduce the youth restiveness in the urban cities and oil-producing areas of the country.

3.7 The Nigeria Export-Import Bank (NEXIM)

Nigeria Export-Import Bank (NEXIM) was established:

- To encourage exporters to diversify their export markets without fear or risk inherent in dealing with new buyers;
- To attract new enterprises into business; and
- To encourage exporters to extend credit terms to the buyers in order to enhance their competitiveness in the international markets

These it does by:

- Providing credit in local currency to its clients in support of exports.
- Maintaining foreign exchange revolving fund for lending to exporters who need to import foreign input to facilitate export production.
- Providing export credit guarantee and export credit insurance facilities to its clients etc.

3.8 The Natural Development and Conservation Scheme (NRDCS)

This deals with the harnessing of the agricultural, water, solid mineral resources, conservation of land space (beaches, reclaimed land etc) particularly for the convenient and effective utilization by small-scale operators and the immediate community.

3.9 The Nigerian Association of Women Entrepreneurs (NAWE)

An economic, governmental organization, established to:

- Serve as a centre for Nigerian women entrepreneurs for the promotion of their interests;
- Serve as a forum where Nigerian Women Entrepreneurs exchange ideas, discuss their problems, design and form strategies regarding their business.
- Initiates, encourages and promotes training for the members to enable the development of individual talents which will also contribute to overall economic development of the country.
- Assist Nigerian rural traditional women entrepreneur to organize themselves and improve their working methods
- Organize and participate in local and international trade fairs to promote an export oriented economy.
- Co-ordinates their activities with Government initiative on resources creation and capital formation

3.10 The Nigerian Store Product Research Institute

The Nigerian Store Product Research Institute was established and mandated to carry out research into bulk storage problem of export commodities and local food crops and in particular conduct research into:

- Improvement and maintenance of the quality of bulk commodity crops including cocoa, groundnuts, palm produce (kernel and oil);
- Improvement and maintenance of the quality of local food crops including cereals, grains pulses, tubers and any other commodity under bulk storage;
- Special studies such as product pest fumigation and residue and mycotoxin surveys;
- Provision of advice and training of extension workers in problems associated with stored products and materials in storage structures, new insecticides, new items of equipment and techniques; and,
- Any other related matters as may be determined from time to time by the institute.

3.11 Standard Organization of Nigeria (SON)

SON was established to be a reference point in matters of standardization, quality and technological competence required for the introduction of new products:

- To provide industries with up-to-date information on standardization, its benefits and encourage participation of the organized private sector in standardization and review.
- To ensure improved competitiveness of Nigerian goods at home and abroad encouraging quality assurance practices.
- Provide information, advice and assistance to industries on quality management for improved cost effectiveness.
- To ensure adequate technical support required for competitiveness in global trade and proper economic growth.
- To motivate workforce through steady investment in human resources development for acquisition of skills in tune with technological advancement.
- To collaborate with regional and international organizations in the areas of meteorology, Standards, Testing and Quality Assurance (MSTQ) for enhancement of skills and encouragement of free trade building of capabilities.

3.12 Advantages of these Institutions to the SMEs

The beneficiaries derive a lot of benefits by patronizing these organizations:

- **Information -** They have ready opportunities for information, which would have cost them a lot of money to source from the private sector. The information guides them in the course of planning and preparing the feasibility for the project of choice. They get information on the market situation and potential customers outside the country.
- **Skill Acquisition -** Some of these Institutions offer skill acquisition at very cheap rates. Some organize seminars and workshops for would-be investors free of charge in order to acquaint them with new technological training and information.
- **Training and Capacity Building -** Some of the Organizations organize training for the SMEs practitioners. This will enhance their performance.
- **Exhibition and Trade Fair Shows -** Some of the organizations organize trade fairs and exhibitions both within and outside the country and encourage the SMEs to participate. This leads to the expansion of their market share and creation of awareness of their products.
- **Sourcing of Credit -** Most of the organizations assist the members in sourcing for credits. They act as guarantors where required and in some cases provide the required collateral.

SELF ASSESSMENT EXERCISE

What are the advantages of these institutions?

4.0 CONCLUSION

Government has put in several Institutions to service the SMEs and as a medium for the implementation of her policies. These Institutions impact positive effect on the performance of the SMEs.

5.0 SUMMARY

There are various organizations set up by government to service the SMEs. The main objective of the government is to empower the informal sector practitioners. This will effect positively on the economy leading to economic growth. The Institutions provided both financial and none financial services.

6.0 TUTOR-MARKED ASSIGNMENT

List some of the functions of SON

7.0 REFERENCES/FURTHER READING

Loucks, K. (1990). *Training Entrepreneurs for Small Business Creation* Geneva: International Labor Office.

Rudelius W, Erickson W.B and Bokula W.J (1976). *An Introduction to Contemporary Business*. New York: Karcourt Jovanovith.

Handerson C, (1986). *The Successful Entrepreneur Strategies* New York: Mac Graw Hill Inc.

Pearse II, J.A and Robinson R.B, (1986). *Entrepreneur Behavior*. Academy of Management Proceedings.

UNIT 4 MICRO-FINANCE INSTITUTIONS (PART II)

CONTENTS

1.0 INTRODUCTION

Financial Institutions are bodies set up by the government to oversee the implementation of some policies. There are many institutions that are saddled with the responsibility of seeing that the objectives of the government are executed. Some institutions are set up to achieve the micro financing of the small scale industries.

2.0 OBJECTIVES

The objectives of this unit are to explain the activities of the different institutions set up to see to the implementation of the micro finance policies of government. At the end of the study, the student should be able to list the different institutions that are involved in micro financing. The student should also be able to explain the functions of the institutions.

3.0 MAIN CONTENT

3.1 Micro Finance Institutions

Government involvement in micro financing in Nigeria began with agricultural financing. The Nigerian Agricultural and Cooperative Bank (NACB) was the former Nigerian Agricultural Bank. It was established to give credit to small farm owners and the informal sector that do not have access to credit and Government, by providing affordable credit that was considered desirable. Some other institutions like the Peoples Banks of Nigeria, Community Banks, the ambitious Family Economic Advancement Programme (FEAP) and other government and quasi-government were established in order to achieve poverty reduction among the poor.

However, for maximum impact, the various government-led micro finance institutions were restructured and merged which resulted in the formation of Nigerian Agricultural Cooperative and Rural Development Bank, Small and Medium Enterprise Industry Development Agency.

3.2 Family Economic Advancement Programme (FEAP)

Other Institutions such as Family Economic Advancement Produce (FEAP), the People's Bank of Nigeria Limited and Community Bank were established to achieve a change in the transformation of the socio-economic status of the poor through the provision of micro-credit services.

The FEAP was established in August 12, 1997 by the Federal Government of Nigeria.

a) The objectives of FEAP were

- Provision of micro credit for the establishment of cottage enterprises.
- Training of the business operators
- Encouragement of the design and manufacture of plants, machinery.
- Formation of cooperative societies
- Utilization of local resources through improved production, storage, preservation, packaging and marketing
- Involvement of private sector, states and local government participation in both the funding and implementation.
- Reduction of rural-urban migration

b) Features of FEAP

FEAP has its features, structure and process of operation:

i. Bias for Production Funding

The programme recognized the fact that SMEs form the bedrock of economic progress in most economies. The promotion of cottage industries was therefore central to the operation of the FEAP. Farming and processing of agricultural products and mineral raw materials were given priority. It was envisaged at the inception that between 40 and 60 percent of the loanable fund would be devoted to farming and agro-processing activities.

ii. Policy Formulation

FEAP was also mandated to formulate policies in line with the following schemes in order to boost agricultural production:

- Land acquisition, utilization and social equity
- Mobilization of women for agricultural development
- Appropriate farming tools, inputs and techniques.

iii. Use of Cooperative Societies

FEAP adopted the group methodology. Intended beneficiaries were expected to belong to a Cooperative group registered with the State Cooperative Department and recognized by the FEAP. The regulations and laws guiding the establishment of Cooperative societies were not adhered to.

iv. Loans Tied to Projects

Projects financing was central to FEAP activities. The loans advanced to the groups were tied to projects, even the machinery was provided by nominated fabricators or suppliers. This is to prevent diversion of funds.

v. Collaboration with Banks

FEAP used conventional banks as the channel of disbursement of loans and its collection.

The banks were also expected to contribute counterpart funding as the project progress. The banks were chosen based on the following criteria

- Adequate capital base
- Competent management
- Sound asset quality
- Availability of expertise in the areas of microfinance
- Adequate bank network

The banks were to appraise the feasibility report and give advice on the status for approval, although the National Board of FEAP has the final authority to approve projects.

vi. Savings Requirement

Beneficiaries were expected to make a deposit of 10% of the requested amount in the bank

vii. Subsidized Interest Rates

The interest rate was 10%, which was lower than the market rate of over100%.

3.3 Multi Authority Segment

The structure of FAEP was a multi authority system. The grand patron was at the apex. This was followed by the Board of nineteen members from various government departments, institutions and associations.

a) Technical Advisory Committee

This committee was chaired by the representative of the Ministry of Science and Technology. The other members were made up of representatives from Government institutions which have expertise in the areas of interest of FEAP.

b) State Coordinating Committee

This Committee was made up of nineteen members, which included officials of the participating banks. The chairman was appointed by the State Governor. The wife of the State Governor was the State coordinator. The State Coordinating Committee was responsible for the co-ordination of FEAP activities at the State Level.

c) Local Government Area Coordinating Committee

The Local government Area Coordinating Committee was headed by the Local Government Chairman. The members were made up of the Supervisory Councilors, wife of the Chairman, all district and community leaders, two representatives of relevant Non-governmental Organizations and the representative of the participating bank.

d) Ward Coordinating Committee

The ward Coordinating Committee consisted of village heads in the ward with the Councilor representing the ward Chairman.

3.4 Peoples' Bank of Nigeria Limited (PBN)

The PBN was established in 1986 as an economic strategy for sustainable growth as an aftermath of the increased poverty level that arose as a result of the Structural Adjustment Programme (SAP).

The goal of the PBN was to create easy access to affordable credit for the poor, that is, those that are economically active but could not take part in business activity because they cannot take loan from formal financial sector. The targets are petty traders, farmers, and artisans. The initial maximum loan was N5,000.

The beneficiaries were to form credit groups. They were to meet regularly and loan repayments were made at the group meetings. The repayments were in small amount. These loans were guaranteed by the community leaders. The PBN has been merged with the Nigerian Agricultural Cooperative Bank to form Nigeria Agricultural Rural Development Bank.

In 1986, the Federal Government adopted the Structural Adjustment Programme (SAP), as an economic strategy for sustainable growth.

The effect on the people, especially, the poor, was instant and harsh. The level of poverty rose sharply. The then federal government realized the need to stimulate the potentials of the people. It was reasoned that putting affordable credit in the hands of the poor was a proper strategy. It can therefore be said that the remote prompting factor for the establishment of the People's Bank of Nigeria Limited was the introduction of the Structural Adjustment Programme. The bank was to a large extent, perceived by the people as a component of SAP relief package.

The goal of the People's Bank of Nigeria was to create easy and affordable credit for the poor, for a large segment of economically active Nigerians excluded from the services of formal financial sector. The bank was established in 1989 under a special decree as a financing institution for the very poor. During the pilot stage, which lasted for twelve months, a National Project Coordinator, assisted by Zonal Coordinators coordinated the activities of the bank. Until its current restructuring, the board of Directors determines the policy direction of the bank and is under the supervision of the Federal Ministry of Finance.

a) Features of People's Bank of Nigeria Limited

Peoples' Bank of Nigeria Limited derived its features in respect of structure and operations from the Grameen bank Approach. However, the extent to which the bank has achieved replication of Grameen Bank Approach (GBA) is a subject of contention.

First was its exclusive focus on the poor. The bank was essentially a poverty alleviation institution. The target of her services consisted of petty traders, farmers and artisans. Initially, the maximum loan size was N5, 000. Poor people were encouraged to borrow from the bank.

Again, the bank adopted the group-based lending method. Intending beneficiaries were required to form credit groups, which in the tradition of Grameen Bank Approach were called *centres*. The groups were required to meet regularly. Disbursement and repayment of loans were supposed to be made at group meetings.

Another feature of the Peoples' Bank of Nigeria was the repayment schedule by installments. Borrowers were required to make small repayments at regular intervals. Amount per installment and frequency of payment were to be sensitive to the cash flow patterns of borrowers. Involvement of the community at inception was encouraged by community leaders who supported loan applications, as guarantors. Later, local Credit committees were formed to facilitate proper loan utilization and high repayment performance.

The invitation of the people to avail themselves of the opportunity of credit facilities from Peoples' Bank of Nigeria was met initially with skepticism. The intention of government was viewed with suspect, while the viability of a government-led micro lending project was doubted. However, patronage gradually improved.

By 1993, the fortune of the bank greatly declined. The bank found it difficult to meet its obligations to both borrowers and depositors. Repayment performance was so low, that radical restructuring became imperative in late 1996. This hindered the bank from the path of growth and good performance.

b) Reasons for the Bank Failure

It should be noted that most microfinance institutions established in the 1980's experienced what can be referred to as "*first shock*". *"First Shock"* is a performance crisis often experienced after a promising take off. Several factors have been presented as responsible for PBN's first shock.

First is the inadequate preparation prior to take-off of the bank. It was probably assumed that if the idea of poverty lending worked well in

Bangladesh, it could as well perform satisfactorily in Nigeria. Pressure to reach as many Nigerians as possible underscored the need for careful feasibility study and analysis. The pilot implementation period was twelve months before the project was expanded to PBN.

- **Improper Targeting Mechanism**

Another flaw which affected the entire country was the improper targeting mechanism. The requirement for exclusive focus on the poor is the existence of systematic targeting mechanisms. Eligibility criteria were not properly identified and applied. No specific socio-economic indicators were used. It was simply a case of "come *all ye that are poor and take loans"*. In practice, the non-poor accessed credit facilities in the name of the poor, which they hardly repaid.

- **Centralization of Operations**

Centralization of operations was another contributing factor. For the purpose of control, decision- making process and operations were highly centralized. Vital decisions and actions on savings mobilization were taken at the Bank's Head Office. This did not only slow down operations, it constrained effective monitoring.

- **Lack of Expertise**

Micro-lending requires experience and expertise. These were in short supply in Nigeria at the time of formation of the bank. Admittedly, the pioneer staff of the bank demonstrated high level of commitment to the goal of the bank. However, mere zeal was not enough.

3.5 Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)

This is the outcome of the merging of the Nigerian Agricultural and Cooperative Bank Limited (NACB) and the Peoples' Bank of Nigeria Limited (PBN).

The PBN was fashioned to operate like the Grammen Bank of Bangladesh. The bank was to make it easy for the poor to have access to money. The bank was established in 1989 under a special decree.

The NACB was to grant loan to individual farmers, cooperative societies provided the bank approved the project as being viable and that there is adequate security or collateral to cover the loans. The bank began lending in 1973. Like the PBN, it was owned by the Federal government and the Central Bank.

The bank focused on agricultural financing for activities such as food crops, plantation development, livestock, storage, and marketing facilities.

The Bank required securities such as bond, shares, insurance policies and fixed asset which include landed property.

However, the two banks have been merged to form the NACRDB which is concerned with the development of micro enterprise, especially the informal sector. It allows the informal sector practitioners access to loan without collateral. However, such a loan is based at below N250, 000.

Payment for loan assessment:

- Potential obligor must be a customer of the bank
- He must run an account for a minimum period of 2 months before he can be allowed to apply for a loan
- He would obtain a form, and comply with the instruction
- He can apply for up to N100,000, if he has saved up to N10,000 and more than N100,000 but less than N250,000, if he has up to N50,000 in the account.
- There is no collateral required but must show the bank his business outfit.
- He must be a person of high integrity within the community, that is, an evidence of reliability that he would pay back the loan.
- He must keep proper records
- The bank also gives loans that are up to millions of Naira, which is above the micro credit level and different pre-requisite are required.
- Inspection of the business location will be carried out in order to access its viability and give necessary advice.

3.6 Community Banks (CBs)

The introduction of CBs in 1990 was another step in the efforts of the government to meet the credits needs of the rural dwellers as well as the micro and medium scale enterprises.

The CBs are owned by the Community where they are located. They provide banking facilities in rural areas to improve the business and economic status of the rural people and rural areas. It is a place where you can save and borrow money to operate your business. When you open and operate an account with the bank for some time, you can apply for a loan.

To get a loan from a Community Bank, you must:

- Open an account and operate it for at least 6months
- Submit an application for loan
- Complete the loan application form
- Pay back the loan within one year
- Provide two guarantors who must be:
  - (a) Community leaders
  - (b) Member of your trade or occupation association

a) Objectives of the Community Banking System

It was set up to achieve the following among others:

- The promotion of rural development by providing credit and deposit services to community members.
- Increase and enhance the development of economic activities of the informal sector, that is, the small or micro producers in the economy.
- Development of banking habit among the rural dwellers'.
- The promotion of rural development by providing financial and banking services (credit and deposit services), as well as other facilities to communities who hitherto were inadequately supplied with such facilities.
- The rapid enhancement of the development of productive activities in both rural and urban areas, and hence the improvement of the economic status of small producers in the informal sector of the national economy.
- The promotion of the emergence of an effective and integrated national financial system that responds to the needs of the whole economy, especially at the grass root community level.
- The inculcation of discipline in banking habits among the masses of low-income workers in Nigeria, especially those in the rural areas.
- The fostering of the spirit of the community ownership and use of economic assets and the maintenance of such facilities and organizations on a suitable basis.

