

## RESEARCH ARTICLE

## Statutory Institutional Finance Scheme and Entrepreneurial Development in Lagos State

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### Abstract

This study empirically evaluates the effect of statutory institutional finance scheme on entrepreneurial development in Lagos state, Nigeria. Both Primary and secondary data were employed in this study. Data were collected through questionnaire was carried out in Lagos state on selected two hundred and fifty (250) entrepreneurs in Lagos state, in which Lagos were stratified into five (5) strata representing the 5 divisions that make up the state which comprises of Ikeja Badagry, Ikorodu Lagos Island and Epe divisions. (IBILE), but only two hundred and one (201) were filled-in and returned. Data were analysed using descriptive statistic tool and the formulated Hypotheses were tested through Regression Analysis and Anova. The result of tested hypotheses indicated that statutory institutional finance scheme has positive significant effect on entrepreneurial development in Lagos state, Nigeria with ( $R^2$  of 0.76%; Adj  $R^2$  75% ;  $P < 0.05$ ). Base on the findings it is recommended that Government at large should formulate flexible laws and by-laws which are user friendly for different small enterprises seeking loans from different financial institutions.

**Keywords:** *Finance Scheme and Entrepreneurial Development.*

### Introduction

Entrepreneurial development has become a subject of interest among researchers in the last three decades. This is as a result of the vantage position the concept occupies in the economic transformation of many countries in Nigeria, the importance of Entrepreneurial development cannot be undermined; its contributions are quite obvious and visible in economic transformations. This has been evidenced by the growing number of people specializing in the conduct of small business. Entrepreneurial Development is a set of activities put together to enhance the entrepreneurial spirit, behavior, skills, attitude and aptitude of individuals and groups to assume the position of entrepreneurs through a structured training, enlightenment and other capacity building programmes. It is an ability to identify business opportunities, harness the necessary resources to use opportunities identified and sustain appropriate actions towards the actualization of business

objectives. It is also seen as a process of productively transforming an individual or group to become entrepreneurs through a planned skill acquisition and training programmes [1-4].

A number of developmental Financial Institutions and schemes were also established to aid the development of entrepreneurial performance in the country. Attempt to alleviate financial constraints for an entrepreneur is an important goal for policy makers across the world. For instance, the United States Small Business Administration funded or assisted in the funding of about 200,000 loans in Fiscal Year 2007, at an administrative cost of about \$1,000 per loan (SBA, 2008). Financial assistance for entrepreneurs is also high on the agenda of the European Union (EU) and Organisation for Economic Co-operation and Development (OECD), where member states are urged to promote the availability of risk capital financing to entrepreneurs (OECD,

2004). Also, as part of its effort to promote entrepreneurial development in the state, the Lagos state government on 6<sup>th</sup> December, 2014 released the sum of 100 million naira in support of young graduates under the umbrella of After-school Graduate Development Scheme (National Mirror, 8<sup>th</sup>, Dec.). The loan according to the Governor is interest and collateral-free. It is solely in support of young graduates who have entrepreneurial tendencies in them so as to make them job providers instead of job seekers.

For an individual to be labeled a successful entrepreneur, such an individual or group needs financial empowerment or back-up as a matter of credit Availability.

Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally, with an interest. Also, Credit is the confidence of the bank to its customer to give him a certain amount, to be used for a particular purpose for a certain period of time and payment is made under specific condition, and provide guarantee for the bank to recover the loan. Credit is of vital importance for the working of an economy. It is the oil of the wheel of trade and industry and helps in the economic prosperity of a country [5-6].

Statutory institutional finance scheme are financial mechanism that enhances opportunity to entrepreneurs on credit facilities from sources like Bank of Industry (BOI), Small and medium development Agency of Nigeria (SMEDAN) and Others.

