



NATIONAL OPEN UNIVERSITY OF NIGERIA

COURSE CODE : BHM204

COURSE TITLE:RURAL DEVELOPMENT



BHM204
RURAL DEVELOPMENT

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Introduction

The agricultural development projects (integrated rural development projects), and the green revolution are well known inside and outside Africa. It is not difficult to identify the rural bias. In fact, to determine the appropriate strategies for rural development between 1968 and 1976 there were six international conferences on rural development. It is therefore not surprising that the Economic Commission for Africa published as a guideline the document, **Integrated Approach to Rural Development in Africa** in its social welfare services in Africa series.

Most of these policies and programmes were designed to improve the socio-economic conditions of the rural population and to redress the often asserted urban parasitic dependence on the rural areas. Demographically, the programmes are justified on the grounds that about 80% of the population of Africa is rural dwellers. However, it is common knowledge that many of these programmes have failed to attain their objectives or have fallen short of the ends they were set up to attain. We will be looking into most of these programmes and the success of them will be left for you to determine.

What You Will Learn in the Course

During this course, you should be learning about:

Course Aim and Objectives

This course aims to;

- identify basic concepts of rural development
- define Nigeria enterprise
- explain agricultural finance and credit
- explain macroeconomic policies and agricultural
- identify trade policies and also agricultural sector
- discuss women and economic reform in Nigeria
- choose a form of business ownership
- identify the impact of government poverty alleviation on entrepreneurship development in Nigeria
- explain foreign operation
- plan business management
- state sources of finance
- explain the nature of entrepreneurship
- discuss rural development through small and medium scale businesses

- illustrate how to prepare a business plan
- explain rural development and feasibility studies

When all the above aims are considered, we can conclude that the major aim of the course is to expose you to various managing development in rural areas.

Working through This Course

For you to complete this course successfully, you are required to read the study units, reference books, and other resources that are related to the unit. Each unit of the course contains Tutor Marked Assignments.

The Tutor Marked Assignment (TMA) is to be done immediately and submitted to your tutorial lecturer/course facilitator for assessment.

The medium to be used and the time to submit the TMA will be specified to you later. This course is a 2-credit course. As such, you are expected to spend a minimum of two hours every week studying the course. You are expected to complete the entire course outline within a period of 18-25 weeks.

Course Evaluation

As stated before, every unit of this course has an assignment attached to it. You are required to keep an assignment file. After every unit, the assignment should be done. At the end of the course, the evaluation shall be as follows:

Assignment	–	30 %
Examination	–	70%
Total	=	100%

Out of all the assignments you will do, each one shall be marked and converted to 3%. At the end, the best 10 shall be selected so as to make up to 30%. The examination at the end of the course shall cover all aspects of the course.

Study Units

In this course, we have discussed the topic of the course content titled ‘Tourist Sites: products and operations’ under different topics. Based on this, the following units have been designed for the course.

Module 1

- Unit 1 Basic Concepts of Rural Development
- Unit 2 Nigeria Enterprise
- Unit 3 Agricultural Finance and Credit
- Unit 4 Macroeconomic Policies and Agricultural Development
- Unit 5 Trade Policies and Agricultural Sector

Module 2

- Unit 1 Women and Economic Reform in Nigeria
- Unit 2 Choosing a Form of Business Ownership
- Unit 3 The Impact of Government Poverty Alleviation on Entrepreneurship Development in Nigeria
- Unit 4 Foreign Operation
- Unit 5 Business Management

Module 3

- Unit 1 Sources of Finance
- Unit 2 The Nature of Entrepreneurship
- Unit 3 Rural Development through Small and Medium Scale Business
- Unit 4 How to Prepare a Business Plan
- Unit 5 Rural Development and Feasibility Studies

These units must be treated sequentially as a logical link exists in the arrangement. Every previous unit lays a foundation for subsequent ones. A maximum period of one week is required for every unit.

Textbooks and References

As was earlier mentioned, materials relevant to the course include not only the ones below but also others that you can lay your hands on. For now, the following references are recommended.

Dean, S. S. (1972). "Institutional Agricultural Credit Strategies for Increase Food Production in Sierra Leone," *West Africa Journal of Agricultural Economics*, Vol. 1, No. 1.

The Bias Against Agriculture", (International Center for Economic Growth, International Food Policy Research Institute).

Ezeh, J. A. and Onodugo, V.A. (2002). *Business Policy and Strategic Management: Issues and Trend*. Enugu: Kinsman Publisher Ltd.

Ezeife, G. P. (1998). "Problems and Prospects of Small Scale Industries" in Ezech J.A. (Op cit.).

Nzelibe, C. G. O. (1996). *Entrepreneurship and Management of Small Scale Business*. Enugu: Optimal Publisher.

Onodugo, V.A. (2000). *Management Fundamentals Concept, Principles and Practices*. Enugu: El-D'Emmark Ltd.

Sanusi J.O. (2003). "Overview of Government's Efforts in the Development of SME's and the Emergence of Small and Medium Industries Equity Investment Scheme (SMIEIS)" A Workshop Paper Presented at the National Summit on SMEIS Organised by the Banker's Committee in Lagos on 10th June, 2003.

Presentation Schedule

Specific dates for particular activities, such as submission of assignment, tutorial schedules and examination dates shall be made available to you on a later date. This will enable you plan your activities in the same line. The method of submitting your assignment and receiving other course materials shall be agreed upon on a later date. You should endeavour not to be falling behind the schedule whenever it is given.

Conclusion

By the time you exhaust this course, you will find it useful to improve the lives of rural dwellers and subsequently made them self established and developed.

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MODULE 1

Unit 1	Basic Concepts of Rural Development
Unit 2	Nigeria Enterprise
Unit 3	Agricultural Finance and Credit
Unit 4	Macroeconomic Policies and Agricultural Development
Unit 5	Trade Policies and Agricultural Sector

UNIT 1 BASIC CONCEPTS OF RURAL DEVELOPMENT

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
	3.1 Rural Development
	3.2 Programmes of Rural Development in Nigeria
	3.3 Concepts of Bottom-top Approach
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Reading

1.0 INTRODUCTION

In Africa, there are many community-oriented policies and programmes which incorporate different objectives related to economic development, national development, nation building or simply development. For example, the operation feed yourself in Ghana, the special rural development programme in Kenya, the agricultural development projects (integrated rural development projects), and the green revolution are well known inside and outside Africa. It is not difficult to identify the rural bias. In fact, to determine the appropriate strategies for rural development between 1968 and 1976 there were six international conferences on rural development. It is therefore not surprising that the economic commission for Africa publish as a guideline the document, **Integrated Approach to Rural Development in Africa** in its social welfare services in Africa series.