The enthusiasm over community banks among Nigerians was very high at the inception of the ideas. The urban elites took the lead in mobilizing their people to form community banks. Barely seven months after the opening of the first community bank, there were 1,055 applications for the establishment of community banks processed while 10 banks had their doors opened for business operations.

The responsibility for registration and coordination of the activities of the community bank was given to the national Board for Community Banks. The ray of hope offered by the rapid growth in the number and volume of business of community banks suffered some set back within the first six years of operation. Several of the banks were laden with large non-performing loan portfolios, while others were unable to meet their obligations to depositors and savers by October 30, 1997. Licenses of 282 out of 1368 existing community banks were then withdrawn on the order of the Central Banks of Nigeria.

b) Factors Responsible for the Decline in the Community Banking System

The unsatisfactory performances of some community banks have been attributed to several factors. These factors are both internal and external.

First, was the inadequate involvement of the local communities. The urban elites who facilitated the establishment of the banks, failed in most cases to involve the local communities. The elites saw the idea of community banking as an opportunity to own financial institutions. Contrary to the fundamental concept of community banking, few elites capitalized these banks, and seized control. Obviously, the local people did not see these community banks as theirs, but rather as belonging to few of their prominent sons and daughters residing in faraway cities. The stakes of the local people in the banks were low, and they equally did not bother about the success or failure of the financial institutions.

In addition, the absentee owners did not fully appreciate the peculiar features of community banking system; the features which set them apart from conventional financial institutions. In some cases, savings mobilized by these banks were placed in deposit accounts with urban-based banks, rather than financing profitable local productive activities. The glamour and exclusionary features of conventional banks soon found their ways into the operations of the community banks. The banks became increasingly irrelevant to their immediate local environment.

The most devastating factor was the distress which swept through the banking sector in the mid 1990's. Several millions of naira the community banks placed with urban distressed banks was lost. The people lost confidence in the banking sector and community banks were affected because of their lean capital base.

Another factor was lack of appropriately trained manpower in microfinance. The bulk of the pioneer staff of the community banks was drawn from the formal banking sectors. There was a dearth of workers knowledgeable in the art of micro-lending. Community banking was carried out with the mind-set of conventional banking. Innovation, which is the hallmark of micro-lending, was largely ignored. In some cases, retrenched and dismissed staff of commercial banks, were entrusted with the management of some community banks. Loss of earlier better paid jobs adversely affected the morale of managers. Added was the fact that most board members saw the banks as mere extension of their personal estates. Most tended to be meddling with the management process to the frustration of the managers.

The rapid growth in number and spread of community banks across the country tasked the monitoring facilities and system. Unethical practices were not promptly uncovered and addressed by the supervisory authorities.

Inadequate capital base was another limiting factor. The initial authorized start-up capital was N250, 000. This was inadequate. Calls on community banks to push up their capital base were not enthusiastically implemented.

3.7 Micro Finance Banks (MFBs)

The MFB is set up in order to make financial services available on a sustainable basis to the economically active poor, low income earners and the Micro, Small and Medium Enterprises (MSMEs) through privately owned banks. This is to create a vibrant microfinance sub-sector that provides the necessary stimulus for national growth and economic development.

The MFBs are institutions that are established to provide financial services to the poor. There are two categories of the bank:

- MFBs licensed to operate as unit banks and within a Local Government area. They are to deposit N20 million with the central Bank of Nigeria as capital requirement.
- MFBs licensed to operate state-wide. They are to provide N1 billion as capital requirement.

These banks can be established by individuals, groups of individuals, community development associations, private companies or foreign investors.

a) The Objective of the MFBs

The objectives of the MFBs are to:

- provide diversified, dependable and timely financial services to the economically active poor
  mobilize savings for financial intermediation
- create employment opportunities
- involve the poor in the socio-economic development of the country
- provide veritable avenues for the administration of the micro-credit programmes of government and high rate net-worth individuals
- render payment services such as salaries, gratuities and pension on behalf of various tiers of government.

b) Advantages of MFBs

The following advantages can be derived as a result of the establishment of MFBs:

- Individuals can buy shares and own a MFB
- Individuals can save money and other valuables in the bank
- Individuals can borrow from MFB to invest in the micro, small or medium enterprises
- MFB can render cash transfer services.

c) Other Supporting Institutional Arrangements

These supporting institutional arrangements would ensure that MFBs succeed in its operations:

- Independently managed Micro finance Development Fund would be put in place to provide wholesale funds, refinancing facilities and other services to support the financial activities of MFBs and micro-finance institutions.
- Certification Programme for Staff and Management of MFBs, to provide adequate knowledge on microfinance practice, enhance operational activities and ensure that right persons manage the MFB.
- Rating agencies to provide institutional assessment of MFBs and other institutions.
- Credit bureau to provide credit information on microfinance clients in support of the credit and other decision making processes of the MFBs.
- Creation of Apex Association of the MFBs to ensure compliance with standards and best practices.

SELF ASSESSMENT EXERCISE

i. What are the advantages of MFBs?
ii. What are the objectives of Community bank?

4.0 CONCLUSION

The government set up different types of institutions, which aim at alleviating the level and depth of poverty. Some of these institutions are to assist the poor and SMES in accessing micro credit.

5.0 SUMMARY

Micro financing has been found to be a sure source of finance to the SMEs. This is because they cannot provide the collateral or/and the rigorous paperwork demanded by the convectional banks, Government has therefore put in place several relevant financial and non- financial institutions to address the issue.

6.0 TUTOR-MARKED ASSIGNMENT

What reasons led to the failure of FEAP?

7.0 REFERENCES/FURTHERREADING

Godwin, E. (2000). *Poverty and Microfinance in Nigeria.* Ob-zed Printers Nigeria.

Neck, P.A & Nelson, R.E., (1987). *Small Enterprise Development Policies and Programmes.* Geneva: ILO.

Onuoha, E. (1986). *Principles of Cooperative Enterprise*. Express Publishing Company Ltd.

UNIT 5 GOVERNMENT POLICIES

CONTENTS

1.0 INTRODUCTION

As a father or a mother, you have set rules that you follow and also expect your children to do likewise. Some people do not buy "*aso-ebi*", some do not attend night parties or eat outside the home. These set of actions can be referred to as policies. They have been well-articulated and thought out by the individual, who is aware of the consequences. A nation also has such plan of action geared towards achieving some specific objectives, i.e. policy.

2.0 OBJECTIVES

The objective of this unit is to explain the various policies that have been put in place by the government in order to address the issue of non-availability of credit to the informal sector or the SMEs. Specifically, you are expected to be able to define policy and explain the various policies put in place by the government in relation to micro-financing and micro-credits to the informal sector of the economy.

3.0 MAIN CONTENT

3.1 Government Policies

a) Definition of Policy

A policy is a statement or plan of action put in place in order to achieve specific objective. It could be target specific or a plan meant to benefit the whole economy.

Government, having identified lack of capital as an important reason for both the failure and low number of Micro or small scale enterprises, put in place several programmes and policies to address the situation.

b) Need for Micro Finance Policy

A robust economic growth can be achieved if a well-focused poverty alleviation programmes are put in place. These programmes must be articulated in such a way that people would have access to factors of production and credit. The latent capacity of the poor for entrepreneurship could be enhanced by the provision of micro finance services, which will enable them to engage in economic activities and be self-sufficient. It will also lead to increase in employment opportunities in the economy.

Over 65% of the economically active population that are precluded from formal financial services provided by the conventional banks could benefit from the programme.

Furthermore, the policy on microfinance will make it possible for the informal sector to be brought under the supervision of the Central Bank of Nigeria (CBN), thus making it possible for the achievement of monetary stability and the expansion of financial infrastructure in the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). A vibrant microfinance sub- sector would evolve and be integrated into the main stream of the national financial system and provide the stimulus for growth and development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institution; promote appropriate regulation, supervision and adoption of best practice.

3.2 The Initial Effort to Promote Micro-Enterprises

The first effort to promote micro enterprises started in the early 1950s with the establishment of the Colonial Development Loans Board by the Colonial Administration. This was later replaced with the revolving loan fund for industry which came as a relief of the technical assistance from U.K for the Small-Scale Industries Credit Scheme (SSICS). State and Federal Governments also contributed to the pursuit of the SSICS for on-lending to small entrepreneurs. The government first rolled out policies that enhanced the development of Small Scale Enterprises (SSE).

In the Second National Development Plan (1974), the government stated some policies that initiated credit scheme for the SSE. The states incorporated the Small Scale Industries Credit Scheme (SCICS) in their second National Development Plan (1975). In other to further enhance the growth of SMEs, government promulgated the Nigerian Enterprise Promotion Act and later the Nigerian Enterprises Promotion Decree (NEPD in 1977). This policy exclusively reserved indigenous equity participation of between 40% and 60% for Nigerians. That is, Nigerians should own up to between 40% and 60% of the share capital in a company.

In 1980, the Federal Government released a policy paper titled "Nigerian Industrial Policy and Strategy Guidelines to Investors". The policy aims at opening up the rural areas in the country and creates remunerative employment for the people. The Industrial Development Centers (IDCs) are the major Institution (outlets) for the achievement and survival of this government policy. Several other related policies which have been put in place from the 80s are discussed below:

a) Small Scale Industries Credit Scheme (SSICS)

This scheme was initiated to provide financial support to viable Small-Scale Enterprises (SSEs). The main objective was to empower SSEs to produce or process inputs for larger industrial enterprises. The major features of the SSICS are:

- Funds for the scheme were provided by both the state and federal governments.
- The rates of interest were lower than the rates in the financial market.
- The beneficiary would not start to pay back the loan until after two years, that is, a moratorium period of two years.

b) Small and Medium Enterprises Loan Scheme (SMELS)

The objective of this scheme is expansion and productivity enhancement as well as capital acquisition. It also aims at the sustainability of the enterprise, that is, it provides fund to make the company produce at a sustainable level.

The scheme had the following features:

- The fund was provided by the International Bank for Reconstruction and Development. It was handled by the Federal government.
- The Small and Medium Enterprise Unit of the Central Bank of Nigeria handled the administrative procedure.
- The raw materials for production were locally sourced; that is, it

must not be imported raw materials.

- Beneficiaries contributed 45% of the total cost of the project.
- The credit facility lasted for 10years.

c) Employment Creation Loan Schemes

This scheme was put in place in order to reduce the effect of the Structural Adjustment Programme (SAP). The aim of the scheme was to create jobs for a large army of the unemployed people especially the youth. The beneficiaries were to access loans guaranteed by the federal government from some banks. The amount of the loan was between N5, 000 and N50, 000. It was administered by the National Directorate of Employment (NDE). The beneficiaries were requested to:

- use as security, the original copy of their academic certificates. This would be deposited with the NDE
- give the NDE a detailed feasibility study report in the project to the bank for approval;
- present two acceptable guarantors;
- the interest rate was 13%.

The NDE also have schemes such as National Open Apprenticeship Scheme (NOAS) and the Basic Business Training Scheme under the NOAS, interested youths apply to the NDE for the Apprenticeship Scheme. The youth is assigned to a practicing artisan or technician to acquire knowledge and expertise in the vocational skill of his choice. He is paid some stipend and given some money and machine at the end of the training.

d) Agricultural Sector Employment Programme

The aim of the programme is to provide employment for school leavers. Those interested are given relevant training in their area of choice and provided with land and loan to start the farming business. Each state has an NDE Agricultural Programme Committee which is in charge of the programme.

e) Mature People's Scheme

This scheme is for retired persons or those about to retire. The aim of this scheme is to provide employment for the retirees after they have disengaged from regular work.

The features include:

- The beneficiaries submit proposals which are scrutinized for viability.

- Beneficiaries are to present items such as landed property or any other security to cover up to 50% of the loan size.
- Beneficiaries are to employ at least a graduate of higher institution of learning.
- The interest rate is as low as 9% per annum.

f) Agricultural Credit Guarantee Fund Scheme (ACGS)

By 1977, government aimed at sufficiency in the production of food and agricultural raw materials. In order to achieve this, it was important to encourage the small holder farmers. The farmers would contribute some money as commitment in order to benefit from the scheme.

The aim of the government was to guarantee loans granted for agricultural purposes by any bank. The guarantee covers both the principal and the interest. The agricultural activities covered include cultivation of food crops such as cereals, tubers, beans, groundnuts, bananas, pineapples, plantain, vegetable and fruits of all kinds. Others are cash crops such as cotton, rubber, palm oil, tea, coffee. Those who are interested in animal husbandry such as poultry, piggery, cattle and fish farming could also benefit.

Features of the Scheme

- Beneficiaries apply to Conventional Banks. Prospective Beneficiaries would apply in triplicate a loan under the scheme to a conventional bank. The bank would forward a copy to the Central Bank.
- Demand for security: The bank would request the prospective beneficiary to provide security which could be any of the following:
    - A more able property of the people requesting for a loan (he is referred to as an obligor)
    - A life insurance policy, a promissory note
    - Registered place of land, landed property
    - Stocks and shares of the obligor.
- Mode of Disbursement: The process period is to be a maximum of sixty days. The fund for the purchase of items such as livestock, plant, machinery and any other farming equipment would be disbursed to the supplier.
- Sanction against Loan Diversion: It is a criminal offense to use the loan for another project. The punishment is a repayment of the amount of money got as loan and/or imprisonment for a maximum period of five years.
- Regulated Interest Rate: The interest rate was fixed and stipulated in the decree. It was 5% and 6% for individual farmer and

cooperative societies respectively.

- Extent of guarantee. In case of a default, the guarantor and the security of the obligor would be reverted to in order to recover the loan. The outstanding amount could be recovered from the Board of the Fund. The Board could pay up to 100% of the outstanding amount.
- Operational Structure: There is a Board which is made up of six members, four would be appointed by the Federal government and remaining two by the Central Bank.
- Management of the Scheme: The Central Bank is responsible for the day to day running of the scheme while the implementing agents were the Commercial Agricultural Banks and Cooperative Banks.

g) Entrepreneurship Development Programme (EDP)

This is another Scheme under Small Scale Industrial Programme. This is organized by the NDE with the aim of developing entrepreneurial skills among Nigerians. Those who apply for loan or any other service under the Small Scale Industrial Scheme are exposed to intensive training. The courses cover business identification, market research, feasibility studies, record keeping, loan assessment, business management, marketing, etc.

h) Second National Fadama Development Project (NFDP II)

The NFDP II was conceptualized by the World Bank/Federal Government with the active involvement of the state and local governments. The objective of the project is to accelerate the development and growth of dry season farming and agro-allied processing and marketing activities. The finance is sourced from a $100 million World Bank Credit with the three tiers of governments paying some counterpart funding which is a pre-condition set by the World Bank for effective take-off of the project.

It is also aimed at increasing the incomes of those who depend directly or indirectly on Fadama resources, that is, farmers, pasture men, fisher folks, hunters, gardeners, and service producers, through empowering communities to take charge of their own development agenda.

The group also includes the vulnerable groups like widowers, elderly, ethnic minority, and orphans. It is expected that at the end of the duration, 50% of the beneficiaries would have their real incomes increased by 20% of the base line in come.

a) Pre-requisites for Participation in Fadama Programmes:

- Most of the rural dwellers are potential Fadama Resource Users (FRU)
- A potential Fadama user would be involved in farming activities, agro-allied processing and agro service providers which includes vulnerable groups like widows, elderly, and orphans.
- A potential Fadama User would belong to a Fadama User Group (FUG) which would be a minimum of 5members.
- Five user groups would organize themselves into a Fadama Community Association(FCA)
- Each member would be engaged in a project
- Each FCA would articulate, plan and cost a project which is called the Local Development Plans (LDPs).
- The FUG and FCA must be registered as Cooperative Associations.
- Facilitators at SFDO will assist the FUG and FCA to develop the LDPs.
- The FUG and FCA must be linked up with the State Fadama Development Office (SFDO), which in most cases is resident in the Agricultural Development Authority Complex(ADA)
- FUG and FCA would open an account and would save 40% of the cost of the project; the remaining 60% would be given by the World Bank through the SFDO.

b) Benefits to Fadama Users

- Financial Assistance
- The Local Development Plan inoculated by the FCA, would be financed by the fund in the pool.
- Provision of input, equipment
- Vital production input and equipment would be provided by the World Bank
- Training FUG members would be exposed to better training in the handling and management of their assets
- Provision of processing and storage facilities
- These facilities would be provided in order to minimize post-harvest losses and to create value added to outputs.
- Provision of infrastructure
- Infrastructure such as good access to farm roads, water supply system including irrigation and power support system generator, water pumps would be provided.
- Means of transportation
- Transport vehicles would be provided for easy haulage of farm produce to markets.

c) Project Implementation Strategy

The project has six years tenure effective from January 2004 to December 2009. The NFDP.II is based on a Community Demand Driven (CDD), approach whereby all users of Fadama resources will be encouraged to develop participatory and socially inclusive and environmentally sustainable Local Development Plans (LDPs).