All These Agencies are mandated to provide financial and non-financial assistance for the establishment of large, medium and small projects as well as an expansion, diversification and modernization of existing enterprises and rehabilitation of ailing industries. They are all committed to rapid development of entrepreneurship in line with Federal Government Industrial Policy focus within the framework of Economic Empowerment Development Strategies of the nation. This research is aimed at establishing the effect statutory institutional

finance scheme on entrepreneurial development in Lagos state, Nigeria.

### **Statement of the Problem**

The attention given to the Entrepreneurship discourse is still not enough considering the vantage position the concept occupies in the economic transformation of both developed and developing countries. It is generally believed that the concept of entrepreneurship is the pedestal upon which the economy of the world rests.

The extent to which credit accessibility can improve entrepreneurial development is worth exploring. The effect of Statutory Institutional credit accessibility on entrepreneurial development has not been greatly explored in Nigeria especially as it concerns the statutorily established government fund providers such as the Bank of Industry and others.

### **Research Hypotheses**

- Ho1: There is no significant relationship between the Statutory Institutional Finance Agencies and entrepreneurial development in Lagos state.
- Ho2: Statutory Institutional Finance facility has no significant influence on entrepreneurial development in Lagos state.

### **Literature Review and Conceptual Explanation**

#### **Financial Capital/ Liquidity Theory**

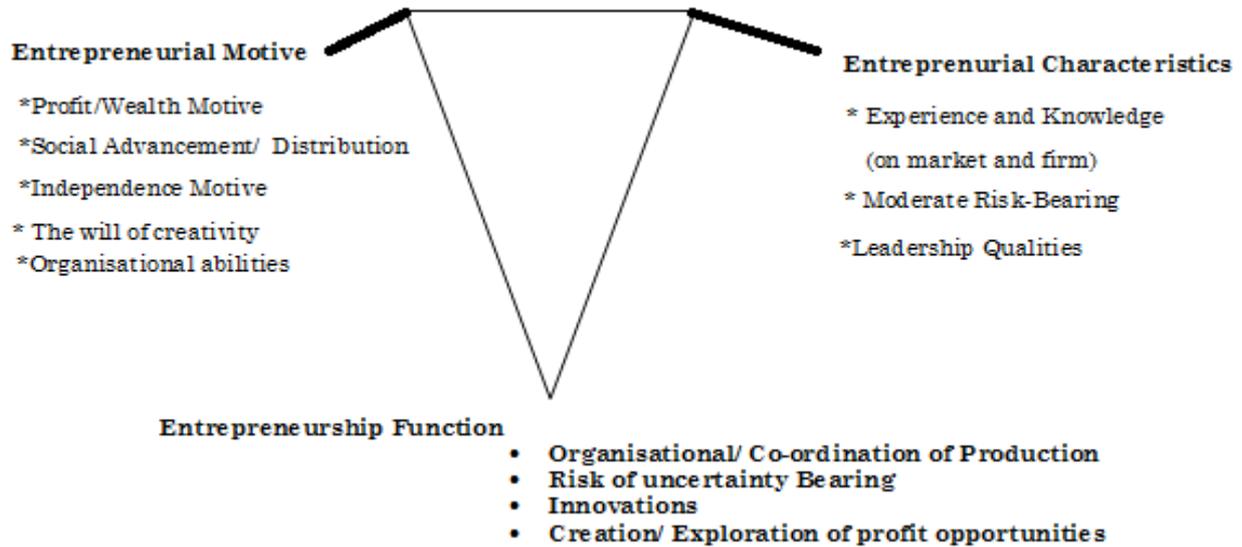
Empirical research has shown that the founding of new business or establishment is more common when people have access to financial capital. The theory suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities, and set up a business [7].

#### **Emerging Systematized Theory of Entrepreneurship**

Some recent studies have introduced a triangulation approach to harmonizing some aspects of entrepreneurship. Examples include Ahamad and Seymour [8].