Most of these policies and programmes were designed to improve the socio-economic conditions of the rural population and to redress the often asserted urban parasitic dependence on the rural areas. Demographically, the programmes are justified on the grounds that about 80% of the population of Africa is rural dwellers. However, it is common knowledge that many of these programmes have failed to attain

their objectives or have fallen short of the ends they were set up to attain. We will be looking into most of these programmes and the success or otherwise of the programmes are left for you to determine.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define rural development and socio-economic conditions of rural areas
- define some relevant terms, strategies and programmes of rural areas
- identify some agents of rural development in Nigeria
- state concepts of bottom-top approach and
- define the role of women in rural development

3.0 MAIN CONTENT

3.1 Rural Development

The word 'rural' could assume economic, sociological, ethnic, racial and other dimensions, but in the context of this course, 'rural' will be restricted to spatial and occupational contexts. In other words, rural Nigeria is measured by two indices: a spatial index, indicating the percentage of the population living in rural areas, and by occupational index which shows the percentage of the labour force in agricultural occupation.

Spatial definition of rural simply means an area with low population density while urban is an area with high population density.

Occupational definition: The economic activity in the rural sector depends directly on the exploitation of the land. It centers principally on farming, animal husbandry, poultry, fishing, forestry, food processing and cottage industry. It is estimated that agricultural activity occupies four-fifths of the rural population of Nigeria.

Over the years, there have been significant shifts in the theory of development and there is yet no complete agreement on what development really is, and what forces propel it. One view which seems to summarise its salient features is that which defines development as 'essentially a continuous process of generating and more efficiently allocating resources for achieving greater socially-satisfying ends'. The resources embrace natural, human and financial ones, and achievement of socially satisfying ends with these resources are said to depend on a complex function of social organisation, level of technology, efficient management and the context of public policy. Development involves

economic growth, modernisation, equitable distribution of income and national resources and socio-economic transformation among other things, (*Aboyade, 199.*).

Another school of thought describes the major aim of development as ensuring an improvement in the well-being or welfare of the generality of the population, (*proceedings of a national conference*).

Socio-Economic Conditions of Rural Areas

Before the colonial era, rural Nigeria had fairly complex social organisations. These organisations were able to defend their communities successfully in time of war. The rural people engage in trade with other communities selling their impressive and indigenously distinctive work of arts, crafts, and handicrafts. However, their major occupation was agriculture. Over 80% of the rural people engaged in agricultural and pastoral activities producing enough food for requirements as well as some surplus for the market. Most rural people therefore combine some farming with non-farming activities, in varying degrees. The nature of the social organisations that form the basis of economic organisations among these rural people ensured a distribution of real incomes that militated against inequality and social injustice.

Today, after over sixty years of colonial rule and fifteen years of political independence, rural Nigeria has not changed significantly. Agricultural development remains virtually unaffected by independence. It is only the regressive pattern of distribution of public expenditures in favour of urban communities that has created inequality and social injustice which never existed before.

Agriculture (together with livestock, forestry and fishing) contributed about 61.2% of the GDP of Nigeria in 1962, though its percentage contribution has since been declining and will continue to diminish because of the increasing importance of petroleum in the country's economy.

But it is important to point out that this amount, stated as being contributed by the rural sector does not entirely get to the rural population. Much of this amount goes to the marketing boards which purchase the export crop products direct from the peasant producers. Most of the rural Nigerians have low incomes, consequently their standard of living are low.

The contribution of rural communities to the revenues of the formal regional and present state of the governments is quite significant. It is

however disappointing to see that rural service such as water, electricity, health and other social services are limited and low in standard.

3.2 Programmes of Rural Development in Nigeria

Agricultural Policy and Development

Olaide (1980) defined agricultural policy as a plan of action based on aims, beliefs, objectives and ideas of a government or political party in respect of effecting a positive change in the structure and implementation of the nation's agriculture.

This workable definition according to Olaide, sets certain attainable goals which include security, stability, equality and efficiency for desirable level of economic progress and growth.

Agricultural policy may be of different types. Olaide, (1980) posted ten types of agricultural policies which include:

- developmental
- compensatory
- remedial
- regulatory
- educational
- demonstrative
- supervisory
- supportive
- punitive
- organisational

As regards this course, we will be concentrating more on agricultural policies and development.

Since a majority of Nigerians live in rural areas, the policies that are crucial to food production are those that will:

- stimulate agricultural production,
- increase farm income and
- provide additional off-farm employment.

Currently, most Nigeria farmers operate at subsistence level; their gradual progression from mixed farming to specialised production appears to be a logical step in bringing about change.

There are three characteristics of agric production which are: subsistence, mixed and specialised.

	SUBSISTENCE	MIXED	SPECIALISE
Composite Output	1 dominant staple crop and one auxiliary	Diversified	1 dominant cash crop and auxiliary crops
Purpose of Production	Domestic supply	Domestic and market supply	Market only
Capital Investment	Low	Medium	High
Work Schedule	Seasonal	Balanced	Seasonal
Ratio of Income to Value of Output	Very high	Either way or balanced	Not as high; low/ medium
Farmer's professional know-how.	Specialised	Diverse	Specialised

The predominance of specialised farming depends on the solution of many short and intermediate problems. According to Todaro, the improvement of small scale and mixed farming practices will not only raise farm income and average yield of the crop but will also effectively absorb underutilise rural labour. This can be effected through the adoption of effective labour intensive practices that offer immediate avenue towards the achievement of real people oriented rural development. Therefore, in an attempt to bring about agricultural progress and rural development, governments focused on:

- technical change and innovation
- appropriate government economic policy
- supportive social institution.

Since independence, Nigerian government, at both federal and state levels has addressed these three elements in their various intervention programmes or policies. Some of these programmes or policies are as follows:

- Farm Settlement Scheme
- Integrated Agricultural Development Programme/Agricultural Development Programme (ADP)
- National Accelerated Food Production Programme
- Operation Feed the Nation

- River Basin Development Authority
- Green Revolution
- Directorate for Food, Roads and Rural Infrastructure
- Special Programme for Food Security
- National Agricultural Land Development Authority.

Farm Settlement Scheme

This scheme was launched in the early 1960 in western, mid-western and eastern regions of Nigeria to prepare young school leavers to pursue a career in farming. In order to get them started in that career, farm institutes and farm centers were established in those areas to train them for the farm settlement scheme. In the scheme, a group of small farmers owned and operated their land individually but pooled their resources together in a cooperative spirit to provide common services such as purchasing inputs and in processing. The scheme was however successful in some parts of the region but the evaluation of the scheme was not successful in some regions due to faulty implementation and wrong choice of beneficiaries or participants.