A Local Development Desk (LDD) would be established at the headquarters of the participating Local Government Council, manned by two trained Local Government Personnel: an Agricultural Officer and a Monitoring and Evaluation Officer.

The LFD would be over-seen by a constituted local Fadama Development Committee (LFDC) comprising of:

1. The Chairperson of the Local Government Council as Chairman
2. A Traditional Community person as Deputy Chairman
3. FCA representations
4. Others (Private Sector, NGO and Local Women's Groups)

The LFDC is responsible for monitoring community mobilization offer and making sure that the needs and priorities of FUG and FCA are reflected in the Plans (LDPs)
Direct purchase of the required item is done through the SFDO. Cash is rarely given to the beneficiaries.

3.3 Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)

a) Multi Partner Matching Funds Scheme (MPMF)

This scheme was instituted by the National Poverty Eradication Programme (NAPEP). The fund available for loan is sourced from banks and the purse of the state's government. The monies collected under MPFS are kept with the banks. The banks will pass the monies to Micro Finance Institutions and Cooperative societies from which it will be accessed by the potential beneficiaries. Once the beneficiaries are identified and selected, the NAPEP partners with the National Directorate of Employment and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) train the beneficiaries on how to set up their businesses, basic accounting procedures, record keeping etc.

Eight states are benefiting from this scheme. These are Bayelsa, Rivers, Kaduna, Osun, Edo, Ogun, Kogi and Akwa Ibom. Other states will be involved in due course. A total of N4.32 billion has been pooled and it is expected that it will create about 113,000 jobs.

b) The Promise Keepers' Scheme

This scheme was instituted by the National Poverty Eradication Programme (NAPEP). It is executed in collaboration with religious organizations. The various organizations are expected to identify the poor ones among them. They are categorized according to their needs. The needs are monetized and members who are willing to sponsor the needy are identified within the organization. The needs could vary from skill acquisition to financial or managerial skill to technological skill acquisition.

The groups are monitored by both the members of NAPEP and the religious organization. This makes the beneficiary faithful to the use of the fund. The repayment rate is expected to be high since the monitoring is close.

3.4 Advantages of the Various Policies

Policies are geared to the achievement of specific macro-economic objectives. Government wants to achieve self-sufficiency, mostly in food production and a very low rate of unemployment as well as inflation rate. In a developing economy like Nigeria, where savings, and therefore, loanable fund and capital are scarce, there is the need for the government to provide a means of sourcing credit for the majority of the people who are mostly poor rural dwellers. This credit if truly accessed and utilized by the poor would lead to economic growth as well as development. The standard of living of the poor would improve. This will have impact on the quality of life of the children and the community at large.

SELF ASSESSMENT EXERCISE

List the Schemes under the NDE.

4.0 CONCLUSION

In conclusion, government has put in place several policies to enhance the performance of the small and micro enterprises by making micro credit as well as make other facilities and services available to them. Some institutions were empowered to manage the schemes. These will be discussed in the next unit.

5.0 SUMMARY

The government, in an effort to achieve expansion and productivity enhancement has put in place some policies, which focused on the provision of micro credit to the poor, training in basic business skills, and the provision of tools, equipment and machinery. The beneficiaries are however expected to contribute a certain percentage of the loan applied for. They are also expected to present guarantors or collateral of some sort. These schemes are designed to be poor-centered; those who have been side tracked by the conventional banks.

6.0 TUTOR-MARKEDASSIGNMENT

1. Why did government set up Micro Credit Scheme?
2. What are the factors of Agricultural credit Guarantee Fund Scheme (ACGS).

7.0 REFERENCES/FURTHERREADING

Loucks, K. (1990) *Training Entrepreneurs for Small Business Creation*. Geneva: International Labor Office.

Rudelius W, Erickson W.B and Bokula W.J (1976). *An Introduction to Contemporary Business*. New York: Karcourt Jovanovith.

HandersonC, (1986). *The Successful Entrepreneur Strategies* New York: Mac Graw Hill Inc.

Pearse II, J.A and Robinson R.B, (1986). *Entrepreneur Behavio*r. Academy of Management Proceedings.

MODULE 2

UNIT 1 NON-GOVERNMENTAL ORGANIZATIONS

CONTENTS

1.0 INTRODUCTION

Non-governmental Organizations (NGOs) are some of the Institutions involved in Micro financing.

NGOS are corporate bodies that are concerned with addressing needs and problems or are interested in promoting a cause or an ideal. They provide solutions to problems of people in communities, or a group of people in the community. The problems could range from poverty alleviation, provision of credit and farming inputs to civic education, sustainability and protection of the environment.

2.0 OBJECTIVES

The aim of the unit is to explain the role of the NGOs in micro credit financing. Specifically at the end of the unit, the learner should be able to:

- define an NGO,
- explain features and
- role of micro-credit financing.

3.0 MAIN CONTENT

3.1 Features of Non-governmental Organization

NGOs have some features that are peculiar to them. They are discussed below:

a) Peculiar Characteristic of their Beneficiaries

NGOs Venture into Micro Financing

NGOs venture into micro financing stems out of the desire to provide credit to a large portion or percentage of economically active population who are excluded from benefiting from the financial services of the banks or financial institutions of the formal sector.

The beneficiaries are mostly small or micro business owners who are mostly in the informal sector. They could be in businesses such as shoe mending, retail selling, pepper/tomato selling, agro-allied food production and farming. They are generally classified as the poor or small business owners.

Most of the micro enterprises are owned and run by the sole proprietor or entrepreneur. He provides the fund for the business.

Most of the beneficiaries have little or no education and lack modern skills. They also have little knowledge about record keeping, planning, cash management and other modern management techniques. Women constitute a higher percentage of the beneficiaries. These women are the vulnerable group who cannot afford the collateral requested by the formal banks.

They are mostly rural dwellers who have suffered the neglect of government in terms of Infrastructural and financial services. Even when credit facilities are made available to them, it is moistly diverted by the smart and better educated urban dwellers. Most banks also consider rural banking as unprofitable. The overall development strategies give little attention to the rural areas and the rural dwellers. The NGOs, therefore sought to redress this rural neglect.

b) Smallness of the Loan or Credit Facility

The financial need of the micro enterprise is very low. A loan of as small as N10, 000 can change the business volume and profitability of a Micro-enterprise. In spite of the fact that the loan is small, each beneficiary must have proper record with the NGO. This will make the cost of processing the loan to be high. In order to solve this problem, group delivery technique is used for both the savings and loan operation.

c) Adoption of Credit plus Approach

NGOs look beyond credit provision. They also take care of the total well-being of the people. So they train them in the area of health care, skill enhancement, technological transfer, reproductive health, skill acquisition etc.

d) Focus on Rural Women

They concentrate on rural women who are mostly farmers, and petty traders. Some of the NGOs have their head office in the urban centers but maintain operational branches in the rural communities so as to be close to their people.

3.2 Group Delivery Methods

Beneficiaries are encouraged to form a group or a cooperative society. Pre-loan training programmes are conducted for members. Training such as book-keeping, cash management, marketing skills and techniques would be organized for members. The usage of the loan, monitoring of the savings and repayment of loan are done at group meetings. However, the individual is held responsible for the utilization and repayment of the loan. It is also possible for a group to take a loan together for joint business.

3.3 Advantages of Group Methods

Group delivery method has some advantages. These are:

- **Reduction of the cost of landing –** The repayment is done at the meeting rather than with the individual loanee
- **Aids credit discipline and high member of repayment -** The group exacts pressures on its members to pay up so that they would not be disqualified from having access to further loan.
- **Solidarity among borrowers –** There will be cordial relationship between members.
- **Absence of Collateral Requirement –** The loanees are not required to present any guarantee towards the loan. They are given on trust.
- They develop the savings and thrift ability of the poor.

Loanees are encouraged to make regular deposit with the institution or credit group. Some groups expect them to make some savings before credit can be collected. The amount of money saved can be considered as a withdrawal security for the loan. Members can borrow up to 3 times amount he has saved; amount he can loan is referred to as the maximum credit limit.

He would be allowed until the loan is repaid. The excess money deposited after the loan would have been repaid accrues to the depositor.

- Low Interest Rates The charge interest on the loan of lent to the people. It is expected that it will be below the price charged by the commercial banks. They record a high rate of repayment.
- The activity of NGO increases the well-being of the poor. Beneficiaries are able to expand their business as a result of the credit facility afforded them by the group. This will increase their profit level as well as the disposable income; thus increasing the consumption level and the standard of living of both the women and their children.
- They enhance capital accumulation and capital building among the poor. The poor are able and build capital for their own business through the savings initiative of the NGO
- Improved self-esteem of the poor Income generation among the poor. They bridge the gap that is created by the demands of the formal financial institutions that, cannot meet the credit need of the poor.

SELF ASSESSMENT EXERCISE

i. What are the characteristics of NGOs?
ii. List the benefits.

4.0 CONCLUSION

NGOs have contributed to the development of the vulnerable group. Most rural dwellers have embarked on micro businesses as a result of their activities

5.0 SUMMARY

The NGOs have been able to bridge the gap created by the inability of the convectional banks to assist the vulnerable group. This has created some jobs and led to the improvement of the standards of living of these groups of people.

6.0 TUTOR-MARKEDASSIGNMENT

1. Define an NGO
2. Explain the characteristics of an NGO

7.0 REFERENCES/FURTHERREADING

Ehigiamusoe, G (1998). *Understanding NGOs*. Benin City: LAPO Development Center.

UNIT 2 SOURCES OF FUNDS (PART1)

CONTENTS

1.0 INTRODUCTION

Adeyori has a very good plan. He wants his children to be educated in the best secondary school in town and to attend one of the best universities. He needs money to get this done.

He started a business which was not expanding because his capital base is small. Would he be able to fulfill his dream? He needs financial assistance from friends, family members, association, government etc. to be able to expand his business.

2.0 OBJECTIVES

The aim of the unit is to identify the different sources of funds for the business. At the end of the course, student should be able to:

- identify the different sources of fund
- explain the different sources of fund

3.0 MAIN CONTENT

3.1 Sources of Funds

I wonder if you had ever borrowed money from a commercial bank. If yes, did you find it easy, quick and in-expensive? Did you have to pay a high price called interest for borrowing the money? I'm also sure you were expected to bring some security or collateral, something valuable before you were considered for the loan. How long did it go? Did it entail a long period of waiting, phoning and visiting the bank? How was the repayment schedule? Was it favourable? Was the paying back not an ordeal? The repayment schedule is not flexible and neither is the interest rate constant. Isn't it? Brighten up; there are other ways of sourcing funds for the business. Let us take a look at the various options.

3.2 Different Sources of Funds

All business firms need money for the financing of their plans. Each would own some combinations of cash, equipment, building and other properties referred to as assets.

The businessman needs to have an estimate of his financial needs both for buying assets and variable inputs before starting the business. He would need to answer the following questions in order to arrive at a realistic capital requirement.

- Why do I need this capital?
- How much do I need to spend on the project?
- When do I need the money?
- How long do I need the money?
- Where can I obtain the money?
- How can I repay the money?

When a firm starts business, it requires funds to buy assets. Such funds could be from the owner, the business and loans.

There are several types and sources of capital available to the businessman. Some are

- Long-term capital
- Medium capital
- Short-term capital

When you are in business you need to know where and how to get the required funds for operating the business. You must have the required capital layout before you start running the business.

The most important sources of funds are:

- Grant or borrowing from the family members or friends
- Getting money from the business (if it is an existing business)
- Loans (borrowing from Cooperative Association-*Ajo* or daily contribution/*Esusu* contributions

- Banks such as: Community banks Commercial banks Specialized banks
- Government agencies such as National Directorate of Employment (NDE)
- State Ministry of Commerce & Industry
- Non-governmental organizations
- Others: Deposits from customers, Profit of the business itself Hire purchase finance Personal savings.

3.2 Personal Savings or Owner's Equity

No king would go to war without adequate planning, so no businessman would start a business without some personal savings no matter how small it is. The savings may be in adequate for the proposed business, so there may be the need for the business man to source for money. This is because the cost of the fixed assets, labor as well as inputs may be larger than the personal savings. The businessman may have to resort to assistance from friends and relatives.

Personal savings can be referred to as equity or the private money you put into your business. Owner's equity is called risk capital because as the owner, you risk your money on the business. If the business fails, the owner will lose the money.

If you invest your money in your business, the business becomes less risky because in case of a failure, you will not have to pay back any loan. The loss is limited to the owner's equity. There would be less pressure on the business than if the money had been borrowed. If it were borrowed you would have had to make repayment and pay interest.

Investing your own money in your business is a risk but it shows that you believe in your own business idea and that you have been prudent with what you have. This makes it easy for others to lend you money. The equity is evidence that you have enough faith in your business to risk your own savings on it. Very often, most lenders insist that you invest some of your own money in the business before they make theirs available. Therefore, to reduce the risk in your business, it is good to have some money to invest in it as owner's equity or personal contribution.

a) Benefits of Owner's Equity

It is advantageous to the business man to contribute to his business

- The business becomes less risky

- He is prudent with the use of the fund
- He follows the most cost effective method of running the business. He tries to buy the raw material and other inputs from very inexpensive sources and employs labour that is relatively cheap but efficient.

b) Disadvantages of Owner's Equity

- He may not be able to start the business as quick as he would have wanted
- The business would be too small because of lack of fund for a large time
- The business would not be expanded as fast as possible because of lack of fund.

3.3 Loan from Family Members

An adage says ‘Heaven helps those who help themselves’. Family members would be willing to help a member that has saved some money towards a project.

In most cases it could be a gift, even if it is not a gift, it does not attract an interest. It could be in kind or cash. It could probably be a machine that is required by the business man or provision of an office space or some money or house or land for farming activities.

3.4 Depositors from Customers

Some firms make it compulsory for those buying goods from them to deposit some amount of money before they can collect goods from them. Others charge registration fee. These monies can be used to run the business.

3.5 Hire Purchase Finance

This is a medium term finance where the buyer is given an asset after he has paid a deposit; the balance is paid on installment at agreed date and amounts. The asset could be an equipment, vehicle, and machine.

However, the supplier will hold on to the title of the asset while the buyer will take possession of the asset. This position holds until the buyer has completed his payment. If he defaults, that is, if he cannot pay the outstanding balance, the seller can take possession of the asset.

a) Benefit of Hire Purchase

- The business man will have equipment, machine and other assets he cannot save enough money to buy.
- He would be able to start his business without waiting until his savings are enough to start the business or buy the assets.
- He would be able to expand his business faster than the sole reliance on his savings would allow.

b) Disadvantages of Hire Purchase

- He would lose his money, that is, the money he had paid to the seller if he cannot pay the outstanding balance
- The business will collapse when the asset is taken from him as a result of default.
- The business is risky; this is because he must pay back with interest.
- There is a lot of pressure on the business. He wants to make enough profit so that he can meet the repayment and interest schedule.

3.6 Cash from the Business

The source of money for an existing business could be the business itself cash could be taken from one use to the other. Machines or other assets can be sold and the money used for an important project of the business. Some of the items which are assets of the business that can be changed to money are listed below:

- Stocks of materials
- Stocks of goods ready for sale
- Goods in the process of being made
- Equipment and tools
- Motor vehicles
- Buildings.

These assets can be converted into cash by:

Assets	Conversion to Cash
Material stocks	i Turn into goods and sell the goods ii The estimated quantity of stock require for production can be kept while the excess is sold
Work-in- progress	The job will be completed halfway and sold. No effort must be made to collect the money of the sold item so that the fund can be used as required
Finished stocks	Finished product would be sold as a source of fund, the price being reduced if required
Money owed by customer	Efforts should be made to collect the cash from the customers. Credit can be extended to customers, but there must be a limit or a period of grace; otherwise non-payment of fund will affect cash flow. This will present some problems to the businessman
Machine and equipment	The business man can identify under-used or obsolete machine and sell or lease then out
Building	The office plan and space can be revisited and space utilization can be maximized. The excess space can be rented out; if possible it can be sold
Ploughed back profit	Businesses make profit. This profit can be retained in the business and used for its expansion.

SELF ASSESSMENT EXERCISE

i. What is owner's equity?
ii. What are the benefits of owner's equity?
iii. List the sources of funds

4.0 CONCLUSION

In conclusion, equity participation shows that a businessman has faith in his business and that makes it easier for him to have financial assistance from individuals and corporate organizations. This will enhance commencement and expansion of business venture. The business man can also source for fund from friends, the business itself.

5.0 SUMMARY

There are many sources of funds available to the business man. He can save, collect loan or grant from family members or buy the asset on hire purchase.

6.0 TUTOR-MARKED ASSIGNMENT

What are the benefits of owner's equity?

7.0 REFERENCES/FURTHER READING

Lawal, A.A, etal, (2000).*Entrepreneurship Development in Small Scale Business*. Labson Resource Nig. Ltd.