Having reviewed theories and models on entrepreneurial motives, entrepreneurial functions and entrepreneurial characteristics, entrepreneur” can be described by twelve main behavioral, sociological and economic elements. There

must be the right combination of entrepreneurial characteristics and functions for the anticipated entrepreneurial motives to be achieved



**Figure 2.1: Element in describing entrepreneur**

### Concept Entrepreneurial Development

Entrepreneurial Development has been conceived by successive government as a programme of activities to enhance the knowledge, skill, behaviour and attitude of individual and groups to assume the role of entrepreneurs. Taking this into consideration, they have put in place confidence for building successful programmes in different parts of the country [9].

Entrepreneurial Development refers to the process of enhancing the entrepreneurial skills, knowledge, behaviour, attitude and aptitude of people through structured training and other institution-building programmes. Entrepreneurial Development aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. Entrepreneurial Development focuses on the individual who wishes to start or expand a business.

Furthermore, it takes place within a framework of forces that constitute the system environment, which are either internal or external. A critical issue in the

entrepreneurial development and growth is firm’s ability to adapt its strategies to a rapidly changing system environment to which the entrepreneurs’ role is critical to the success or failure of such firm. Entrepreneurial success is simply a function of the ability of an entrepreneur to see opportunities in the market place, initiates changes (or take advantage of change) and create value through solutions.

Entrepreneurial development concentrates more on growth potential and innovation. Essentially, this means the acquisition of skills that will enable an entrepreneur to function appropriately and adequately in terms of attaining present result based on previous decisions and planning for the future, based on present circumstances, maintaining and developing the organized capability which makes achievement possible and coordinating the specialist functions that should enable a firm to perform the technical task in marketing, personnel, research and development, manufacturing, finance and control, especially in the face of changing technology and dynamic industry.

## Concept of Credit Facilities

“Robust economic growth cannot be achieved without putting in place well-focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit.” This is a pointer to the fact that, for every business enterprise to remain a business venture, there is the need to sustain financial inflows into such an organization and one of the ways this can be done is to enjoy credit facilities from commercial banks and other sources available.

According to Alzubaididi [5], Credit is the confidence of the bank to its customer to give him a certain amount, to be used for a particular purpose for a certain period of time and payment is made under specific condition, and provide guarantee for the bank to recover the loan. Again, credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally, with an interest.

Credit is of vital importance for the working of an economy. It is the oil of the wheel of trade and industry and helps in the economic prosperity of a country. It helps to increase productivity and wealth creation. In a developing country, in which new banks and financial institutions are set up; such institutions provide credit for tiny, small, medium and large industries, to agriculture and so on, that help in economic development and growth.

Businesses either small, medium or big need credit line to be in a good stead to make reasonable impact in the economy [10].

## Competition among Financial Intermediaries

The level of competition between financial intermediaries can impact the terms of credit to startups as well as the degree to which capital is allocated to the highest-quality projects [11]. The issue is particularly acute in developing countries where the system may be subject to political capture [5]. Moreover, although the

number of banks fell over this period, the number of bank branches increased considerably, reflecting greater competition and increased consumer choice in local markets. From a theoretical perspective, these reforms would have had a strong positive effect on entrepreneurship if startups faced substantial credit constraints. Moreover, since entrepreneurs typically would have faced fewer non-bank options for financing their projects relative to existing firms, more efficient allocation of capital within the banking industry should have led to larger increase in startup entry relative to facility expansion by existing firms if startups faced barriers in their ability to raise sufficient external capital to grow.

## Structure of Financial Intermediaries and their Relationship with Entrepreneurial Development

Financial intermediaries provide an important role in deciding which projects to fund and in monitoring these projects after funding them. As the costs of acquiring information about borrowers increase, it becomes harder to fund them profitably. Establishment of business have several advantages in this respect such as history of audited financial statements, greater collateral to pledge against loans, and potentially the ability to partially fund expansion through retained earnings. On the other hand, information asymmetry and limited assets are particularly acute for potential entrepreneurs, resulting in good project going unfunded because intermediaries are unable to evaluate them effectively [12]

Large costs of screening and monitoring startups cannot be completely overcome by raising interest rates. They observe that raising interest rates may lead to adverse selection, where only entrepreneurs starting the most risky projects would agree to the bank's loan terms. In such an instance, the banks would face greater default probabilities, making the loans unprofitable in expectation. They show theoretically that in such an instance, banks may be forced to ration credit rather than raise interests to market clearing levels. Credit rationing causes entrepreneurs to face financial

constraints. Thus, innovations within the financial sector that lower information cost can have important effects on reducing financing constraints for entrepreneurs.