Integrated Agricultural Development Programme

This involved the provision of infrastructural facilities such as roads, schools and water in the rural areas as well as supply of inputs to the rural farmers, to enable them farm profitably. This was based on the realisation that, agriculture is not the only occupation in the rural areas and also that developing rural areas require the combination of factors. The IADP is reflected in the establishment of Agricultural Development Programme (ADP). It started in 1972, in northern Nigeria towns of Gombe and Buso with two pilot projects assisted by the World Bank. This became necessary because of the need for the application of knowledge and skill of national services. The success of these projects led to the expansion of the programme to other states such as Lafia in Nasarawa, Ayangba in Kogi, Bida in Niger state, Ilorin in Kwara, Oyo North in Oyo state and Ekiti Akoko in Ekiti state. Subsequently, the programme has been extended to all states including Abuja. ADPs are coordinated by Federal Agriculture Coordinating Unit (FACU). The name changed from FACU to PCU (Programme Coordinating Unit). The programme was sponsored by the World Bank and the federal and state governments. Note that this ADP approach was based on the establishment of farm services centres at the local levels that provide needed advice and inputs.

National Accelerated Food Production Programme

The NAFPP was a cooperative venture between federal, state government and the farmers at the grass root. The programme was

designed to accelerate the production of maize, rice, guinea corn, millet, wheat, cassava and cowpea. It was the opinion of the initiators of this programme that target crops for accelerated production are the major staple food of Nigerians and if they are not produced in abundance, hunger and food related crisis will be felt. This was achieved through the production of high yielding varieties of these crops, use of appropriate fertilizers, hydro chemicals, good storage, processing facilities, provision of credits as well as marketing outlets. In addition, several research institutes were mandated to develop improved crop varieties and were made popular through the extension agents and the use of mass media. The NAFPP has three separate but interrelated components:

- Research
- Extension and
- Agro services.

Research Component

The research component of NAFPP is made up of three national crop centres that are responsible for the production of specific improved crop varieties and these are:

- National Root Crop Research Institute (Umudike). The Institute works on Yam and other root crops.
- National Cereal Research Institute formally at Ibadan but now at Badeji (Niger). The Institute works on rice, maize and other cereals.
- Institute for Agricultural research (Zaria). The Institute works mainly on Sorghum, Millet and Cowpeas.

The Extension Component

The extension component is to speed up the adoption of developed improved crop varieties. The strategy adopted is a mini-kit plots, production kit trials and mass adoption phase.

The mini-kit plot: Developed varieties are bred out in a far farmers plot with each plot about 50sq.meters called mini-kit. Fertilizer and fungicides are tried along with the improved varieties. After harvest, the farmers select the best seed varieties and the best support technology for further trials.

Production-kit: These are further trials called production kit trials and are about 1000sq.meters

Mass adoption phase: This is the last phase of extension component in which more farmers will try out the improved varieties.

Agro-Service Component

This component provides inputs, tractors' hiring services, production credit and provision of extension advisory services.

Operation Feed the Nation (OFN)

In 1976, OFN was launched to address the problem of rising food crisis, rural-urban migration and escalating food import bill. OFN was designed to mobilise the general public to participate in agriculture and to bring about self sufficiency in food production, necessary improved seeds and other inputs needed to bring about these were subsidised. The scheme brought about interest in agriculture by many Nigerians. Many retired professionals took up agriculture, while schools also became involved in agricultural production.

River Basin Development Authority Scheme

The existing abundant water resource in the country and its potential for increasing agricultural production prompted the establishment of RBDAS. The scheme was established because of persistent short rainy season in many parts of the country which have restricted cultivation to single cropping pattern all the year round. However, with the establishment of various large scale irrigation facilities, the country witnesses unprecedented multiple cropping pattern. In addition, larger areas were put into cultivation while livestock and fisheries production were also intensified. Available statistics from 8 RBDA show that there was an increase in the tempo of activities in 1998 when the total land area developed by the authorities rose from 30,300 hectare in 1994 to 47,700 hectare in 1998. The scheme was also expected to provide such services as credit, input supply, marketing, extension services and other infrastructural activities for the farmers who participated in the scheme.

Green Revolution Programme

The GRP replaced the OFN of the military government in 1979. This was an attempt to bring about radical change in Nigeria agricultural production and eliminate inherited problems of successive government. Unlike the OFN, it was targeted at small farmers in rural areas. This was to increase food production through the removal of all production constraints as a means of encouraging people to going into farming. Supply of inputs was supposed to be paramount in the scheme. GRP recorded some successes. It sensitised research institutes on the need to focus more on research and production. However, the extension

component was not so much a success as extension agents were known to have spent more time in the supply of inputs to the detriment of the extension service.

Directorate for Food, Road and Rural Infrastructure (DFRRI)

The information obtained from the rural sector showed that despite the huge investments in the agricultural sector, the eradication of rural poverty has not been achieved.

So in 1987, the Babangida's administration embarked on the remarkable and equally ambitious programme of rural development in Nigeria with the establishment of DFRRI. The idea of opening up the rural area with access roads and integrated it with other parts of the country is to enhance the quality of food and raw material consumption. On the other hand, improvement in the rural condition will improve the quality of life and reduce the rate of rural-urban migration.

3.3 Concepts of Bottom-top Approach

To-Down Approach

In project design and implementation, development planners assume that the problem solutions are forced on the target audience of such development programme which may be at variance with the particular needs of the people. This often results in conflict, wasting of scarce capital resources, time and energy.

Bureaucratic Bottlenecks

In Nigeria, development programmes are often subjected to civil rules and regulation. It is very important to stress the need for sustainability at the onset of the programme and during the process of programme implementation. This is necessary if the entire effort must stand the test of time i.e., sustainability should take the form of accountability not only in terms of financial or hiring cost but also in terms of impact.

3.4 Role of Women in Rural Development

Gender Blindness

This is the inability to perceive different gender roles and responsibilities so that development strategies could be improved. Agricultural production often has different impact on men and women.

Development of gender analysis has gone through the following stages:

Total neglect of women or viewing women as housewives and economically inactive.

Studies have shown that women in developing countries are making important contributions to agriculture and the economy. However 70% of all agricultural tasks in developing countries are performed by women. This stage can be seen as a good awareness gimmick but little value is gained as an input to policy formulation.

Further data gained through this studies show that sex as one variable could be compared to agricultural activities and adoption innovations.

The role of women in specific studies in some localities e.g. Yoruba, Idoma, Tiv and Edo women have shown that women are better in development efforts.

Gender studies should be used to evaluate past efforts and improve strategy to help males and females in relevant ways.

Using Papua New Guinea as a Case Study

Women and Economic Participation

The economic role of women is essential to the subsistence economy but it is underestimated and devalued by men and economic observers. Research has shown that the highest percentage of females is self-employed as compared to other types of employers. Of those women that are paid, the majority is paid by church or missionary groups. Women are least represented in the private sector. There is little information available on the role of women in the private sector, although it is acknowledged as an area that needs to be promoted.