Robinson, SP (1982). *The Management of Human Resources.* Englewood H.J: Prentice-Hall.

Werther, W.B and Davies K. (1989). *Human Resources and Personnel Management*. New York: Mc Graw-Hall.

UNIT 3 SOURCES OF FUNDS: PARTNERSHIP AND COOPERATIVE SOCIETY

CONTENTS

1.0 INTRODUCTION

In the previous Unit, we explained how money can be sourced using owner's equity, grant or loan from friends and family members and hire purchase.

In this unit, we will look at sourcing of fund for business from Partnership, Cooperative Association and Non-governmental Organizations.

2.0 OBJECTIVES

The aim of this unit is to expose you to the other sources of fund apart from those discussed in unit 2. Specifically, at the end of this unit you would be able to explain the advantages of sourcing for funds from Cooperative Associations and Non-governmental Organizations.

3.0 MAIN CONTENT

3.1 Partnership

Partnership is legally defined as “the relation which subsists between persons carrying on business in common with a view to making profit.” This is a type of business unit in which not less two and not more twenty persons enter into a legal agreement to own and operate a business. These persons are known as partners and they are jointly responsible for risks, profits and losses of the business.

Two types of partnership exist: ordinary and limited. The legal agreement which regulates the partnership is known as ‘Deed of Partnership.’

In the ordinary partnership, all the partners are responsible for debts of the firm. Profit and losses are shared out to partners in proportion to their capital investments.
For the formation of a limited partnership, there must be least one ordinary or general partner whose liability for the debt of the business is not limited anywhere, while the liability of the limited is restricted to the amount of capital he has invested. The limited does not take part in the day to day running of the business and cannot withdraw any part of his invested capital. But he is free to inspect the books of the firm any time he dims right.

3.1.1 Advantages of Partnership

- More funds than would have been provided by the sole proprietor would be available for business use.
- The accounts of the partnerships are not made public except to the board of internal revenue
- The scope of the business would be larger
- The expertise of the partners in terms of advice, skill, and knowledge would be available to the business.
- The goodwill of the partners would be extended to the business. The partners may know a lot of people or marketers that will make the marketing of the products easy.
- In case of business failure, the risk will be shared.

3.1.2 Disadvantages of Partnership

- The sole proprietor will lose his right to make decisions alone
- Decision making takes longer time than in a one man business
- If one of the partners dies, it may lead to the end of the business

- There may be rivalry, if the profit sharing formula is not well spelt out
- Any ordinary or general partner may enter into a contract that may commit the other partners. This is why most businessmen try to determine members' integrity and business ability before entering into partnership with them.

3.2 Loans from Cooperative Association

To get a loan means that someone lends you money. This loan must be paid back with interest, which is the cost of taking the loan. The loan can be paid back either at once or on installments depending on the agreement reached with the lender. If money is borrowed to start or run a business, there is always a lot of pressure on the business and the owner than when the owner uses his money. This is because you must make enough profit to pay back the loan and the interest. It could be difficult for a small business especially if the owner is not financially prudent.

You can get loans from several sources depending on what you want to use the money for. This discussion will be centered on sourcing loans from Cooperative Associations and Non-governmental Organizations.

3.3 Cooperative Association

Cooperative Associations consist of people who have common objectives. They are mostly people of limited means, who voluntarily come together on the basis of equality and equity for the enhancement of their wellbeing.
Cooperative principles and structures have been applied to create access to affordable credit facilities for persons of limited means.

3.3.1 Short History

Robert Owen and Dr. Williams King laid the foundation of modern Cooperatives. They opposed the exploitation of workers and introduced policies encouraging workers to own their factories.

Owen fought for better working conditions for workers and stopped child labour.

In 1844, 28 artisans started a consumer shop of their own as a group in Rockdale town in Lancashire, England. The success of the Rockdale pioneer as they are called led to the spread of the movement.

3.3.2 Role of Cooperative Association

- They come together in order to eliminate middle men who exploit buyers or sellers and money lenders who charge high interest
- They do not aim to maximize profit like the private businessman
- They emphasize meeting the need of the members effectively and efficiently.

3.3.3 Cooperative Principles

Six principles of Cooperative Enterprises were approved at the congress of International Cooperative Alliance in Vienna in 1996. Several reviews have taken place since then. These principles are important to the Cooperative Enterprise.

- Membership of a Cooperative Society shall be voluntary and available to all without any form of restriction or any form of social, political or religion discrimination.
- Cooperative Societies are democratic in nature. Officials must be elected or appointed in a manner acceptable to them. Each member is entitled to rights of voting. Decision taking must be participatory and administrative roles are conducted in a democratic manner.
- Share capital shall only receive a strictly limited rate of interest, if any
- The economic benefit that accrues to the society belongs to the members and would be distributed in such a way that nobody is made better off while the other loses.

This is achieved based on the agreement reached by the members as follows:

- Provision for the development of the business of the cooperative
- Provision of common services
- Distribution of the profit among the members in proportion to their transactions with the society
- The society will educate their members on the principles and the economic and democratic techniques of Cooperation.
- All Cooperative Organizations shall cooperate with all other societies whether locally, nationally or internationally in order to achieve the best interest of the members.

3.4 Cooperatives in Nigeria

The Cooperative movement was introduced to Nigeria in 1926 by the colonial officials. This was to enhance agricultural production. This is not strange to Nigeria because *Ajo, Esusu* or *Adashi* had been in existence in most communities before then. The Cooperative Ordinance (law) was enacted in July 1935. Ibadan Cooperative Produce and Marketing Society Limited became the first Cooperative Society to be registered in 1936. The number has increased immensely since then to thousands of group.

There are several types:

Thrift and Credit Society, Producers Cooperative Society or Consumer Cooperative Society.

3.5 Requirement for Membership

Some of these requirements are:

- Payment of share capital which qualifies one to become a member. The amount and number of shares is set by the Association
- Monthly, weekly or bi-weekly minimum contribution or savings
- Compulsory attendance at meetings
- Other payments for membership card, levies etc.

After becoming a member of the Cooperative Society for a period of six months and if the record of attendance and contributions are good, it is possible to apply for a loan. Most Cooperative loans are in multiple of two or three of the contribution of the member. If the member has saved a total of N20, 000, he can apply for a loan worth between ₦40, 000 and ₦60, 000 depending on the policy of the society. The interest rate is low, mostly between 1% and 2% while the repayment period is usually between six to twelve months.
A lot of businesses have benefited from the Society.

3.6 Advantages of Cooperative Society

- It makes money available for business ventures or micro business ventures
- It leads to the increase in business activities in the country especially in the rural sector or among the poor
- It leads to increase in Gross National Product
- The interests of the poor or those within the poverty bracket are taken care of.

3.7 Disadvantages of Cooperative Society

- There has been cases of financial mismanagement and outright embezzlement of the fund
- Embezzlement of the funds leads to loss of contribution of the members; thus further impoverishing the poor
- Undemocratic practices to the extent that some members are cheated and the principles of Cooperation are not followed.
- Favoritism, tribalism make the officials to give loan to those that do not deserve it and side track those that are qualified.

3.8 Cooperative Banks

A Cooperative bank is a central cooperative unit in the business of financing. It provides opportunities for cooperators and cooperative societies for savings mobilization and credit facilities. Their operational procedures and requirements are expected to be sensitive to peculiar financial needs of cooperative societies. The capital for such banks are sourced and managed by the cooperators and the cooperative societies.

Cooperative banking was initiated in Germany in the 19th century. It was pioneered by Raiffeisen and Schulze – Delitzsch. Raiffeisen worked with debt-ridden peasant farmers while Schulze – Delitzsch worked with the urban poor who were mostly traders and artisans. The banks run by Raiffeisen were rural based and most of the customers were rural based organization. It provided credit facilities to farmers for productive purposes. The success of these experiments led to the establishment of several Peoples' Banks and Agricultural Banks. Cooperative Banks played significant roles in the acceleration of the development of the German economy during the period of industrialization.

In France, Peoples' bank (*Banques Populaires*) have since 1878 been a catalyst to economic growth by providing financial services to the SMEs. It also plays such a vital role in Britain. India is a country that has given a prominent role to the application of cooperative principles in financing. She has several specialized Cooperative Banks which focus on Small scale industrial development in all the sectors including consumer financing.

3.8.1 Cooperative Banking in Nigeria

The first Cooperative bank in Nigeria was the Cooperative bank Limited. It was registered in 1953 as a central financing society. This was facilitated by a grant of N2million given to her by the government of the then Western Region of Nigeria. It was the major source of affordable loan to cooperators and their societies. It obtained the license to operate as a commercial bank in 1962.The major consideration for this shift in legal status was to enable the bank to have access to public savings and a greater volume of business transactions.

The Cooperative Bank of Eastern Region was established through the instrumentality of the Cooperative Union of Eastern Nigeria Limited. The bank was a financing unit of the cooperative movement in the region. The bank began operations with a capital of 590 pounds augmented by a grant of £10,000 from the Eastern Region government. It also obtained a license to go commercial in 1962. It was Snot until 1973 that a commercial bank was established in the Northern Region. It was initially called North Central Cooperative Bank Limited but was changed to Kaduna Cooperative Bank Limited. It was licensed to operate commercial banking as well as provide services to cooperative institutions. It later became the Universal Bank Limited while the Cooperative Bank of Eastern Nigeria transformed into the Cooperative and Commerce Bank Limited, which became distressed in the mid 1990. The acquisition of commercial bank status by the Cooperative Banks constrained their impact as channels of microfinance services in Nigeria. They adopted traditional banking practices, which inhibit the access of persons with limited funds and collateral to credit services. They neglected the farmers and other informal sector practitioners. Business with cooperative credit societies and unions especially in the rural areas was regarded as unprofitable, as a result of which the credit union lost a reliable source of loan-able funds. The Nigerian Agricultural and Cooperative Bank were established in 1973 in order to take care of these lapses.

3.9 The National Association of Cooperative Credit Unions of Nigeria (NACCUN)

NACCUN is an offshoot of the Nigerian Cooperative League established in 1970 as the apex for Cooperative Thrift and Credit Societies and Unions in Nigeria. It was registered in 1978. It also represents the Nigerian Thrift and Credit Cooperative units in International Organizations such as Africa Cooperative Savings and Credit Association (ACOSCA) and the World Council of Credit Union.

The objectives of the Union include the following:

- Mobilization of funds for loans to its affiliates that are Cooperative Thrift and Credit Societies in Nigeria
- Promotion of Cooperative Thrift and Credit Societies in Nigeria
- Provision of technical and operational support to Cooperative Thrift and Credit Societies in Nigeria

- Training and personnel development services of Cooperative Thrift and Credit Societies in Nigeria
- Coordination of activities of state financing cooperative apexes

3.10 Cooperative Financing: *An Assessment*

The establishment of the Peoples' Bank, Community banks as well as the increasing number of Non- Governmental Organizations which are into micro financing is an indication that the cooperators have lost faith in the cooperative movement as a viable microfinance structure. It is actually regarded as a confirmation of the failure of cooperative financing. Many cooperators in rural areas claim that cooperative financing both in volume of activities and impact have declined. Several explanations have been put forward. These include the following:

Officialdom: The introduction of Cooperative movement to Nigeria was not people driven. It was not at the request of the people. The socio-economic condition, which prompted the Rochdale Pioneers to act for themselves, was absent. The need for modern Cooperative enterprises never came from the people. Farmers had already organized themselves into associations such as Ibadan Agricultural Society (1904) and Agege Planters' Union (1907). The introduction of the movement was solely the initiative of the Colonial masters. The aim was to enhance efficiency in the production and exploitation of the producers. The cooperative movement was placed under the exclusive control of the colonial officers in order to achieve their aim.

The Cooperative Societies Ordinance (1935) and the Cooperative Regulations (1936) gave wide ranging powers to the Registrar of Cooperative Societies, who was a colonial government official. He had the power to promote cooperative societies, to register, inspect arbitrate, elect officials, audit appropriation of operational surpluses as well as the dissolution of cooperative societies. Most of the business decisions were also taken by him.

It is interesting to note that the various present cooperative societies' laws in various States of Nigeria are not significantly different from the Cooperative Societies Ordinance of 1935. Cooperatives societies were treated as appendages or parastatals of government. The desire of the officials rather than those of the cooperators were carried out. This is against the cooperative ethics of democratic control and the policy of non- interference by government.

It was a common practice for government officials to be appointed as the Sole Administrators of Cooperative Apexes and Central Financing

Agencies. This resulted in the stifling of the initiatives of the cooperators. This was further compounded by the fact that the societies depend on government for financial support. Later, the State and Regional governments capitalized the Cooperative Banks and the Central Financing Agencies. It was therefore easy for political leaders and government officials to alter the mandate and status of these banks and agencies without recourse to the cooperators.

As the resources of governments decline especially in the 1980s, the fortunes of the cooperative movement also dwindled. The then proposed Bendel State Bank project could not come to fruition because the government could not finance it.

However, the traditional banking practices of commercial banks are not sensitive to the features and needs of small businesses of cooperators especially farmers. Periodic credit guidelines drawn up by the Central Bank to take care of the needs of these cooperative societies were ignored by these transformed cooperative banks.

These banks demanded for collateral and treated rural banking as being unprofitable. Cooperators and cooperative societies could not compete with the private sector for the services of these banks; the government has evolved rural based, poor people friendly banks in the name of Nigerian Agricultural, Cooperative and Rural Development Bank which most often are inaccessible to the rural farmers. Government therefore, established the micro-finance policy, regulatory and supervisory framework for Nigeria, 2005, to provide micro-finance, micro-credits, and other ancillary services to these farmers and cooperatives.

SELF-ASSIGNMENT EXERCISE

i. Define Cooperative Association.
ii. What are the benefits of ‘Ajo’?

4.0 CONCLUSION

In conclusion, the economic capacity of the rural poor, the low income earner can be enhanced by the activities of the Cooperative Societies. The activities of this Society also lead to national economic growth and a ready source of fund to the businessman.

5.0 SUMMARY

Partnership and Cooperative Societies are other sources of getting financial assistance for the purpose of establishing or expanding a business venture. They both have advantages and disadvantages. Care should be taken either to invite a partner or become a member of Cooperative Societies.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the advantages of Cooperative Societies
2. Partnership is a dependable source of fund and it guarantees permanence of business. Discuss

7.0 REFERENCES/FURTHER READING

Oyedipe, F.P.A (1996).*The Outstanding Success of Cooperative Movement*. Ilorin: Dabot Publication.

UNIT 4 HOW TO KEEP AND USE BUSINESS RECORDS

CONTENTS

1.0 INTRODUCTION

It may be a fact the MFBs and the Non–governmental Organizations do not request for collateral and rigorous paper work before loans are granted to members. However, they do have some records in order to keep track of their costs and revenue.

2.0 OBJECTIVES

The objective of this unit is to explain how records are kept and the various uses of the records.

3.0 MAINCONTENT

3.1 Record Keeping

Record Keeping means you have to write down:

- how much money your business receives, and
- how much money your business Spends**.**
- When you Sell your products or provide service, money comes in to your business.
- When you pay for goods or service such as raw materials, labour, electricity, rent, telephone etc, money goes out of your business.
- To keep good records, you need to write down all your business transactions in an organized way.

You need something to show that you received or paid out money such as:

- Invoices, receipts, way bill etc. you get from your customers when you buy raw materials, pay rent, salary or wages, electricity and soon.
- Copies of receipts, invoices, and way bill you give to your customers when they buy from you.

It is therefore important for you to write down in a small exercise book the information you need such as:

- when the transaction happened
- who was involved in the transaction
- details of the transaction
- the amount of money involved in the transaction

3.2 Good Record

The main requirements for a good record keeping are that:

- It must be accurate
- It must be consistent
- It must be reliable
- It must be easy to understand

3.3 Advantages of Record Keeping

By keeping good and accurate business records you can easily solve problems in your business such as:

3.3.1 Cash and Credit Sales Availability

- The records show you how much money your business should have.
- It helps you to make sure your money is not stolen
- It shows you who **owes** you money and how much
- The record tells you how much cash you have on hand and in the bank

3.3.2 Your Record Shows You How Your Business is Doing

- It helps you to find out problems before it is too late You can use the records to know your
- Income and expenses
- The profit or loss you are making
- Your monthly payroll (wage and salaries)

You can also use the records to know if:

- Costs are too high
- Sales are falling

The records you keep show others how your business is doing.

- It shows them whether your sales and profits are increasing
- You and others will know whether your costs and expenses are decreasing.
- You need proper records when you pay your taxes or apply for a loan.
- It shows others that everything is in order and that you are in control of your business.

3.3.3 Your Records Help You to Plan for the Future

- Records show you how well your business did in the past and how well it is doing now.
- When you know your business strength and weaknesses, you can properly plan for the future.

3.3.4 Who Keeps the Records?

Once you start your business, you have to decide who will keep and maintain the records.

- If you have the time and interest, you can keep the records yourself.
- When the volume of your business increases, you can employ a clerk to keep the records.
- Sometimes your wife or children can assist you to keep the records and do simple calculations.