### **Small Business Enterprises**

In every economics sense, small business enterprises have been seen has a pivotal instrument of economic growth and development either in developed for developing economics. Several studies have confirmed this [13]. Data from the federal office of statistics in Nigeria affirmed this importance when it revealed that about 97 percent of the entire enterprises in the country are SMEs and they employed an average of 50% of the working population as well as contributing to 50 percent of the country industrial output.

Although small business activities had existed since the period of independence in Nigeria, however, conscious effort on small business enterprise as instrument of economic and national development started in 1970-1979 when Nigeria adopted the policy of indigenization through its national development plan program.

The association of Nigeria development finance institutions in 2004 issued a statement in relation to the why SMEs performed poorly in Nigeria. Truly, finance is usually a constraint to SMEs, while this may be true empirical evidence shows that finance contributes to only about 25 percent of the success of SMEs [13]. Thus the creation of other appropriate support system and enabling environment are indispensable for the success of SMEs in Nigeria

### **Review of Related Studies on Financing and Entrepreneurship Development**

The development process of any country is determined by the way the production forces in and around the economy is organized. For most countries the development of industry had depended a great deal on the role of private sector. Entrepreneurship has played a major role in this regard.

This opinion is supported by Shane [10] that the promotion and development of entrepreneurial activities would aid the dispersal and diversification of economic

activities and induce even development in a country.

Several studies have been carried out to examine the importance of microcredit in the economy and there seems to be a consensus from most of these studies that microfinance contributes meaningfully to economic growth and development. A review of a few of the empirical literature is provided below:

Afolabi [14] evaluated the effect of Small and Medium scale Enterprises financing on economic growth in Nigeria between 1980 and 2010. The study employed Ordinary Least Square (OLS) method to estimate the multiple regression models. The estimated model results revealed that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product and commercial bank's credit to SMEs exert positive and significant impact on economic development proxy real gross domestic product while lending rate is found to exert negative effects on economic growth. The necessity and strategies of re-positioning commercial banks in order to enhance the productive capacities of SMEs employing the Error Correction Model and Co-integration Test. The result showed that there was co-integration between re-positioning of commercial banks and capacities of SMEs to deliver products/services and also there was significant dispersion resulting from lending conditions and macroeconomic variables.

Assert that the major barrier to rapid development of the Small and Medium scale Enterprises sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business, especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantee and lack of information about their ability to repay loans.

The impact of finance on entrepreneurship growth in Nigeria using Endogenous Growth Framework, the results show that the

finance, interest rate, real gross domestic product, unemployment and industrial productivity are significant to entrepreneurship in Nigeria. The result also shows a uni-directional Granger causal relationship and suggests that access to finance by entrepreneurs has significant relationship with economic growth in Nigeria.

The paper therefore recommends the formulation of effective macroeconomic policy targeted at entrepreneurship financing and growth. The impact of financing small scale enterprises on economic growth using quarterly time series data from 1992 to 2009. The study revealed that loan to small scale entrepreneurs have a positive impact on economic performance and concluded that access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development.

## Methodology

This study make used of A survey of registered entrepreneurs, according to the Nigerian Association of Small and Medium Enterprises (NASME), Lagos state chapter. Emphasis is on entrepreneurs who have at one time or the other benefitted one form of credit facility or the other from the Statutory Institutional Financing Agencies. The choice of Lagos state is based on the fact that, it is the hub of commercial activities in the country, a microscopic picture of Nigeria and houses the busiest seaport on the continent.