In the subsistence sector, the division of labour has often been characterised as based on ideas of gender complementarities. While this construction acknowledges women's work as essential, studies have shown that women spend more time, compare to men, producing food and that they expend more of their energy and provide most of the food that is consumed.

4.0 CONCLUSION

Community and rural development bring attention to focus on the challenge of national development. It emphasises the need for overall social progress especially at the grass root level. It implies, among other considerations, the participation and partnership of rural and urban residents in policy formation and implementation of development objectives of significance to them instead of leaving such to distant and

centralised authority. Above all, rural and community development efforts that enjoy the involvement of dwellers ensure the development of a sense of good neighbourliness and community solidarity as against the usual anonymity that prevails among urban residents.

5.0 SUMMARY

In summary, the situation in Nigerian rural communities has not been encouraging. Basic amenities in these environments are not enough to take care of the populace. This has called for the development of rural environments. Though many programmes have been organised in the past by the state, nation and some in collaboration with World Bank but the success or failure of these is not yet determined. Also, in the course of this discussion we were able to explore various programmes of rural development in Nigeria as well as its associated policies which include developmental, compensatory, remedial, regulatory, educational, demonstrative, supervisory, supportive and organisational. Finally, this unit discussed concept of bottom-top approach.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discussed Agricultural policies and rural development in Nigeria?
2. Explain the concept of bottom-top approach as a development strategy in rural development?

7.0 REFERENCES/FURTHER READING

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UNIT 2 NIGERIA ENTERPRISE

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- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Business Forms in Nigeria
 - 3.2 Capital for Business Operation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Many people think about running a business of their own at some time in their lives. With some, this is no more than day-dreaming. Others are more serious. This unit will give you the basis of business forms, how to source for capital, evaluation of credit and many more that will help you start your small business as a way of contributing to the development of your community.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- recognise the business forms existing in Nigeria, goals of profit oriented business and financial requirements of various types of businesses
- state how to source for capital for business operations
- state the concept of capitalisation
- state the types of financial markets in Nigerian financial institutions
- discuss the time value of money, capital budgeting, analysis of financial statements
- discuss the knowledge of small-scale businesses in Nigeria and
- prepare feasibility study.

3.0 MAIN CONTENT

3.1 Business forms in Nigeria

There are four different legal forms of business organisations.

- a) Cooperative
- b) Sole proprietorship
- c) Partnership
- d) Limited company/joint stock company.

- **A cooperative** is a group of people who come together voluntarily to produce goods or to provide services.

Usually, all members contribute some funds to start the cooperative. In many countries, there must be at least ten people to form a cooperative, one person-one vote, and the members have to share the profits either equally or according to how much each member works. The liability for debts in the cooperative is limited to the amount of capital invested.

There are different regulations in different countries on how to form a cooperative. Usually, there is a ministry of cooperatives or department of cooperatives within the government which helps groups who want to form a cooperative. They give advice, provide training in management skills and sometimes assist with start-up capital.

Those who want to form a cooperative should write an application letter to the ministry or department saying they want to become a cooperative. They should submit a membership list and a list of the committee.

- **Sole Proprietorship** means that an individual person decides to start a business and he/she becomes the sole owner of the business. The success or failure of the business depends only on the individual. He/she is responsible for running the business and must be willing to sustain losses/debts him/herself. The income produced in the business will be taxed as personal income. A person who plans to start a business should ask the local council office for licence. The cost of the licence usually depends on the kind of business being planned.
- **Partnership.** If we want to start a business together with one or more people it is called a partnership. The partners will share the control of the business and they will have joint responsibility for any decision made. They will share the profits and debts and they will be taxed separately on each individual's share of the business.

- **Limited Company/Joint Stock Company.** This form of business is not recommended for a small business because it involves complicated legal procedures and heavy taxation. A limited or joint stock company is owned by its shareholders. People invest money by buying shares. Those with more shares have more control of the company. The shareholders are responsible for the debts of the company but their responsibilities for debts are limited to the amount of capital invested in the company. The shareholders elect directors who run the company.

3.2 Capital for business operation

To finance your business there are many things to it. For the scope of this course you will be given the basis of what it takes to source for money.

Good management is the key to small business success. A firm's profitability is directly related to the ability of its management. Lenders and investors know this. Consequently, they'll want to know the following:

1. **The character of the businessman.** Is he considered a responsible member of the community? Does he have a reputation for honesty? What's his performance record?
2. **Competence of the businessman.** Does he have the necessary background and experience required for successful business operation? Is he a "goal-getter" with lots of initiative?
3. **How will the money be used?** Start-up? Expansion? Working capital? Cover up a mistake?
4. **How much money is needed?** Is the amount enough for the purpose? Is it too much? Too little? In the case of a loan: what will be the source and method of repayment? Can the businessman really afford it? What does he own that can serve as collateral or security?
5. **Type of business or industry.** Is it a growing industry, steady industry, or is it on the decline? Is it a "fad" type of business?

In the case of an already established business, a lender or investor will want to know the following facts.

1. The type of business; manufacturing, contracting, wholesale, service, retail.
2. Major products or services.
3. When was the business started and by whom?
4. Education and experience of principals in the business.

5. What is the legal organisation of the business- proprietorship, partnership, or corporation? Why was this form chosen?
6. Some details on how and where the business operates.
7. Major suppliers and customers.

Also needed are financial data on the business, such as the following.

1. Initial capitalisation: how much money was invested to start the business originally?
2. Where did this money come from?
3. Financial statements for the last two years.
4. Credit rating.
5. Previous financing: how much? When? From whom?
6. Operating ratios of the business compared to industry standards, where available.

Regardless of whether the business is new or already in operation, the lender or investor will want to know the answers to the following questions.

1. Does the business have a plan of operation stating goals and objectives for the next four years?
2. What are the short-term and long-term money needs to achieve these objectives?

He may also ask such questions as these.

1. In the event of accident or death of the owner/manager, is there someone who can carry on the business successfully?
2. Is there "key man" insurance?
3. Is the owner insured against losses and liabilities that might occur in the business?
4. How much competition does the business face in its area of operation?

To get financing, a businessman must be able to produce evidence that proves a loan to, or investment in, the business will not result in a loss. The provider of financing must be satisfied that the funds are required for sound reasons and that the business can:

1. pay back the money according to terms in the case of a loan;
2. generate a profitable return in the case of an investment.

The soundness of a loan or investment is best illustrated by clearly mapping out the anticipated future growth of the business. There are four basic forms to prepare.

1. A Comparative Profit and Loss Statement.
2. A Projected Cash Budget.
3. Financial Statements for the past couple of years.
4. "Growth plan" for the future of the business.

The followings are where to get help in preparing the information needed for a complete financial picture of the business.