3.4 Types of Records to Be Kept

The records you keep depend on the type of business and the volume of activities. However, for our purpose, the following records are adequate.

3.4.1 Receipt Booklets

If your business produces and sells a few expensive products such as furniture or provide **services** such as vehicle repairs, use a Receipt Booklet.

An example of a Receipt Book is given below:

TOLA ENTERPRISES

(Manufacturer of Quality Furniture)
Office/Workshop: No. 30, Adio Street, Idiaba,
Ogun State

CASH RECEIPT

No. 0001

Date:_______________19________

Received
From____
the sum of____
Naira__________________________________Kobo Being payment for__________
____
____

Cash payment=N=______________________________Cheque No. _____________

=N= : K

____
Manager's signature

3.4.2 Invoice

The customer may sometimes request for an **Invoice** before or after purchasing the product or service.

The invoice shows the quantity of good sold the description of what is sold and the price of each product. However, it is not a substitute for the receipt. It is issued together with the receipt to show the type and price of products sold.

The following is an example of an Invoice

TOLA ENTERPRISES

(Manufacturer of Quality Furniture)
Office/Workshop: No. 30, Adio Street,
Idiaba, Ogun State

Invoice No: 0001

Date:_______19_____

____
____
____

Quantity	**Description of Goods**	**Rate** ~~N~~	**Amount** ~~N~~

Thank You
Goods bought are not returnable

Total ~~**N**~~______________

Amount in words____

3.4.3 Way-bill or Delivery Note

The Waybill or Delivery note is issued to the buyer when he wants to collect the products he has purchased such as furniture or when you want to deliver the products to him.

An example of a waybill or delivery note is given below. It also contains information such as Customers Name, Delivery Address, Vehicle No, Quantity paid for, dispatched and delivered and the condition of the goods when they were received.

TOLA ENTERPRISES

(Manufacturer of Quality Furniture)
Office/Workshop: No. 30, Adio Street,
Idiaba, Ogun State

Invoice No: 0001

WAYBILL/DELIVERYNOTE Date:_______19___

____**ORDER INVOICE**

No.______ **CustomersName**______________________

Date__________ **DeliveryAddress**______________________

No.&Date_____ **VehicleNo.** __________________________

ITEM No.	QUANTITY	DESCRIPTION	QUANTITY

Total

Received Goods in Good Condition

____________ __________________________________

DELIVERED BY RECEIVED & CHECKED BY CUSTOMER

3.4.4 Daily Cash Record

Whether you use a receipt book or daily cash record you must keep the RECEIPTS you get for all the cash that comes in or goes out of your business such as:

- receipts issued for sale of products or service
- receipts for buying raw materials or good to resell

- receipt or invoices for rent, payment for services, electricity, water, telephone and all other costs to your business.

DAILY CASH RECORD				
No	Details	Quantity	Rate	Total ₦
1.	Starting Money			100.00
2.	Brake fluid	1	120.00	120.00
3.	Oil filter	3	180.00	540.00
4.	Washers	15	3.00	45.00
5.	Oil	1	210.00	210.00
6.	Fuel filter	1	45.00	45.00
7.	Clutch Kit	1	70.00	70.00
8.	Door handle (super)	4	65.00	260.00
9.	Bolts & Nuts	10	15.00	150.00
10	504	1	480.00	480.00
	Total	-	-	**2020.00**

3.4.5 Customers Account

If you sell or provide service on credit, you must write it down in a customer's account book.

It is not advisable to sell on credit. Some customers do not pay on time. Some customers do not pay at all. However, credit can also increase your sales because good customers will continue to buy from you. Therefore, you may give credit to reliable customers.

When you want to keep the customers record, you can use:

- a book with a page for each customer; or
- a separate book for each customer if they buy a lot from you; or
- separate cards for each customer.

A written record enables you to avoid arguments with your customer and to follow up those who do not pay their money on time.

3.5 Advantages of Record keeping

The record keeping helps you know:

- how much each customer owes
- which customers pay their accounts on time

- which customers owe money to your business.

An example of Customers Account Record

CUSTOMERS ACCOUNT RECORD Name: Address: Telephone No:					
Date	Details	Quantity	Credit Sales ₦	Amount Paid ₦	Balance ₦
9/1/96	Oil filter at ₦180 each	2	360.00		360.00
3/4/96	504 Head lamp at₦110 each	2	220.00		220.00
6/6/96	10 washers at ₦15	10	150.00		450.00
	15 bolts				
21/10/96	Payment	15	300.00	1030.00	0.00

3.5.2 Unpaid Suppliers Invoice

When you owe other businesses some money, always keep the receipts, invoices or delivery note of everything you buy on credit. It is a good idea to keep them in a file for easy reference.

3.5.3 Record Book

The record book is the heart of your record–keeping. When the business is closed at the end of the day, fill in the Record Book by using:

- the copies of the receipts you write (from receipt book or sales invoice);or
- the summary of the Daily Cash record
- the receipts, invoices and other vouchers you get from your customers.

In summary, you should write down in the RECORD BOOK all:

- Money that you receive from sales and other sources and where it came from. Get the information from the receipt book or Daily Cash Record.
- Money that you paid out of your business and what it was used for. You get the information from the receipts when you pay for something.

3.5.4 How to Fill the Record Book

You can buy a big note book and draw the same columns as in the example below:

CASH BOOK

Date	Details	Receipt Voucher No.	In	**Cash** Out	Bal	**Sales**	**Costs**
¼	Brought Forward	0281			1000		
11/4	Bought Nails	0282		50	950		50
11/4	Sales	0283	2000		2950	2000	
11/4	Sales	0284	250		3200	250	
12/4	Bought Plywood	0285		1200	2000		1200
12/4	Bought Foam	0286		500	1500		500
18/4	Sales	0287	275		1775	275	
19/4	Sales	0288	545		2320	545	
19/4	Bought Timber			320	2000		320
23/4	Paid Wages			250	1750		250
27/4	Paid Owner Salary			500	1250		500
	Total		3070	2820	1250	3070	2820

Date: Write the date of the transaction
Details: Describe the transaction
Receipt/Voucher No: Write a receipt or voucher no for each transaction
Cash: Write the cash that came in **or** goes **out.** The Balance is the amount you should have on hand.
Sales: Write all your sales in this column
Costs: Write all your costs in this column

SELF ASSESSMENT EXERCISE

i. Draw a cash receipt
ii. Why is it not advisable to sell on credit?

4.0 CONCLUSION

In conclusion, it is necessary to keep proper records in order to keep track of business activities so as to be able to detect when the business is sick, know the sales, debts and the costs involved as well as render necessary financial information.

5.0 SUMMARY

At the end of the month, you should summarize your record book by adding the totals for cash that came in, cash that goes out and cash balance. This will tell you the cash you have on hand. By adding the **Sale** and **Costs** column, you will know **how** you have **spent** your money and **what** you have spent it for.

The record book can be used to control your business by:

- knowing your sales
- knowing your cash balance
- Analyzing your costs.

All these will enable you to know how your business is doing and to plan for the future.

6.0 TUTOR-MARKED ASSIGNMENT

1. Write a short note on customers account
2. List the different types of record that can be kept by a sole proprietor

7.0 REFERENCES/FURTHER READING

Siebert, J.C, {1989). *Concept of Marketing Management*. New York. Englewood Cliffs Publication.

UNIT 5 MARKETING – HOW TO SELL YOUR PRODUCTS

CONTENTS

1.0 INTRODUCTION

It is good and profitable to venture into production, but the exercise is not complete until the products get to the final consumer. It is therefore important for the businessman to locate the appropriate market for his products.

Mr. Audu produced a meal of 'Tuwo shikafi' but he kept it in the pot expecting that people will come looking for him without making any effort to sensitize the people about the availability of the product. Tuwo, being a perishable good, turned soar before the following day. He had to throw away the product. He lost as a result of his in-action. He failed to let people know that he had prepared a meal that could satisfy their need.

2.0 OBJECTIVES

The objective of this unit is to explain the meaning of marketing and its importance to business activities. At the end of this unit you should be able to enlighten the selling processes and techniques available to the business man.

3.0 MAIN CONTENT

3.1 Definition of Marketing

Marketing is everything you do to find out who your **Customers** are and what they **need** and **want.** It is how to satisfy them while you are making profit by:

- providing the **products** or **service** they need
- setting the **prices** they are willing to pay
- **getting** your products or service to them
- **informing** and **attracting** them to buy your products or services.

Marketing is the difficult but most important part of managing a business. It does not matter how **good** your good or service is. If you do not market it in the right way, no one will buy it.

Your **market** is the customers, people who or other businesses, which want your products or services and are **able** and **willing** to pay for them. Therefore the word **market** means **a place or opportunity or medium** where people meet to buy and sell goods and/or services. It could be via the internet, in the aero-plane, on the telephone or in a physical place.

It also means:

- the **customers** you have now
- the **customers** you hope to get in the future (prospective)
- the **customers** you have lost but hope to get back

3.1.1 Getting to know the Customers

Who is a customer? A customer is one who makes a repeat purchase of your product; whilst a consumer is an end user of a product. A product is either the good (tangible) or service (intangible). When products are mentioned they mean either goods and/or services.

It is important to know your customers, know their buying behaviour, i.e know what they like to buy, why they buy what they buy**.** When you understand their buying behaviour, you decide what goods to make or service to **create** to **meet** their buying needs.
By following the steps below, you will understand your market place and increase your sales volume**:**

3.2 Know Your Market

In order to know your market place you must know:

- who the customers are
- the goods or services they like to buy
- Why they buy the products
- Where the customers are located?
- when do they buy?
- how **often** and how **much** do they buy?
- what prices are they willing to pay?
- Who are your Competitors

The Competitors are businesses selling products similar to your own. Ask yourself the following questions:

- who are my**competitors?**
- How **many** are they?
- where are they **located?**
- how **good** are my competitors?

If you can find good answers to the above questions, then you will know:

- what goods or services to sell.
- how to get your products to your customer
- how to inform customers and make them to buy
- what **price** to charge for your product s

You can also find out more about your market by:

- **Talking** to your customers and asking them:

- why they buy from you
- If they are **satisfied** with your products and the way you **treat** them
- If there are other things they would like to buy from you
- **Listening** to what other people say about your business
- **Finding out** why some customers do not buy from you
- **Finding out** what your competitors are doing about their:
- goods or service i.e. quality, design, packaging, etc.
- what prices they charge
- why customers buy from your competitors.
- **Reading** newspapers and magazines about new products or services

- **Listening** to radio and watching television to get information about new products and services.

3.4 Satisfaction of your Customers

The customer is the most important person for your business. **Satisfied** customers will always come back and buy more from your business. The more satisfied customers you have, the more **sales** and **profit** you make.

To satisfy your customers, improve your sales and make a profit, you need to understand the **four P's** of marketing:

Product

- What **product** your customers want **Price**
- What **price** your customers are willing and able to pay **Place**
- What **place** your business should be located so that you can reach your customers **Promotion**

- What **promotion** you can use to inform and **attract** customers to buy your products or services.

All the four P's are very important. You must use each of them to **satisfy** your customers and **increase** your sales and profit. When your customers are satisfied, they will always **come back** to buy more from you. They will tell other people to buy from you.

3.4.1 Product

To be successful in business, you must have the products your customers want. To do this, you should know that:

- Customers buy goods and services to satisfy different **needs.** Therefore, you should find out what customers need and then provide the products to satisfy those needs.
- Customers **need** change. When their needs change, do your market research to change your product.
- **Provide** what your customers want.
  - Do not just sell the same products as other businesses.
  - Try to **improve** on the products you already make and sell.
  - Keep your eyes and ears open for new ideas.

3.4.2 Price

WHAT PRICES DO I CHARGE?

Your business may have very good products or services, but if your prices are **wrong, i.e (too high or too low)** you will not sell much.

In general, your prices must be:

- **Low** enough to attract customers to buy
- **High** enough to give your business a profit

1. Know your costs
2. Know how much customers are willing to pay
3. Know your competitors prices
4. Know how to make your prices attractive.

3.4.3 Costs

You must know how much it costs you for things such as **material, labour, rent,** and **electricity** to create a product. To make a profit, your **price** must be higher than your **total costs** for the product.

<u>**Examples**</u>

(a) **Profit**

Selling Price	-	Cost	=	Profit/Loss
N30	-	N25	=	+ N5 (Profit)

- A price **higher** than the total cost gives you **a profit**
- + N5 means a N5profit

(b) Loss

Selling Price		Cost	= Profit/Loss
N25	-	N30	= **-** N5 (Loss)

- A selling price **lower** than the total cost gives you a **loss**
- - N5 means a loss.

(c) No Profit

Selling Price -		Cost	=Profit/Loss
N30	-	N30	=N0

- A selling price which is the same as total cost gives **no profit**
- =N=0 means no profit, no loss.

Willingness of Customers to Pay

Customers must be able and willing to pay your prices. If your price is too high you will sell very **little** or **nothing** at all. If the price your customers are willing to pay is **lower** than your costs, try to **cut** your costs.

3.4.4 Know your Competitors Prices

Find out how much your competitors charge for the **same** or **similar** products or services as your own.

- If your prices are **lower** than your competitors' prices, you may attract more customers to buy from you.
- If your prices are **higher** than your competitors' prices, your customers may buy from your competitors.
- You may charge a **lower price** if:
  - your goods or service is **new** and people do not yet know about it.
  - If you want to attract new customers
- You may charge a **higher** price if:
  - your customers feel your product or service is **better** than that of your competitors.
  - If you provide **extra** and better services.
- Always remember that to make a **profit,** your **prices** must always be higher than your costs.

3.4.5 Make your Prices Attractive

There are many ways to make your prices more attractive to your customers:

When you begin to sell a new product, you want to attract customers to buy it. You can set a **low introductory price** that gives you only a **small** profit for the first time you sell the product.
If your customers like the product, you can **slowly increase** the price so that it gives you a higher profit.

3.4.6 Discount

A **discount** means a lower price.

- You can get a discount from a supplier.
- You can give a discount to a customer
- If a customer buys a **large quantity** you can give a **quantity discount.**
- If a customer pays cash, you can give a **cash discount.**

3.1.7 Place

Place means the **location** where your business is. Location is important for retailers and service operators who need to be where their customers are.
Your business may have good products at prices that customers are willing to pay, but sales may still be low. The reason may be that your customers do not know where you are and where to buy your products.

- **Location** is where your business can be found
- **Distribution** means different ways of getting your products to your customers. It is very important for **manufacturers** such as furniture making, metalwork etc.
- For **manufacturers,** it is **not** important to be near their customers.
- What is important is:
- Cheap rent or land
- Good and easy supply of raw materials
- Good roads, electricity etc.
- Cheap labour availability
- Retailers and service operators need to be where their customers are.
- The best places are where many people **pass** by and where many people **live.**
- **Direct distribution** is most useful for your business if you make fairly expensive products such as furniture and have a few customers.
- **Wholesale and Retail Distribution** are useful if you make a large quantity of standard and low priced products and have many customers in yourarea.
- Before you change your distribution channel, think about:
- Your products
- Your customers
- Your business
- Your **sales, costs** and **profit**

SELFASSESMENTEXERCISE

i. Define marketing
ii. Who are the competitors?

4.0 CONCLUSION

The role of marketing in a business venture cannot be over emphasised. Having a thorough understanding of the marketing terrain would help a business grow.

5.0 SUMMARY

A good businessman would not only be interested in his venture but would understand his competitors as well as his customers and would do all they can to satisfy them and outwit his competitors.

6.0 TUTOR-MARKED ASSIGNMENT

What factors must be considered before prices are fixed?

7.0 REFERENCES/FURTHER READING

Siebert, J.C, {1989). *Concept of Marketing Management*. Englewood, New York: Cliffs Publication.

MODULE 3

UNIT 1 MANAGEMENT OF CASH

CONTENTS

1.0 INTRODUCTION

Mr. Adio made a lot of money as a result of the sales promotion exercise he did. Unfortunately for him, he squandered the money on night parties, 'spraying' money as if it was rain water. He bought 'aso-ebi' for his wives and new set of cars for his girlfriends. He ended up poorer than he was before the sales promotion because he lacked the knowledge about cash management. He should have separated the money meant for business from the one for pleasure and other obligations. But regrettably, he never did.

2.0 OBJECTIVES

The objective of this unit is to explain how a cash flow plan is drawn and to acquire the understanding of separating the family from the business.

3.0 MAIN CONTENT

3.1 Management of Cash

3.1.1 Definition of Cash

Cash is the **life blood** of any business organization. It is the money that is made available for business use. Lack of cash or money can ruin a business so also is the mismanagement of fund.

For the maximum use of cash, you have to determine when cash is **needed** and how much is needed. Even when you are making a **profit,** it does not mean that you will be able to pay your **debts** when it falls due. Therefore, you must always make sure that you have enough cash to pay your suppliers, creditors, workers, rents and bills when they are due.

The way to do this is to understand the **cash operating cycle** and the **Cash flow** plan of your business.