The population of study is the aggregate of all registered entrepreneurs who are active Micro, Small and Medium Business operators in Lagos state. These people would have at one time or the other benefitted from the loan facility from the Bank of Industry (BOI), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and Small and Others in the last five years. Both stratified random and purposive sampling techniques will be adopted. Lagos state will be stratified into five (5) strata representing the 5 divisions that make up the state i.e. Ikeja Badagry, Ikorodu Lagos Island and Epe divisions (IBILE). Two (2)

Statutory Institutional Financing Agencies that are established to assist entrepreneurs would be selected purposively, such as the Bank of Industry (BOI), Small and Medium Enterprises Agency of Nigeria (SMEDAN). The reason for the purposive choice of these two Agencies is as a result of their active involvement in the disbursement of loans to promoting entrepreneurship (NEDEP, 2015). Both primary and Secondary data was used. A total of two hundred and fifty (250) copies of Questionnaire was distributed to selected entrepreneurs randomly to give room for an unbiased representation and two hundred and one (201) were filled and returned. Descriptive statistics such as table and percentage analysis were used to analyse the data obtained for this study while inferential Statistic such as regression Analysis and Anova was used to analyze the formulated hypotheses

## Results and Discussion

### Influential Analysis of the Statutory Institutional Finance Agencies on Entrepreneurial Development

As shown in table 1 below, According to the model, the combined variables of statutory institutional finance scheme had a strong relationship on entrepreneurial development with ( $R^2$ ) of 0.765;  $P < 0.05$ ), while the adjusted  $R^2$  is (0.751), which indicate that Entrepreneurial Development among Lagos states entrepreneur is attributed to variability in Bank of Industry (BOI) and SMEDAN. When all variables were combined, It shows that it all have influence on entrepreneur development, where all the variables are statistically significant at  $p < 0.05$ . Base on the result that make the p-value for the alternative hypothesis equals 0.004\_which is less than 0.05, therefore the null hypothesis is rejected while the alternative hypothesis is upheld. Also the result of ANOVA buttresses the significant influence of statutory institutional finance on entrepreneurial development with (F-value of 3.016; pvalue-0.02)

## Conclusion and Recommendation

This study examined the effects effect statutory institutional finance scheme on entrepreneurial development in Lagos state.

**Table 1: Regression analysis**

	Model	Coeff.	Std.Error	t	Sig.
(constant)	4.835	0.521	9.280	0.001	
BOI	0.792	0.231	2.719	0.018	
SMEDAN	0.581	0.193	3.010	0.004	

Source: Author compilation, 2016

Dependent Variable: Entrepreneurial Development

R<sup>2</sup> = 0.765

Adjusted R<sup>2</sup> = 0.751

**Table 2: Anova result**

Sum of squares	df	Mean of square	F	sig.	
Regression	2.759	4	0.690	3.016	0.02
Residual	49.164	201	0.229		
Total	51.923	205			

Source: Author compilation, 2016

(Predictors: BOI and SMEDAN, Dependent variable: Entrepreneurial development)

Findings revealed that statutory institutional finance like bank of industry and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) influence entrepreneurial development. The result of tested hypotheses shows that the combined variables of statutory institutional finance scheme such as bank of industry (BOI) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) had a strong relationship on entrepreneurial development in Lagos state. Statutory institutional Finance scheme enhances opportunity to entrepreneurs on credit facilities. All these scheme are mandated to provide financial and non-financial assistance for the establishment of large, medium and small projects as well as an expansion, diversification and modernization of existing enterprises and rehabilitation of ailing industries. They are all committed to

rapid development of entrepreneurship in line with Federal Government Industrial Policy focus within the framework of Economic Empowerment Development Strategies of the nation.

Sequel to this study, there is need for some recommendation to arise and these includes

- Government at large should formulate flexible laws and by-laws which are user friendly for different small enterprises seeking loans from different financial institutions.
- Government, Non-Governmental Organizations should have a responsibility to facilitate small scale entrepreneurs in terms of necessary capital required to maximize business operations [15-20].

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