1. Attorneys can often handle both the accounting and tax problems of the smaller business. In addition, they are in good position to advise the businessman if and when he should consider changing his form of business (proprietorship, partnership, or corporation) for legal or tax purposes.
2. An accountant or bookkeeper is the best source of information if the business can afford it.
3. Income tax returns for previous years can supply the basic information necessary for financial records.
4. Banks and small business administration can provide assistance, as well as recommend others in the business community who can help prepare the necessary information.

In planning the growth of your business over, for example, a four year period, you will want to consider the following kind of questions.

1. By how much do I hope to increase my sales?
2. How much more inventory will I have to buy to meet these sales?
3. Will I need a new building or leasehold improvements? How much will they cost?
4. What new fixtures and equipment will I need? How much will they cost?
5. Will I have to hire more people? What will that cost me in wages, etc.?
6. What other expenses will be increased? By how much? (Rent; utilities; supplies; insurance; advertising; taxes; other expenses ;)
7. How much more cash will be tied up in receivables money other people owe me?
8. Will the increase in sales dollars adequately cover the increase in expenses?
9. How much money will be left over as business profits?
10. Will the increase sales also cover interest and loan payments?
11. Is this figure worth the time and expense required?

Steps in Obtaining and Maintaining a Credit Rating

1. Contact a mercantile credit agency.
2. Make available to the credit reporter whatever information is requested.
3. Keep the credit agency records current by submitting an annual report.

Money Sources for your Business

There are four basic ways of getting more money for your business.

1. Trade credit: Purchasing merchandise, supplies and equipment on credit extended by suppliers. The larger portion of small business financing comes from trade sources.
2. Loans: Borrowing money from banks, other financial institutions or individuals.
3. Equity financing: Selling part of the ownership of your business to someone else, by taking in a partner or selling stock.
4. Business profits: Reinvestment in the business from profits.

Types of Financing

1. Accounts receivable financing
2. Bank credit cards
3. Commercial loans
4. Commodity loans
5. Convertible debentures
6. Equipment financing
7. Equipment leasing
8. Factoring
9. Flooring
10. Improvement loans
11. Indirect collection financing
12. Installment loans (time plan)
13. Inventory distribution financing
14. Inventory financing
15. Passbook loans
16. Professional term loans
17. Real estate loans
18. Secured loans
19. Term loans
20. Trade credit
21. 'Other' loans
22. Small business administrative loans:

- Bank participation loans
- Direct loans
- displaced business loans
- Economic opportunity loans
- Guaranteed loans

These sources can be grouped into two, they are:

1. Informal credit institution or traditional institution.
2. Formal credit institution. However the large proportion of farmers' loan comes from the formal credit institution. It is however pertinent to know that majority of the farmers in developing countries still rely on traditional money lender.
 1. Their approach to farming as a hobby not business.
 2. The farmer values his time so much that there is no time for bureaucratic procedures.
 3. The credit needed might be too small. The production objective is not to make profit but farming is mostly done as a hobby.

Credit Institutions

These can be grouped into two, namely formal and informal.

Formal/Institutional Credit

Attempt undertaken by credit institutions to make loans easier for the farmers to get has proved futile. The average small scale farmers in other developing countries still rely on the traditional institutions such as money lenders, traders and shopkeepers. The formal credit institution tends to take the rate of interest as a prime consideration and it is also highly impersonal. The present interest is as follows.

Bank loan: approved regime is about 19-22% for the preferred sector is 1-9%. To the average farmer it is usually more important that loan is adequate, that is granted without delay. Selecting a proper lender becomes the very important consideration to the farmer as regards success to his business.

Guide to the Use of Credit/Evaluating Credit Capacitor

This guide is important to both the lender and the borrowers in the interest of stability.

Feasibility Study

A typical feasibility report has an introduction of a clear objective of the business. The second section is the technical aspect of it, these include the technical knowhow of the business. Technical relationship should be put into current assessment. There should also be an estimation of cost of farm assets and operating expenses including depreciation. Note the technical relationship in terms of output.

The third section is the market output or consideration which answers questions such as; Is there a market for the output? Look at the specific location. The price regime is also considered. What is the current price of the product?

Cash Flow Analysis

Some documents are necessary such as: income statement, what to produce, and what to generate, operating cost i.e. we want to see your margin between income and expenditure. It is also expected to show how money goes into the business and how it is expended. **Cash in cash out.** The cash flow is determined at the end of each year.

Ratio Ration

Your estimation of net present value of a project is equalled to the summation of the discounted revenue and discounted cost.

Benefit Cost Ratio

$BCR = \text{BENEFIT}/\text{COST}$. For a project to be feasible, BCR must be greater than one.

Internal Rate of Return

IRR (Internal Rate of Return) is the rate of interest that equates the future streams of income to the present rate. Normally, a project is feasible if the $IRR > \text{the present rate of interest}$.

The main guides in credit activities are usually referred to as **3Rs** i.e. Returns, Repayment, and Risk bearing capacity.

Returns to the Business

Simply put “this is what the business would have yielded at the end of the loan”.

Repayment Capacity

This is a question of liquidity i.e. has the borrower the capacity to repay the loan when due?

Risk Bearing Capacity

The relevant question here is whether the borrower has the capacity or ability to take the risk of acquiring the loan and investing it in the unknown.

Debt Equity Ratio

This provides an indication of a higher risk bearing ability since more equity is available to cover potential loss that might occur.

Returns

This refers to the most profitable amount of credit which can be used in the business for ascertaining the level of returns. The instruments used for determining returns include the balance sheet, profit and loss account or income statement. These provide the main source of information to the lender. It is on this basis that the credit worthiness of the borrower is ascertained. Returns are however not sufficient indicator for measuring the success of a business. Some enterprises may be profitable while others are hopelessly unprofitable. It is therefore important to look at the performance of individual enterprise within the frame work.

In the context of the less developed countries like Nigeria, this will involve analysing both the household and the business aspects of the borrower. In other words, you will have to analyse the consumption and production rates

Repayment Capacity

As a guide to credit utilisation, repayment capacity analysis deserves more consideration. The key question is when the borrower will be able to pay the loan as entrenched in the contract note or mortgage terms. A loan may be profitable but the borrower may not be able to meet the repayment as due. The major reason to this may be the consumption pattern of the borrower. The situation may limit the use of borrowed funds which is influenced by the amount of indebtedness of the borrower. For example, assets which are paid out of gross income are self liquidating assets i.e. they pay for themselves.

Investment Appraisal (Capital Budgeting)

This deals with the cash inflows and cash outflows. Cash inflows are your returns while cash outflows represent your expenses or your payments, and the money that goes out. The uses to which funds are applied can also be identified e.g. initial investment, capital investment, working capital, operating capital, salary e.t.c.

Time Value of Money

This is important in cash flow analysis since money commands higher value in the present than in the future. This is due to cash flow problems, uncertainty in cash flow and inflation.