3.1.2 Cash Operating Cycle

The management of cash involves an understanding of the **cash operating cycle** as shown below:

CASH OPERATING CYCLE

CASH ----- RAW MATERIALS ---- WORK IN PROGRESS ---- FINISHED ---- GOOD SALES

- **Cash**

The operating cycle starts with cash which your business generates from the sale of products or services.

- **Raw materials**

Cash is used for the purchase of raw materials and other inputs that are necessary for production. For example a furniture maker spends cash for the purchase of timber, nails, vanishes, foam, rubber etc. which he uses for production.

- **Work-in-progress**

These are products that are being produced in the workshop and the production is not yet completed.

- **Finished Goods**

This refers to **finished** products which are still in your workshop but are ready for sale.

- **Sales**

This is the final stage in the cycle when you sell to your customer either for **cash** or **credit.** When you collect the cash you again use it to purchase raw material and to pay other creditors.

It is important for you to reduce the amount of **time** it takes you to use your **raw materials** to produce **finished** products or service and to **sell** it so as to reduce the time it takes you to **tie** your money down.

The **shorter** the turnaround cash cycle, the better for your business. Another way of controlling your cash is through a **cash flow plan.**

3.1.3 A Cash Flow Plan

A cash flow plan is forecast which shows you how much cash you expect to come in to your business and how much cash you expect to go out of your business every month.

A cash flow plan helps you make sure that your business does not run out of cash at any time.

You should therefore use your cash flow plan to make sure that your business always has **enough** cash to pay for your expenses. You can make a good profit in a year but still run out of cash during the year.

There are many reasons why your business may run out of cash:

- Sometimes you may have to buy raw materials or pay your suppliers before money comes in. This means that cash **goes** out before cash **comes** in to your business.
- When you give credit to your customers and they do not pay in time whereas you need money to buy materials, pay your staff, electricity, rent and so on.
- You have to buy equipments, tools etc which are needed for production. Usually, you have to pay cash for the equipments now before you start making a profit.

However, all of these problems can be solved by planning your cash flow.

When you plan your cash flow:

- You have more control over the flow of cash
- You are in a better position to solve any problems before they happen
- You are warned in advance about future cash shortages
- You can have cash ready when you need it

3.1.4 How to Make a Cash Flow Plan

You can make a cash flow plan by thinking of

- How much cash will come in to your business every month
- How much cash will go out of your business every month.

To make a cash flow plan for your business, follow the example below.

TOLA ENTERPRISES

CASH FLOW PLAN

	CASH FLOW PLAN	JAN.	FEB.	MAR.
CASHIN	1. Cash at the beginning of the Month	1000	1100	1450
	2. Cash from Sales	4000	4000	2500
	3. Cash from other sources	-	-	-
	4. TOTAL CASH IN	5000	5100	5950
CASHOUT	5. Cash out for Materials Costs	2500	2800	2500
	6. Cash out for labour costs	450	450	450
	7. Cash out for other costs	600	600	600
	8. Cash out for buying equipments Tools etc.	250	-	-
	9. Any other cash out	100	100	100
	10 TOTAL CASH OUT	3900	3650	3950
	11. CASH MONTH END	1100	1450	2000

3.2 Steps to Follow in Marketing the Plan

From the above example, you can see that steps 1 – 4 are for **CASH IN** While steps 5 – 11 are for **CASH OUT**

STEP 1 Cash at the beginning of the month

This is the amount of actual cash you have on hand and your bank account at the beginning of the business year.

STEP 2 Cash from sales

This is the total cash sales you expect to make in the first quarter. This amount also includes the money you expect to collect from the previous **credit** sales you have made to your customers.

STEP 3 Cash from other sources

This includes the money you expect from other sources such as loan from **Cooperative, '*esusu;*** or **contribution,** bank loan or interest paid on your savings account. If you get financial assistance from a family or friend, write it in this column.

STEP 4 Total Cash in

Add up all the cash in from steps 1, 2 & 3. This gives you the total cash you expect to come into your business in first trading quarter (January, February and March).

STEP 5 Cash out for material costs

This is the total cash you expect to pay out in the first quarter of your trading year (January-March) to buy **goods** and raw **materials.**

STEP 6 Cash out for labour costs

This is the amount of wages and salaries you expect to pay for your employees working in production.

STEP 7 Cash out for other costs

This is the amount of cash your business will pay in first quarter of the business year (January-March) for costs such as rent, electricity, transport, stationeries and so on.

STEP 8 Cash out for buying equipment etc.

If you plan to buy any tools or equipment, go to the supplier, find out the price and write the costs in this column.

STEP 9 Any other cash out

This is the amount of any other cash you think your business will pay out during the months. These may include loan repayment, interest on money borrowed etc.

STEP 10 Total cash out

Add up all the cash out from step 5 to 9. This is the total cash amount you expect to **go out** of your business in January and subsequent months.

STEP 11 Cash at the End of the 1st Quarter

You should subtract the total **Cash Out** from the total **Cash in** to get the amount of cash you will have at the end of the period under review.

The cash flow plan for TOLA Enterprises shows that at the end of January, they expect to have:

If your N5000.00- N3900.00 = N1100.00

- **Cash Flow Plan** shows that your business is likely to run out of cash during the period, think about the following questions:
- If you buy on credit, can your supplier give you more time to pay?
- Can your supplier give you raw material on credit?
- If you sell on credit, do your credit customers pay on time?
- Can you give less credit or give credit for a shorter period?
- Do you have to give credit at all?
- Can you increase cash from sales during the period under review?
- Can you reduce any of your costs?
- Can you get a short term loan from your cooperative, friends, family or your bank?
- Is it a must for you to buy the new tools or equipment? If yes, do you have to pay for everything in cash? Can you buy it on credit or take a loan?

3.3 Business and Family

Another crucial aspect of cash management is how to separate your family affairs from that of your business.

Very **often,** most entrepreneurs **mix up** their personal and family matters with that of their business. This has led to the collapse of many businesses. To avoid this common but ugly situation, make sure that:

- You keep your business and family affairs separate.
- Do not take **away cash** or **products** from your business as a gift for family or friends.
- Pay **cash** for any goods you take away from your business either for yourself, family or friends.
- Pay yourself and members of your family who work for you **fixed salaries** or wages.

Employ only family members you can **trust,** who will be hard working and be a good example to other employees.

SELF ASSESSMENT EXERCISE

1) Define cash management
2) Explain the cash operating cycle

4.0 CONCLUSION

You should also bear the following points in mind: You can make your **Cash Flow Plan** for a **shorter** or **longer** period depending on what is suitable for your business Always make a new cash flow plan before the old one runs out. This is the only way in which you can see how much cash will **come in** and **go out.**

5.0 SUMMARY

Always use your cash flow plan to make sure your business has enough **cash all the time.** If your plan shows that there is no cash at the end of the month, it means you are likely to run out of cash that month. Look at the amount you expect to come in and, pay and **think** of how you can solve the problem.

6.0 TUTOR-MARKED ASSIGNMENT

Write out the steps for Cash Flow Plan.

7.0 REFERENCES/FURTHER READINGS

Ekong, E.E. [1977]. *Evaluating Development: The case of Western Nigeria*. Ilesha: Ilesanmi Press

Rutherford, S. [1999]. *The Poor and Their Money*. Manchester: University of Manchester.

UNIT 2 CONTEMPORARY MANAGEMENT PRACTICES IN SMALL BUSINESS I

CONTENTS

1.0 INTRODUCTION

The management of business organisations is transitory. Many of the traditional management practices are being substituted with new ones, it is therefore crucial to small business operators to clearly understand some contemporary management practices that are challenging to business operators. The main contemporary practices that are addressed in this unit include:

- Time and stress management
- Social responsibility and ethics

2.0 OBJECTIVES

At the end of this unit, the learner should be able to allocate time and manage stress effectively.

3.0 MAIN CONTENT

3.1 Management Practices: Time and Stress Management

3.1.1 Time and Stress Management

Time management can be defined as the art and science of using valuable hours prudently and effectively to achieve personal, professional and organisational objective. It involves, taking time to save time. Time management requires systematic approach to managing programmes, projects, activities and schedules.

Time is very important like many other resources such as money, materials, men, machines and information. In fact, it is more valuable than other resources. Unlike other resources only time has an absolute and finite limit. Everyone has 60 seconds in any given day. Hence, time is inelastic, perishable and cannot be stored and converted to another source.

Recognizing the impact of time in attainment of productivity, managers do not only plan their work but also their time. Modern techniques such as organisation and methods, motion study, work measurement are used to reduce unproductive time of employees.

3.1.2 Benefits of Time Management

Proper time management will yield benefits such as:

- Efficiency of work
- Development of employees
- Elimination of productivity bottlenecks
- Increase job satisfaction
- Result in higher return on investment.

3.1.3 Causes of Time Management

The major factors leading to time management can be listed below:

- Unclear job goals and requirements
- Constant interruptions e.g. A parade of visitors, and lots of telephone calls
- Excessive meetings
- Inadequate staffing
- Lack of planning and organization
- Misplaced priorities

- Failure to delegate
- Procrastination
- Inability to say ‘no’
- Excessive socializing
- Lack of concentration and, distractions

3.14 Management of Time

To manage time requires recognizing the symptoms of time mismanagement and adopting appropriate management style capable of achieving effective time management.

- The main symptoms of time mismanagement include:
- Missed deadline, being late with important commitment
- Excessive stress resulting from work overload and work pressures
- Self-doubt, pressure and tension on the job
- Sleepless night
- Exhaustion i.e. to be tired unnecessarily
- Working for longer hours
- Numerous crises
- Low productivity
- Negligence or perfunctory tendencies
- Poor quality of output

a) Achieving Effective Time Management

The only way to achieve effective management is to change the management style in such a way that effective time management will be achieved. Here are some ideas:

- Planning for your best work hours i.e. a time you are at best.
- Maintain adequate staffing to avoid work over load.
- Redesign work place to facilitate efficiency. The office should be made conducive for concentration and favourable to interaction e.g. sit where distractions will be minimal; keep reference material at close range.
- Limit your interruption by reducing unexpected visitors and phone calls, set aside some hours for meeting the visitors.
- Control meeting. Invite only people who will contribute, publish agenda in advance, establish time limit and adhere strictly to them
- Improve your reading and scanning skills
- Overcome procrastination and paralysis by setting limit for completion of tasks.

- Delegate authority to avoid work over load
- Insist on completed staff work
- Simplify your day by avoiding work overload and over-tasking your capabilities
- Develop record keeping for jobs. At the end of a day, develop a list of activities for the next day and assign a priority ranking to each
- Training and development of employee, on productivity improvement and time management
- Insist on the completion of each day's task
- Use productivity tools and equipment, if available.

b) Stress Management

Stress is a state of physical or mental tension resulting from factors that affect the body's equilibrium or the body's reaction to either pleasant or complement simulation (Barry man Fink, 1989).

At personal level, stress can have variety effects ranging from mild irritability to total disability. Medically, stress may lead to hypertension, cancer, diabetes, diarrhea, excessive heart-beat, headaches, insomnia, sexual impotence etc.

Stress can also affect people's relationship and life style. It can also lead to irritable feeling, alienation, conflict, emotional outbursts, family problems, divorce, etc.

At organizational level, stress can lead to accidents, higher workers compensation, disability, higher medical and insurance costs, higher rate of absenteeism and turnover, lower group morale, labour unrest and losses in productivity.

a) Management of Stress

Like time management, effective management of stress requires understanding the symptoms and causes of stress. If the symptoms are identified, corrective actions should be taken to minimize the stress.

b) Symptom of Stress

The non-typical behaviour of staff that clearly indicates stress include lack of appetite, inability to sleep, constant irritable feeling, inability to sit and relax, anger, bursting into tears, impatience, drug abuse, headache, excessive smoking and drinking, low concentration, frequent self-doubt, feeling of dread, feeling of tiredness, uneasy feeling, high blood pressure, frustration, nightmare, absenteeism, aggressiveness etc.

c) Causes of Stress

The main causes of stress can be discussed under three main headings:

1. **Personal Sources:** Problem such as family problems and the style of individuals may lead to stress. For instance, highly emotional, aggressive, impatient individuals are more prone to stress than others.
2. **Organizational Factors:** These may arise from the nature of the work, i.e. insufficient time, monotonous jobs, highly risky jobs, lack of trust, role conflict and ambiguity, poor management style, work overload, lack of training, lack of promotion, poor planning, poor communication, etc. are examples of organizational stress producing factors.
3. **Environmental Factors:** Business firms operate within an environment. Events that occur within the environment may result to stress. Such events include noise, crowded condition, uncomfortable temperature, inappropriate lightening, air pollution, uncomfortable furniture, competition.
4. **Reducing Stress:** The negative effects of stress can be minimized by means of the following categorized practices.

i) **Individuals.** Coping with stress by means of:

- Non-competitive physical exercise.
- Socialize with people other than co-workers.
- Open up to others by discussing freely your problems, fears and frustrations with those who care about you.
- Restrict the number of meetings you hold.
- Delegate responsibilities to reduce work overload and allow some measures of flexibility in the use of time.
- Develop a network of social support system through positive thinking, trust and have confidence in people.
- Moderate your life changes. Too much unexpected changes produce stress.
- Protect your idle leisure time by making hobbies your social life, not talking.
- Avoid setting unrealistic goals and use of drugs to check stressful events.
- Pace yourself and allow for certain amount of flexibility in your day's schedule.
- Practice good nutrition by feeding appropriately with balanced diet.
- Practice the style of time management.

- Train yourself on objective setting and adhere strictly to your plans.

ii) Organizations: Organizational sources of stress can be minimized by means of:

- Proper selection and placement to screen out individuals who are prone to stress and match individuals with their capabilities.
- Train employees on how to minimize stress.
- Improve organizational internal communication to reduce anxiety and uncertainty.
- Develop people oriented management style.
- Clarify role expectation.
- Implement employee’s assistance programme.

iii) Environment: Environmental sources can be minimized by:

- Anticipating stressful period and planning for proper arrangement of the work environment in order to provide a safe and comfortable working environment.
- Redesigning jobs where necessary to motivate workers and reduce work over load.

Social Responsibility in Small Scale Business Management

Social responsibility and business ethics are concepts that are fundamental to the survival of any business in the contemporary business environment. Social responsibility and ethical issues form daily component of business activities. They are involved in all facets of a business: decision-making, arbitration, marketing, finance, sales, performance appraisal, leadership, etc.

Social Responsibility: Business social responsibility focuses on what an organization does that affect the society in which it exists. The term, “social responsibility” can be described as the intelligent and objective concern which restrains individual or corporate behaviour from ultimately destructive activities no matter how immediately profitable, and leads in the direction of the positive contribution to human betterment (Andrew, 1977).

The theory of social responsibility holds that a business should be socially responsible to a number of groups such as:

- Owners, by maintaining a high level of efficiency and effectiveness leading to growth in investment and returns.

- Employees by making the work environment a better place to achieve the personal goals.
- Customers, by producing the required product at affordable prices, refraining from unfair trading practices, exaggeration, and misrepresentation in advertisement.
- Government, by contributing to government revenue, accelerating economic growth and complying with the legal environment requirements.
- Creditors and suppliers settlement of claims at the appropriate time.
- Larger Society; contributing to development of the society and observing ethical ideas.

Investment in social responsibility will bring about the following benefits.

- Long run profit maximization
- Enhanced public image
- Long run viability
- Prevention of government restrictive measures.
- Possibility of increasing profit in future.

Some of the social issues confronting entrepreneurs in Nigeria include:

- **Ecological issues:** Business firms must reduce or eliminate problems resulting from technological breakthroughs. Such problems include pollution, solid waste or refuse pollution, water pollution and noise pollution.
- **Consumerism:** The reaction of consumers to business injustices and their effort to have those perceived injustices remedied. Such injustices include lack of production information.
- Minorities and the poor: Discrimination of the minorities and the poor considered disadvantaged must be avoided. Example are discrimination in hiring, training and development opportunities.
- **Business Ethics:** Engaging in good, right, and moral business practices.

Small business can respond to these social issues by:

- Ensuring minority hiring and equality in treatment of women in employment.
- Taking specific steps of combat pollution such as treating of stream water by installing pollution-control.
- Providing more consumer information and improving product

safety.

Finally, in planning and evolving social responsibility programmes, the following phases of activities may be suggested:

- Awareness within the organization on the need for and importance of social responsibility in small business management.
- The entrepreneur involvement in social responsibility through specific charitable contributions, actions and decisions.
- The entrepreneur may appoint an officer to coordinate social responsibility.
- Social responsibility is incorporated into the objective of the business.
- Periodic appraisal of social responsibility performance and
- Utilizing the report for reward system.

SELF ASSESSMENT EXERCISE

What is time management?

4.0 CONCLUSION

The implication of this theory is that a business should not seek profit maximization only but should maintain an equitable working balance among some interest groups. Part of the profits made by a business should be diverted towards betterment of the society. Contribution of a business to the betterment of the society will make it easier for the business to grow, survive, and make everlasting profit.

5.0 SUMMARY

Time is very important like many other resources such as money, materials, men, machines and information. In fact, it is more valuable than other resources. Planning includes social responsibility programmes as well.