Various techniques are used in determining this time value of money in cash flow analysis.

1. Accounting rate of return
2. Payback period
3. Internal rate of return
4. Net Present Value

The first two are non discounting method while the latter two are discounting method.

1. Accounting Rate of Return

This takes average returns over the whole year and expresses it as a percentage of initial investment. For example

Projects investment cost in yr	A	B	C
	10,000	15,000	15,000
Net flow			
Yr 1	2,000	9,000	1,000
Yr 2	3,000	8,000	2,000
Yr 3	4,000	2,000	8,000
Yr 4	5,000	1,000	9,000
AR =	14,000/4	20,000/4	20,000/4
	<u>3,500</u>	<u>5,000</u>	<u>5,000</u>

Rate of return on initial investment

- A $3500/10000 \times 100 = 35\%$
 B $5000/15000 \times 100 = 33.3\%$
 C $5000/15000 \times 100 = 33.3\%$

In a nutshell, those three projects have been ranked in terms of returns to the project. However, this method is not often used in project appraisal, it does not bring into account risk and uncertainty.

2. Payback Method

This deals with the time taken for project to pay back the initial investment.

Project		D	E	F
Yr		10,000	10,000	15,000
Net cash flow	Yr1	3,500	3,500	5,000
	Yr2	3,500	3,500	4,000
	Yr3	3,000	3,000	3,000
	Yr4	-----	3,000	2,000
	Yr5	-----	3,000	1,000
	Yr6	-----	3,000	3,000
Payback in years		3	3	5

Payback method does not take account of the value of the initial investment and does not also take into account the problem of discounting. (The present value of money is not also considered).

3. Internal Rate of Return

This method ascertains the true rate of interest a project generates. Suppose a project costs N9608 and generates the following cash flow:

Year 1	4,000	0.893	3572
Year 2	4,000	0.797	3188
Year 3	4,000	0.712	2448

The rate of interest is normally given. Assuming r is 12%. Check the annuity table to get the discounting factor 10 – 12%, look at year 1 to get discounting factor = 0.893. Do the same for other years $2^{\text{nd}} = 0.797$, $3^{\text{rd}} = 0.712$.

If you are discounting your future stream of income to present value, your discount factor must be < 1 .

The implication of our calculation is that the rate of interest is lower than the present lending rate.

4. Net Present Value

This is commonly used in project appraisal. It also looks at prevailing interest rate and takes out a discount. The cost of a project is referred to as cash out flow and hence it is a negative value.

Project cost, Project cash(cash flow)	Project	Present value factor	Present value
	-10,000	1	-10,000
Year 1	3,000	0.893	2679
Year 2	3,000	0.797	2391
Year 3	3,000	0.712	2136
Year 4	4,000	0.636	2244
Year 5	4,000	0.567	2268
Year 6	4,000	0.507	<u>2028</u>
			<u>14,046</u>

Cash Inflow – Cash Outflow

The Net Present Value is a summation of cash flow. This method is used in assessment. The NPV deals with the present value of an amount to be received in the future and if the amount is to be invested today at designated interest rate, the summation indicates whether or not the project will be feasible. Positive NPV indicates that the project is capable of earning enough income to off-set the initial investment within a given period.

4.0 CONCLUSION

Success in raising outside finance can be crucial if your new business is to get off the ground. There is, therefore, no excuse for presenting a poorly thought-out application. Indeed, the rejection of a bad application is probably the best favour an investor could do for you!

There are more sources of start-up finance than many people believe but they all tend to have slightly different preferences and approaches. So, if you believe you have an idea, you have planned properly and you are asking for a reasonable amount of money, do not be unduly disheartened by one rejection. Try somewhere else instead. (Richard B. H., 1983.)

5.0 SUMMARY

This unit discussed various forms of business organisation, given the basis of credit evaluation, and finally discussed cash flow and the techniques of project evaluation.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss various forms of business organisation in Nigeria
2. Compare and contrast between discounting and non-discounting techniques of project used in evaluating the time value of money?

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UNIT 3 AGRICULTURAL FINANCE AND CREDIT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Role of Credit in Agricultural Development
 - 3.2 The Demand for and Supply of Agricultural Credit
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- 4.0 Conclusion
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- 6.0 Tutor-Marked Assignment
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1.0 INTRODUCTION

The Meaning of Agricultural Finance and Agricultural Credit

Agricultural finance is usually defined as the economic study of the acquisition and use of capital in agriculture, while agricultural credit refers specifically to the process of obtaining control over the use of money, goods and services in the present in exchange for a promise to repay at a future date. Agricultural finance needs not imply that credit is obtained, even though it almost does. With agricultural credit, a lender forfeits the use of his money or its equivalent in the present by extending credit to a borrower who promises to repay on term specified in the loan agreement.

Agricultural finance can refer to the financing of agriculture at the national level or at the farm level. At the national and state levels, agricultural finance is concerned with agricultural contribution to, and share of, the national or state resources as well as the role banks and other financial institutions play in the financing of agriculture as a sector of the economy. At the farm level, agricultural finance refers to the financial management of the farm. It is the study of the acquisition and use of capital on the farm in keeping with the goals of the farm. Agricultural credit also has its micro and macro aspects. Loans are obtained by the governments internally and externally to finance agricultural projects. Farmers also obtain loans for the purpose of using them on their farms.

Even though we have tried here to distinguish between agricultural finance and agricultural credit, the terms are commonly used

interchangeably. This is because the study of the acquisition and use of capital naturally leads to the process of obtaining and using the capital.

The Time Value of Money and the Cost of Providing Credit

Everybody will prefer a naira today to a naira next year. This is because 'a bird in hand is worth two in the bush.' There is a lot of uncertainty about next year as compared to now. The one offering the naira today, for example may not do so next year for one reason or another.

Apart from the uncertainty of the future, inflation is a factor that makes a naira today worth more than a naira next year. Historically, there has been an inflationary trend in most countries, especially in developing countries, and everybody expects a higher inflation rate every subsequent year in most of these countries. This means that what a naira can purchase today cannot be purchased with a naira next year.

An even more fundamental reason why an amount of money now is valued more than the same amount a year later is the fact that money, if invested should yield something more than what has been invested. Money kept in a savings account, which is normally regarded as a risk free investment, yields interest while money invested in any other venture should be capable of yielding more than if the money is simply kept in savings account.

Interest, which accrues when money is invested, is the reward for denying oneself the use of the money currently for consumption. When one lends out money, one expects a reward for denying oneself the use of that money for current consumption or for investment in other ventures. The reward for lending out money should also take care of any inflation which will make the money buy less when it is repaid as well as cover any costs incurred in the process of lending out and collecting back the money. The cost of providing credit, which is measured by the interest rate charge, is therefore not only the basic opportunity cost of capital(i.e., the next best use of the money) but also the cost of supervising the loan (administrative charge) and a risk for the possibility of default in repaying as well as a charge for possible inflation. Other factors that determine the cost of providing credit include the size of the loan, the length of the loan, the value of collateral, the lender and the borrower.