6.0 TUTOR-MARKEDASSIGNMENT

1. Discuss social obligation of organization.
2. What is stress management?

7.0 REFERENCES/FURTHER READINGS

Baumback, M. C. (1992). *Basic Small Business Management*. New York: Prentice Hall Inc.

Lawal, A. A. (1993). *Management in Focus.* Nigeria: Abdul Industrial Enterprises.

Stoner, J. Freeman, R.E. and Gilbert, D. (1995). Management. U.S.A: Prentice-Hall Incorporation.

UNIT 3 CONTEMPORARY MANAGEMENT PRACTICES IN SMALL BUSINESS II

CONTENTS

1.0 INTRODUCTION

Mr. Ade sent a boy to spy the activities of his competitor so that he can outwit him. Mrs. Adio on the other hand, bought the blade produced by her competitor and soaked them in water for some days before repacking them for sale as the original product of her competitor. The firm lost all its customers.

TOLANI Company got loan from friends and the bank. The money was squandered by the management. They declared the company bankrupt. Mr Adio produces paint. He let his waste products into the stream that runs behind the factory, which is also the source of drinking water for the neighbours. He felt unconcerned.

2.0 OBJECTIVES

The leaner should be able to explain the responsibility of a Small and Medium Enterprise to the people and the environment it is located.

3.0 MAIN CONTENT

3.1 Management Practices in Small Business

3.1.1 Business Ethics in Small Business Management

A strong organizational culture founded on ethical principles and sound values is a necessary foundation for organizational success. Business ethics is the study of people's rights and duties, the moral rules that people apply in making decisions, and the nature of the relationships among people (Stoner, Freeman and Gilbert, 1996).

In business, ethical issues can fall into four main categories:

Societal: At societal level, ethical issues determine the extent to which the social system, economic system and political system of a country have been based on sound ethical principles.

Stakeholder: Every company has an ethical duty to its stakeholders – owners, employees, customers, suppliers and the community.

- **Internal Policy:** This relates basically to the company's relation with its employees. Here, issues relating to the ethics of employment practices of the company will be addressed.
- **Personal:** Individuals deal with one another. Most of these interactions have ethical implications, individuals conscientiously or unconscientiously follow ethical guidance.

Meanwhile it should be noted that business with ethical standards is active rather than reactive. Such business will have three primary advantages:

- General greater drive and efficiency
- Attract high caliber of people and
- Develop profitable relations with its constituencies.

In view of the above mentioned benefits of sound ethical practices, entrepreneurs must be able to see ethical issues in the choice they face, make decisions within an ethical framework, build and maintain an ethical work environment.

The following are some guidelines for sound ethical practices:

- Maintaining good, moral and right relationship with employees e.g. clarity of communication, enforcement of corporate policies, good faith, bargaining, adequate compensation of employees and affirmative action of the right employees to be treated equally without discrimination.
- Ethical financial reporting i.e. avoiding fraudulent accounting reporting.
- Ethical Advertisement Preventing deceptive and unfair advertisements, such as making false claims about the product or service.
- Maintaining confidentiality of individual and corporate records.

- Avoiding unethical actions and decisions in dealing with customers.
- Discouraging gratification and kickbacks, i.e. collection of bribes, gratification and kickbacks within and outside the business.

Finally, to build an ethical work environment in small-scale industries, the following may be suggested:

- The entrepreneur must lead in maintaining and observing ethical business practices by setting good, moral and right business practices for organizational members to follow.
- Ethical codes and standard of the business must be properly documented in writing and dissemination. A good way of informing employees of ethical standards is the employee handbooks.
- Entrepreneur must design a system of monitoring or controlling ethical behaviour in his organization. This may include:
- Careful screening and selection to ensure that employees with moral ideals are employed.
- Maintaining fair and equitable treatment of employees, to guarantee their loyalty.
- Helping employees emotionally to overcome temptation to behave unethically.
- Physical security, i.e. limiting employees' access to valuable documents and business secrets.
- Designing effective internal accounting and administrative control systems.
- Formalization of agreement between the entrepreneur and employees to protect business secrets.
- Education and training of employees on ethical ideals and practices.
- Periodic monitoring of organizational practices.
- Prompt reporting of violation of company official ethical ideals and giving guarantee of anonymity and immunity from retaliatory acts.
- Recognition and reward for ethical behavior may be incorporated into the management practices.

3.2 Quality of Work Life (QWL)

QWL means a set of objectives or organizational conditions and practices that make employees to perceive that they are safe, relatively well satisfied and able to grow and develop as human beings.

QWL holds that every individual has the right to a job that satisfies his or her personal needs. The main components of QWL include:

- Adequate and fair compensation
- Safe, healthy working conditions
- Alternative work schedule
- Reduction in job stress
- Development and growth of human capabilities
- Social integration of people
- Participation in decision making
- Democracy in workplace
- Pension rights
- Profit sharing
- Company programmes designed to enhance workers welfare, etc.

The application of QWL in business management has led to improvement in productivity of a number of organizations. The Japanese firms' experiences are a clear example of QWL success. Most Japanese firms focus on human resources more than financial resources for their long run success. This is achieved through job rotation, complete appraisal system, emphasis on work groups, open and free communication, consultative decision making and managerial concern for the employees.

For attainment of QWL in small-scale business, the following practices may be suggested:

- Flexible work schedules
- Improvement in health and safety of employees
- Job design and redesign to motivate employees
- Participative management style
- Employee counseling
- Autonomous Work Group
- Career management

3.3 Total Quality Management (TQM)

Success in contemporary business environment requires proper quality management. One of the most quality improvement practices that gain momentum in recent years is a renewed attention to "total quality management".

The growing concern for total quality management can be attributed to the fact that mature quality movement is capable of:

i) eliciting employees cooperation for enhanced customer satisfaction.

ii) adding to product and service quality while not only reducing costs but increasing revenue and
iii) providing long term approach to enhancing shareholders value by achieving corporate success.

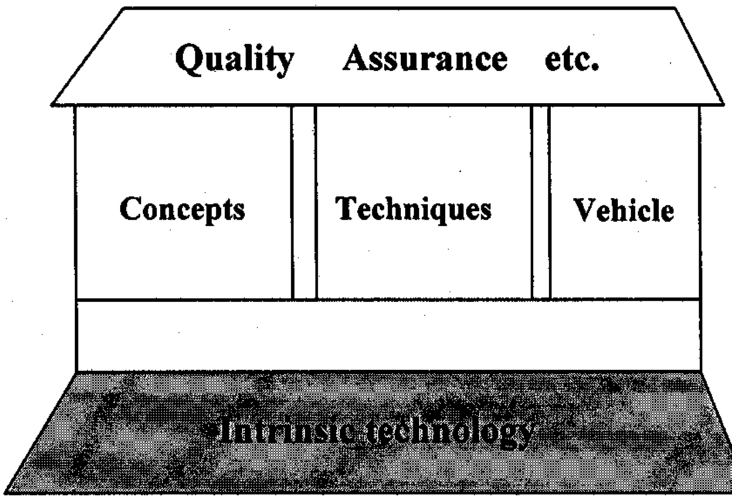
The implication of the foregoing statement is that a mature quality movement, otherwise known as Total Quality Management (TQM) is the key to the success of high performance firms like U.A.C., DUNLOP PLC, NIGERITE, ELF PLC., etc. Hence, small business organizations, irrespective of their sizes must cultivate and incorporate Total Quality Management in their organizational practices in order to survive, grow and achieve a position of the pre-eminence in the competitive environment.

Total Quality Management (TQM) is an organization's cultural commitment to satisfying customer through the use of an integrated system of tools, techniques, and training. TQM involves the continuous improvement of organizational processes resulting in high-quality products and services (Stoner, Freeman and Gilbert Jr., 1996. p.211).

3.4 TQM Implementation (TQM)

There are no universal methods of designing and implementing TQM in organizations. However, the framework developed by Kano (1993) will be useful for small or large-scale industries.

Kano (1993) developed what he termed "The House of TQM" which shows the structure of TQM as the touchstone for identifying the evolution of TQM implementation in the United States. The proposed framework is presented below:



House of TQM by Kano (1993)

The TQM structure implies that the base of a TQM programme is the "intrinsic technology", which refers to the driving technology specific to an industry. For example, petroleum engineering is the technology intrinsic to ELF PLC.

Given the existence of intrinsic technology, it is still necessary to carry out motivational programmes aimed at improving the level of organizational members' commitment to successful implementation of TQM. The problem is how to create the condition that will impel management and employees to develop positive attitude towards the proposed TQM programme.

The portion from the floor up to the roof is the TQM shown in form of pillars. These pillars include:

Concepts: These consist of both a theory of quality satisfaction of consumers and a theory of management. The main concepts required for implementing TQM include:

- Customer satisfaction, putting quality first
- The plan, do, check and action cycle i.e. PDCA cycle, process oriented production and do it right the first time.
- Emphasis on the use of data.
- Ensuring employees commitment.

Techniques: The most popular techniques are parieto diagram, cause-effect diagram etc.
Promotional Vehicles e.g. deciding on who should ultimately be responsible for promoting the company wide quality, what training and educational programmes to use in order to promote quality management philosophies.
Management tools and statistical methods are examples.

- Promotional vehicles also include the use of quality circles and team activity. Quality circle involves a voluntary problem-solving group of workers who meet periodically to explore ways of improving quality and productivity. After completing one assigned job, the same team will work on the next one in an on-going activity.
- Finally, the roof of the house of TQM shows customer satisfaction and quality assurance.
- In fact, the objectives of TQM include provisions of customer satisfaction and quality assurance. These are based on the premise that realization of continual improvement in quality

company-wide can achieve growth, improve company reputation and increase economic performance. Business firms exist to create customers and the need to ensure that a product or service provides the required level of satisfaction to the user. Hence implementation of TQM in small scale business firm is a necessity.

SELF ASSESSMENT EXERCISE

Discuss Total Quality Management (TQM)

4.0 CONCLUSION

There are many management practice options. Proper use of resources such as time, labour and other input will lead to an increased level of production.

5.0 SUMMARY

The SMEs cannot work in isolation. It is therefore important for accurate, timely and efficient data; hence adequate records must be maintained by small scale industrialists as well as proper motivation of employees to achieve company-wide commitment to the quality programme.

Systematic integration of quality into organizational system by training and having quality awareness programs, group interaction, and avoiding bureaucratization of organizational practices is also important.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the implementation of TQM.

7.0 REFERENCES/FURTHER READING

Baumback, M. C. (1992). *Basic Small Business Management.* New York: Prentice Hall Inc.

Lawal, A. A. (1993). *Management in Focus Nigeria*. Abdul Industrial Enterprises.

Stoner, J. Freeman, R.E. and Gilbert, D. (1995). *Management.* U.S.A: Prentice-Hall Incorporation.

UNIT 4 ENTREPRENEUR AND ENTREPRENEURSHIP

CONTENTS

1.0 INTRODUCTION

In the first twelve units, we discussed the various policies formulated and the institutions put in place by the government in order to achieve economic growth via the development of the SMEs, as well as the importance of record keeping. The policies formulated and the institutions established are of no use if the people do not take advantage of the system by starting their individual projects and following proven guidelines in the management of the projects. The next five units will therefore be devoted to the studying of topics that will explain who an Entrepreneur is and how businesses can be managed to optimal utilization of resources and profit maximization.

Many authors have defined Entrepreneurship in many different ways, yet there is no single universally accepted definition. Some of these definitions given are looked into in this unit.

2.0 OBJECTIVES

The objective of this unit is to explain the definition of Entrepreneur as well as the functions. At the end of the study, you would be able to define Entrepreneur and explain his role in the economy as well as the environment within which he operates.

3.0 MAIN CONTENT

3.1 Entrepreneur and Entrepreneurship

3.1.1 Definitions

Entrepreneurs are, therefore, agents of change and growth as they act to accelerate the economic growth, dissemination and application of innovative ideas. In doing so, they not only ensure efficient use of resources but also expand the boundaries of economic activities. In the developed economies, entrepreneurs generate two-thirds of all new jobs; account for at least two-thirds of all technological innovations; and influence more than two-thirds of the differences in economic growth. In these days of globalization and digital economy, small firms play a crucial role in experimentation and innovation that lead to technological change and employment growth.

An entrepreneur is one who discovers and decides what opportunities he wants to pursue and the risks he is willing and able to accept.

The entrepreneur somehow decides between time and money, between building his own and buying, whichever the opportunity is in order to attain his goals.

An entrepreneur is creative and this is the willingness to look beyond products to ideas. Products and processes are only the vehicle through which an idea becomes effective.

Entrepreneurship involves the creation of values, the process of starting of growing a new profit-making business, the process of providing a new product or service, and the intentional creation of value through organization by an individual contributor or small group of partners (Hisrich,1986).

Oslon (1987), leaning on the classical theory of the capitalists, see entrepreneurship as risk taking. The entrepreneur is an innovative individual who establishes and manages a business for the purpose of profit and growth. He says that the critical trait of the entrepreneur ranges from a keen sense for innovation, knowledge of what is important and what needs to be done to a high tolerance for ambiguously unstructured situation. This serves as attitudinal mode for a moderate risk taker.

Entrepreneurship involves the harnessing of individual dreams and imaginations to produce values in form of products and services.

3.2 Risks Borne by the Entrepreneur

A good entrepreneur or business operator must identify four essential kinds of risks:

1. The risk one must accept i.e. the risk that is built into the nature of the business.
2. The risk one can afford to take.
3. The risk one cannot afford to take.
4. The risk one cannot afford not to take.

An entrepreneur is an initiator of a business. The initiator bears the financial risks, designs the operations and management of the business Schump
ter (1934) says for example, that the entrepreneur's goal is to develop new ideas, goods and services as well as new methods of production, identifying new markets, discovering new sources of supply and developing new organizational forms.

3.3 The Role of the Entrepreneur

The role of the entrepreneur may be seen as follows:

The entrepreneur initiates an idea which if successful creates a new industry and not just a new product. For example, the story of the Xerox Corporation – one of the spectacular recent growth companies in the United States is a breakthrough story. The process was developed to overcome a major restraint on office reproduction technology. The Haploid Corporation (as Xerox was then called) was a pigmy when it picked up the process. Yet it spent $40 million of borrowed money until it had a process that worked; but the rewards are extraordinary.

- The entrepreneur diversifies the economy.
- The entrepreneur converts every opportunity into something that will meet the need of the consumer.
- Through research and development, the entrepreneur explores ways of developing local resources and encourages their uses.
- Entrepreneur helps in recognizing business opportunities, mobilizing resources and persisting to exploit these opportunities that are a necessary ingredient for self-employment.
- The entrepreneur is the agent who maximizes opportunities for capital investment. The entrepreneur is a pacesetter. He introduces the springboard on which business developers lift up. The entrepreneur initiates new technology. For example, new technology is being discovered in computer. This has now globalized the world.

- The Information technology entrepreneurs have through globalization removed distance following the popular saying that "with Internet, there is no distance".

3.4 Inducement for Entrepreneurship

Hisrich and Bush (1986) identified nine (9) factors in the order of importance as being significant reasons for entering into business:

1. Achievement
2. Opportunity
3. Job satisfaction
4. Independent
5. Economic necessity
6. Wealth
7. Career/Security
8. Power; and
9. Status/Prestige

Stevenson (1986), in addition, observed that displacement from one's job, dissatisfaction, inability to find a suitable alternative, and financial independence are motives for venturing into businesses.

Gilad and Lavin address the issue of entrepreneurship from the behavioural perspective. Their postulations are premised on the contingency school of thought, which assumes that the environment emits signals of "push" and "pull" variables. For example, people are pushed into business through dissatisfaction with existing employment, class of employment and career set back.

On the other hand, they are pulled by the existence of potentially profitable opportunities and by the influence of parents, role models and background.

In relation to the environmental factors which push entrepreneurs into business, Gilad and Lavin identified increase in unemployment rate, higher quit rates, higher frequency of factory shut down, decline in income, shrinking labor market, high labour turnover, increase in savings which is a potential source of self-financing, skill acquisition through training programmes and provision of basic infrastructure that would enable entrepreneurs exhibit their business acumen.

One may therefore be justified to say that entrepreneurship arises as a result of:

- **Availability of opportunities: -** This may be an opportunity one may or may not have been looking for. It may be financial opportunity, power opportunity, career opportunity, skill opportunity, technological opportunity, etc.

- **Skill acquisition: -** This is in terms of basic skills related to the job one wants to venture into, for example, a worker who has acquired sufficient skills in a given trade may be intoxicated into entrepreneurship because of it.
- **The presence of basic infrastructure: -** The availability of good water, good road networks, electricity and other social amenities encourages the growth of entrepreneurship and other small scale businesses.
- **Inability to find suitable alternative employment: -** The inability to find a suitable alternative employment can lead to entrepreneurship. For example, a person who was in a senior management position in, say, an international organization, will find it difficult to condescend for a lower employment. Instead of taking up another employment with lower pay and status, he/she prefers to be self-employed. This may be in form of innovating an existing product or service or creating a completely new one.
- **Job dissatisfaction: -** As a result of frustration, humiliation, dehumanization, poor pay, poor working conditions and workplace, demotion, dearth of growth, etc. job dissatisfaction may set in and this propels individuals into finding alternatives.
- **Job satisfaction and skill development: -** On the other hand job satisfaction can result in entrepreneurship. This is so because an employee, who is satisfied, may be as a result of skills acquired, savings accumulated, information networks, power and wealth of experience may not want these to waste. He rather ploughs them into some ventures.
- **Status/ Class of employment: -** Since there are different grades of employment and different people have their status to maintain, it will therefore be unacceptable to a production manager if he's demoted to a factory worker he may resign to start his own business.
- **Increase in employment rate: -** The increasing job insecurity act as a catalyst in the creation of entrepreneurship. The team of graduates produced yearly is therefore encouraged by the National Youths Service Corps (NYSC) and the National Directorate of Employment (NDE) to develop their skills for entrepreneurship.

- **High frequency of Retrenchment: -** Some factories and government Ministries retrench workers. When this happens all the laid-off workers must find alternatives.
- **Increase in savings and wealth: -** Entrepreneurship may arise as a result of appreciable savings and wealth. Savings and wealth here may include finance, skills, knowledge, land and

building, education, information, etc.

- **Recognition and power: -** The quest for recognition and power may lead to entrepreneurship. For example, 'I want to be the inventor of…' 'I want to be the first person to…' etc. In other words, people want to show off e.g. 'I can do it' and so on. This results in creativity.
- **Independence: - The quest for p**eople to be independent will make them to resign their appointment and start a business on their own. This will lead to financial independence, social independence, class independence etc.
- **Training: -** Drawing from the information world, all entrepreneurs are able to explore and optimize available opportunities for healthy competition. Universities, polytechnics, research institutes and other special training institutions, including vocational training centers, ensure thorough conduct of practical sessions of their courses in order to propel the entrepreneurship in the students.
- **Other factors may include:-**High rate of labour turnover, decline in income, and lack of job opportunities.

3.5 Environment of Business

The environment may be defined as the set of all objects, which are influenced by and/or influence the system of interest. The environment is characterized by complexity, turbulence, uncertainty and risk; hence the need for the entrepreneur to identify and recognize his/her own relevant and negotiable environment from the cascading environment. Purposeful business systems influence and are influenced by their environment principally because the business system inputs are derived from the environment and the outputs are consumed by the environment. The entrepreneur therefore, needs to analyze the environment on a continuous basis because it offers both opportunities and threats.

The environments of business can be internal (micro) or external (macro) and these are inspired and maintained by the entrepreneur (a person or investor who organizes or manages a commercial undertaking) after he/she has determined 'what to do', 'how to do it' 'when to do it' and 'Where to do it'. The micro business environment may include the management structure and element such as labour, machine and place which interacts within the work setting. It is necessary to have an effective mix of the elements to be able to maximize productivity and profit.

The macro business environment may be classified as physical, sociocultural, political, moral, technological, economical, legal, religious etc.

3.5.1 Political Environment

The political environment is very important for the performance of the business. It has been discovered that the poorest nations are those that are politically unstable. The entrepreneur should have idea of the following:

- General political climate of where the business operates: He should know and avoid illegal goods/services. For instance, the Federal Government has sanctioned the importation of textiles, men's shoes, toothpicks etc. Unless an entrepreneur knows this he will not make a success in that area of business.
- Trend towards general regulation of the industry: This means that entrepreneurs should be conversant with all regulations governing the business of their choice and interest.
- Prices and income: Government makes regulations on minimum wages and price control board. The latter is however not very effective because of current currency deregulation.
- Industrial relations: The entrepreneur should be aware of the regulations on labour relations, regulation on localization of industries, registration of patent and trademarks/franchise, regulation with respect to business practices e.g. minimum, wages, hours of work, quality of products, health and safety procedures.

3.5.2 Technological Environment

The more technological developed a community is, the better it is for businesses to spring up. For example, businesses emanate faster in cities where there are facilities for growth than in the rural areas. It is easier and almost cheaper to start a cyber café in Lagos than in a hut in Delta State because of the technology already in Lagos which is not at Agbor.

3.5.3 Social Environment

The social environment comprises of the structure of the population, regional location of target population, changes in class structures, new values and attitude to work, type of authority, leisure and changes in labour as well its mobility etc.

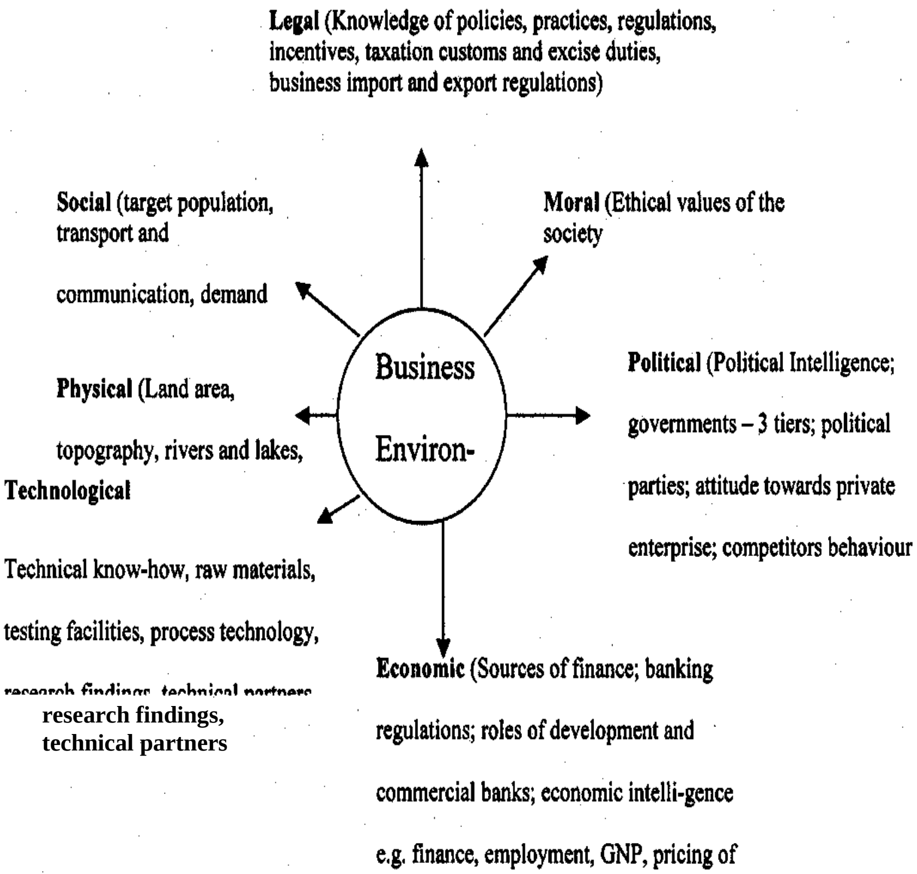
3.5.4 Competition

Every entrepreneur should know as well as take the competitors' activities into consideration when planning her activities. Competition may be stronger as a result of merging and acquisition, product changes and process changes. For example, if your competitors discover better and cheaper processes of production and distribution, they will outwit you.

3.5.5 Physical Environment

As a result of the favorable physical environment in our country, the following principal raw materials are available and provide opportunities for the establishment of industries e.g. for:

i. Agro-allied: cassava, yam, rice, maize, soybean, sorghum, beans, groundnuts, vegetable oil, citrus and other fruits. Melon, tea leaves, cocoa, malt, sugar cane, ginger, garlic and other spices.
ii. Building and road construction: bitumen, timber and wood, sand, clay materials, limestone, ceramics, sanitary ware, iron reinforcements etc.
iii. The product; National economic policies



3.6 Economic Environment

The entrepreneur should be familiar with

- The general state of the economy e.g. Structural Adjustment Programme (SAP) to salvage the economy and reset it on a healthy course of reconstruction, growth and development; foreign exchange market (FEM) for buying and selling forex at market determined rates.
- National economic policies especially those relating to small and medium enterprises.
- Sources of finance and prevailing terms.
- Banking regulations and special concessions to small enterprises.
- Roles of Development and Commercial Banks.
- Economic intelligence – information on economic activities both current and future.
- Level of employment system and distribution of purchasing power-income.

SELF ASSESSMENT EXERCISE

- Give two definitions of an Entrepreneur
- What are the roles of an Entrepreneur?

4.0 CONCLUSION

The Entrepreneur is needed to accelerate economic growth in any economy. Both positive and negative reasons can spur an individual to abandon his work and become an Entrepreneur within a business environment.

5.0 SUMMARY

The Entrepreneur is a risk taker who brings about innovation in an economy. The reward of his action is the profit that accrues to him. This will further lead to growth within the system.

6.0 TUTOR-MARKEDASSIGNMENT

1. List the factors that induce entrepreneurship. Discuss two of them.
2. List the different business environment. Discuss two.

7.0 REFERENCES/FURTHERREADINGS

Charles, O.U (2004). *Becoming a Successful Entrepreneur*. Lagos Hedrix Production.

Siebert, J.C, (1989). *Concept of Marketing Management*. New York: Englewood Cliffs Publication.

UNIT 5 POSSIBLE PROJECTS

CONTENTS

1.0 INTRODUCTION

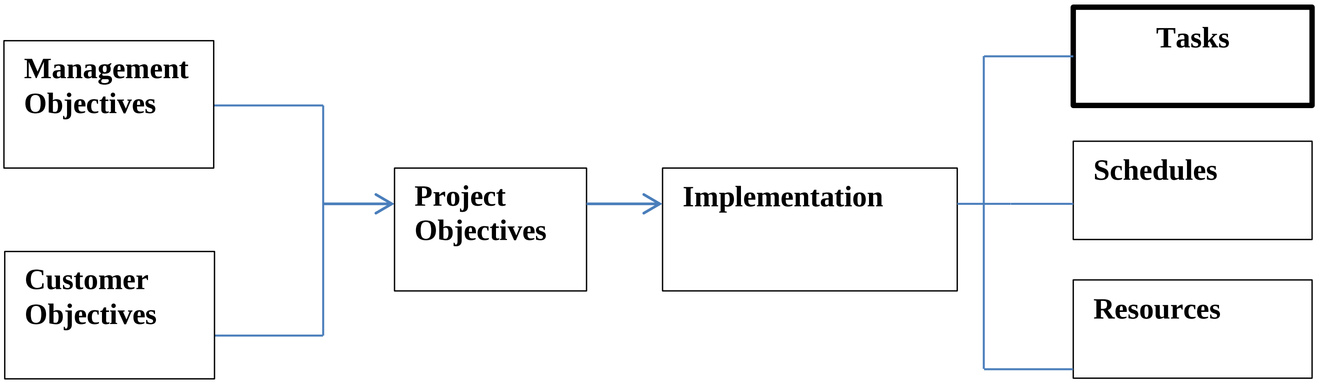
This unit is just an additional piece of information which will appeal to those who are interested in embarking on some business ventures. The list is inexhaustible. This does not serve as a feasibility report. I do hope you will find it useful.

2.0 OBJECTIVES

The objective is to enable the learner to have insight into some of the projects that he can venture into.

3.0 MAINCONTENT

3.1 Business Project Management Structure



3.2 List of Possible Projects

Some examples of SMEs in Nigeria that you can start:

Fruit juices e.g. orange, pineapple, apple, lemon cashew, coconut, etc. rice milling,
cotton seed oil, bakery and confectionary, melon seed oil, starch from cassava, sanitary wares, animal feeds, soya beans cultivation, food processing, palm oil trade, interior decorations, grain processing, fish farming, maize flour, wooden toys making, canned tomatoes, biscuit bakery, vegetable oil processing, yam flour, coconut processing, craft bag, oil mills, smoked fish factory, paper bags making, rice flour, soap and detergents, baskets & cane chairs, bone crushing, leather (footwear) production, leather tanning, chip board and glass nails, laminated photo frames, radio cabinets, honey extraction, cassava farming, cushion cover production, table napkins production, vegetable farming, furniture making, textiles production, glue manufacturing, hair brushes, tooth brushes, tooth picks, matches, thread, crayon manufacturing, fumigation and pest control, shoe polish, ruler manufacturing, production of tissue and serviette, corrugated, card-board boxes, etc. mat making, planting and selling flowers, bolts, nuts and screws production, ceramic blocks, concrete blocks, chalk manufacturing, pomade making, concrete poles and pipes, sundry, red bricks, pencil making, optical glasses, crown cork manufacturing, production of insecticides, paint manufacturing, staple pins, poultry wire net, barbed wire, steel rope, polythene bags, plastic toys, fasteners, tiles (floor and wall), wire mesh, production of chemicals, oil and gas servicing, table water production, panel beating, gem clips and safety pins production, bicycle spokes making, plant and hangers (steel wire) forging and machining plants to manufacture basic

spare parts for the automobile industry, hinges and door locks, net and fencing wire, advertising specially, art gallery, auto driving school, marketing, recruitment centre, auto-mechanic service, bay-sitting services, beach concession, leisure centre, rental service, travel agency, transportation: passenger, haulage:- air, water or land, freight handling and management: air, water or land, estate agency, birthday, wedding and ceremonial cakes, booking agency, building contractor, computer retail agency, GSM retail agency, health centre, cleaning services, cold room services, consultancy services, financial brokerage, stock brokerage, convenience shop, dancing school, day care and nursery centre, debt collection agency, duplicating, executive hair cut centre, fast food and snacks shop, magazine stand, laundering, scavenging, book binding, vulcanizing, refuse collection, hair dressing, music school, rubbish clearing, party organizing, secretarial school, remedial teaching, party equipment rentals, broom making bead making, raffia making, candle, plumbing, spraying, printing, videographer, rabbitry, piggery, sheep and goat rearing, battery conditioning, iron founding, restaurant management, baby diapers production, t-shirt making, ice-block making, nails manufacturing, button manufacturing cornflakes, welding electrodes, black board dusters, office files, making carbon, papers production hoses, cotton wool production, sale of machines tools, production of industrial yeast from molasses production of adhesives, party catering, home delivery services, newspaper vendoring, motor cycle transportation, fleet production of printing ink advertising, broadcasting manufacturing and financing consultancy real estate consultancy, building consultancy, dredging and related engineering services, electrical engineering, telecommunications, auditing, hotel development management, travel agency, courier services, sale of agricultural equipment, manufacturing of electrical and electronic domestic appliances, receivership and services, special corporate services, company secretarial services, manufacturing fabrication of aluminum windows and doors, installation of aluminum roofing sheets, installation of aluminum doors and windows, fabrication of suspended ceiling, partitioning system services, curtain walling marketing of plastic products, medical equipment, scientific equipment, manufacture and sale of crown caps, metal containers, screw caps, roll-on pilfer-roof caps, trinkets, cotton buds, production of disinfectants manufacturing of fuel filters, warehousing, photography, production of fishing net, short term financing radio/television repairs and maintenance generator repairs and maintenance beauty saloons shoe repairing / cobbling watch repairing boutique-men’s, ladies, children’s or general Masonry

3.3 Some Exportable Items and Where They Are Needed

Cocoa based beverages - Netherlands, UK, Holland,

Republic of South Africa
Gum Arabic - Tunisia;
Cairo, Yugoslavia Napkins and Towels Guinea, Senegal
(W. African Countries)
Honey Germany, Italy, France, UK

Cassava Kenya, Sweden, Germany USA
Onions U.K. Germany,
Italy, France Cosmetics - ECOWAS market
Matches - ECOWAS market Handicrafts
USA, UK.
Farm Products Chad, and Niger Republics
Vegetables Europe
Snails U.K.
Mangoes USA, Germany, France
Millet Saudi Arabia, U.K, Kuwait ,Dubai
Sweet potatoes Sweden
Soya beans Germany, France, Italy, UK, Belgium
Groundnuts Saudi Arabia
Fruit juice Burkina Faso
Cashew Netherlands
Cement Chad, Niger Republic
Animal feeds ECOWAS market, Sweden
Ceramics and Tiles ECOWAS market
Furniture Burkina Faso, Togo
Insecticides Republic of Benin, Congo, Cameroun
Carrot Saudi Arabia, Niger Republic
Leather India, Korea, Poland, Sweden, Netherlands
Cow horns USA, Europe, Germany, Finland, Holland, Sweden, Tunisia
Cotton seed and lint U.K, Taiwan, Belgium, Yugoslavia

4.0 CONCLUSION

The Entrepreneur is needed to accelerate economic growth in any economy. Both positive and negative reasons can spur an individual to abandon his work and become an Entrepreneur within a business environment.

5.0 SUMMARY

This unit provides an introduction to the principles of project management and how to apply these principles in their daily activities. The Entrepreneur is a risk taker who brings about innovation in an economy. The reward of his action is the profit that accrues to him. This will further lead to growth within the system.

6.0 TUTOR-MARKEDASSIGNMENT

1. List the factors that induce entrepreneurship. Discuss two of them.
2. List the different business environment. Discusstwo.

7.0 REFERENCES/FURTHERREADING

Charles, O.U (2004). *Becoming a Successful Entrepreneur*. Lagos Hedrix Production.

Siebert, J.C, (1989). *Concept ofMarketingManagement*. NewYork: Englewood Cliffs Publication.