Formal lending agencies such as the banks and other financial institutions have, to a good degree, well-defined guidelines with regards to the interest rates to charge on various types of loans. Informal lenders such as the village shop keepers, the village money lenders and traders do not, however, have any such guidelines with regards to the interest

rates charged. They are normally based more on personalities involved and on the spot assessments of risks.

A borrower must have an estimate of whether the borrowed money that will be invested will be beneficial to him before agreeing to any interest rate charged. Since investments normally cover a number of years, account must be taken of the time value of money to determine whether the interest rate being charged is acceptable. The process of determining an acceptable interest rate involves calculating the present value of a future stream of income. Income is expected from the investment every year for its life time. Since one naira now is higher in value than one naira in a year's time, we expected that the value of a future income in a future time will be less than the value of the same income now. The process of calculating the present value of an expected future income is known as *discounting*.

If, to take for instance, a maize threshing machine costs 1,000 naira and a farmer wishes to obtain a loan to purchase it, the question he has to answer before agreeing to any interest rate charged on the loan is, what is the expected return during the life time of the machine? If we assume that the machine has a life span of two years, it means that unless the machine yields a total of more than $1,000(1+r)^2$ where r is the interest rate charged, it will not be profitable to invest in it and hence it will not be advisable to obtain the loan at an interest rate of $r\%$. This is so because 1,000 naira now is exactly equal to $1,000(1+r)^2$ in two years time.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the role of credit in agricultural development
- discuss the demand for and supply of agricultural credit
- define some approaches to the supply of agricultural credit to small farmers.

3.0 MAIN CONTENT

3.1 The Role of Credit in Agricultural Development

A vicious cycle of low level of output, low level of income, low level savings and low investments resulting again in low level output is the characteristic of most developing economies and is even more characteristic of the farming communities of these economies. To break this vicious cycle of poverty of farmers is one of the main aims of government in the world over. Small farmers are poor because they

cultivate a small area from which they produce little output and hence sell only a very small amount, which in turn cannot help in expanding the farm or acquiring new technology and hence the cycle continues.

Agricultural credit to small farmers can help in breaking the cycle. Credit is required to purchase improved technology which is vital to increased output and overall expansion of the farm. The improved technology to be purchased includes improved seeds, fertilizer, pesticides, herbicides, as well as agricultural machinery and equipment as farm expansion takes place. Agricultural credit can, however, only help in breaking the poverty cycle if the farmers are aware of the technology and are capable of using it. In other words, agricultural credit is not a panacea for improved agricultural production. Credit to small farmers in the absence of the knowledge and use of technology can even prove harmful since the farmers can become heavily indebted and be unable to pay back. Other factors that will enhance proper use of agricultural credit include the availability of technology, that is, improved seeds, fertilizers, and so on at the right time and the assurance of good prices for the products. This is why governments have a big role to play in the provision of agricultural credit and the supervision of its use.

Agricultural credit to medium and large scale farmers is equally, if not more, important. Medium and large scale farmers are, however, more knowledgeable in terms of improved technology and the availability of credit than small farmers. As they are normally also more business oriented in their farming activities, one does not necessarily have to devise any special method to provide credit for them. We believe, in fact, that such farmers should be left to negotiate for loans directly from commercial banks so that government agencies can give all attention to small farmers, who are the ones who produce the bulk of the food now and probably for a long time to come.

The role of agricultural credit moreover is not restricted only to agricultural production; consumption credit, especially to small farmers, is necessary if only it makes the farmers more productive in terms of labour input. The periods before and after the planting seasons are usually lean ones, during which farmers hardly eat enough and this adversely affects their productivity. Consumption credit to farmers at such periods can thus provide the necessary impetus to increasing labour productivity.

Government of West Africa and many other countries have recognised the role that credit can play in agricultural production and have established a number of special agencies to provide agricultural credit to farmers. In Nigeria, for example, the Agricultural and Cooperative

Banks as well as the rural (commercial) banks are established mainly to provide credit for agricultural purposes and other rural ventures. In Ghana, similarly, the Agricultural Development Bank as well as government owned rural banks perform similar roles and can find similar institutions in many countries.

3.2 The Demand for and Supply of Agricultural Credit

There is a potentially high demand for credit by farmers in Nigeria and many other countries, mainly because money or capital is required for improvements on the land for the purchase of implements, machinery, and breeding stock of livestock; the purchase of fertilizers, seeds and supplies; the payment for stocks of food and clothing, as well as the payment of wages of labour. Studies in Nigeria and most other developing countries do indicate that it is not only the potential demand for credit that is high but also effective demand, especially from the informal sources such as village lenders and traders. This demand is quite high reaching 75% in some small farmer communities. Seventy-five percent effective demand for agricultural credit means that out of 100 farmers that require the credit (potential demand) 75 of them succeed in obtaining it. This measurement does not take into consideration the volume of credit (total amount of money) required and the volume that was obtained and hence the measure may not necessarily indicate the true effective demand vis-à-vis the potential demand. That most of the agricultural credit is obtained from informal sources also points to the fact that the volume of credit actually obtained is low.

The demand for agricultural credit is high in small farmer communities mainly because of the poverty cycle which the credit is needed to help in breaking, and also because of the fact that the farm is a social, political and economic entity and hence the credit is required for other purposes, which though not directly related to farm production, indirectly influence it.

The effective demand for agricultural credit is generally not as high as the potential demand. Almost all farmers require credit, but only some succeed in getting it. This is due to a number of problems associated with the supply of credit to small farmers.

There is also a potentially high agricultural credit supply but a relatively low effective credit supply in most developing economies. Those who have the money and are willing to supply agricultural credit are many and the amount that creditors, especially formal credit institutions such as banks, are willing to lend out is quite large, but those who succeed in

supplying the credit and the amount actually supplied to farmers, especially small farmers, is relatively low.

Suppliers of agricultural credit can be categorised into two, the unorganised sector (or the informal money lenders) and the organised sector (or the formal lenders). The unorganised credit lending sources include the village shopkeepers, the land owners, the village money lenders, traders, relatives and friends, while the organised sector includes cooperatives, development banks and commercial banks (which include the rural banks in Nigeria).

Two prerequisites are normally required for suppliers of credit to be willing to supply to farmers. Firstly, the cost of credit to agriculture should not be higher than for other purposes; and secondly, the system must make it possible for farmers to pay back. These two prerequisites hardly prevail as far as formal institutional credit organisations are concerned. They, however, prevail to a large degree with respect to the informal (unorganised) credit sector. The village shop keepers and money lenders, for example, are not only very near to farmers but their powerful positions within the village communities make it easy for them to collect back any money given out. They, however, charge very high interest rates, and the small amount that is available to be borrowed usually limit the effectiveness of loans from those sources. Many small farmers, however, still resort to the unorganised credit market because the organised market is either non-existent in their areas or the process of obtaining the loans is very inconvenient and sometimes repulsive to farmers. The form filling and the need for bank officials to visit their farms, coupled with the fact that the loan is not normally forthcoming until after most of the work on the farm would have been done, discourage small farmers.

3.3 Some Approaches to the Supply of Agricultural Credit to Small Farmers

It has already been mentioned that government of West Africa and other developing countries have established banks which are charged mainly with the responsibility of giving out credit for agricultural production. These banks and other agencies, however, still find it difficult to extend loan to farmers, especially small farmers, the main reason being the difficulty in ensuring the productive use of the loan so that it can be repaid, and the high cost of administering the loans to these types of farmers. To ensure that farmers will repay loans, the banks usually request collaterals in the form of pledging of land and /or any other landed properties, if these exist. Small farmers hardly have any landed property to pledge and the land tenure system in most areas does not allow the pledging of community or family or clan lands.

Many methods have, however, been devised in many countries to supply credit to small farmers with some degree of certainty of repayment. They include the following:

1. use of cooperative societies;
2. use of produce buyers and other informal lenders; and
3. use of development project agencies.

Use of Cooperative Societies

Cooperative societies are usually formed to solve problems that individuals cannot solve by themselves. The problems associated with obtaining agricultural credit are such that cooperative societies can be used to solve. Cooperative society is usually made up of people with the same interest and performing similar tasks, and the members are usually all resident in one locality. Formal lending institutions such as commercial banks can channel agricultural credit to individuals through the society. By this approach, there will be a reduction in the cost of administering loan. Also, members of the cooperative society can learn from one another and from agricultural agents to use the loan productively in order to be able to pay back. There are also farmers who do not pay back their loans not because they cannot but because they do not wish to pay back. A cooperative society can apply social pressure on such members or can devise a means to deduct the loan repayment from the proceeds of marketing that farmer's produce.

It was argued earlier that credit *per se* is not a panacea to increase agricultural production, and that other factors such as the availability of inputs, such as fertilizers and the knowledge of the use are necessary for the loan to be useful. Inputs as well as extension services may be delivered through cooperative society in a cheaper and more effective manner.

This method of extending credit to small farmers has been used in a number of developing countries with varying degree of success. A cooperative society, which is formed solely to obtain loans from commercial banks or the government, is surely not going to be effective because the members have no other binding factor than the loan. As soon as the loan is disbursed, it may be difficult to get such members together again. That obviously is not advantageous to either the borrower or the lender. The cost of collecting back the loan repayment could be even higher than when given to an individual. Also the educational aspects which facilitate the productive use of the loan will not apply. Lenders therefore should pass credit through cooperative societies which have existed successfully for a number of years and have a trust worthy and forward looking leadership.

Use of Produce Buyers and Informal Lenders

Produce buyers are those who go to the villages to buy agricultural products from the farmers for sale in urban centers. In some countries, they are also referred to as government agents stationed in villages to buy cash crops such as cocoa, palm oil, palm kernel and so on. Agricultural credit can be successfully channeled through these produce buyers to farmers, as, at any rate, in most villages these people are also money lenders who give credit to farmers to be paid back in kind after harvests. If banks and government agencies, therefore, pass agricultural credit through these people, they are just making them more capable of performing credit functions which they have been performing on a smaller scale.

This argument also applies to other informal money lenders. If government and commercial banks can identify these village money lenders, credit can be channeled through them.

The two main problems with channeling agricultural credit through produce buyers and money lenders are, first, the difficulty in controlling interest charges to the farmers by them. If there is no way of ensuring low interest charges to farmers, then the effectiveness of the loan is drastically reduced. The second problem is the difficulty in getting trustworthy produce buyers and money lenders who will use money given by banks and government agencies for the purpose for which it is given and who will not abscond with the money. These two problems have been responsible for the little interest shown in using these people as agent in the supply of credit to small farmers in developing countries.

Use of Development Project Agencies

Many agricultural development projects are situated in the heart of small farmer communities and their activities bring them into direct contact with small farmers. Examples of such development projects include the integrated rural development projects in many developing countries and the produce development agencies such as the seven commodity boards in Nigeria, and similar boards in many other countries. Since these boards are nearer to the farmers, they can act as agents for providing agricultural credit to small farmers. The banks and other financial institutions give money to these agencies who can then lend to farmers in kind and in cash. These agencies are also responsible for repayment of the loans by the farmers.

The Funtua, Gusau, Gombe and other agricultural development projects in Nigeria, which are jointly financed by the federal government, state governments and the world bank, procure, distribute and sell fertilizers,

seeds, pesticides, sprayers, and bullock ploughs and carts on a cash and credit basis to farmers. That means that the credit aspect of it is given in kind, to be paid back instalmentally after harvests. This again is an effective means of getting agricultural credit to small farmers.

The problem with using development project agencies to supply credit, however, is the tendency for the project agencies to pay more attention to and hence, provide most of the credit to so-called progressive farmers, who invariably turn out to be absentee or part-time farmers who need the loan to hire labour. This is particularly so in the World Bank – assisted agricultural development projects. Loans should be given to those who actually work the land and not to absentee or part-time farmers, if increased agricultural productivity and decrease poverty of farming population are the goals of agricultural development projects.

4.0 CONCLUSION

Having known that agricultural credit to small farmers can help in breaking the poverty cycle, agricultural credit is required to purchase improved technology. This is vital to increased output and overall expansion of financing the agricultural sector. There is the need for our government to enhance the performance of farmers' cooperatives and other agencies, parastatals or ministries responsible urgently.

5.0 SUMMARY

In the course of our discussion, we were able to study the role of credit in agricultural development as a means of breaking the vicious cycle of poverty, expansion of agricultural outputs and employing new agricultural technology. Also, this discussion emphasised the demand and supply of agricultural credit and finally discussed various approaches to supply of agricultural credit.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the roles of credit in agricultural development in Nigeria?
2. What are the various approaches applicable to supply of credit in agricultural sector?

7.0 REFERENCES/FURTHER READING

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UNIT 4 MACROECONOMIC POLICIES AND AGRICULTURAL DEVELOPMENT

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1.0 INTRODUCTION

The word macroeconomics is purely an economic term that is used to describe various variables and balance of payment, price system and Balance of Payments (POP). These are three fundamental economic problems of any country especially the third world countries commonly referred to as developing countries.

Unfortunately, Nigeria is a major occupants of this zone according to economic classification, with a growing population of about 140million (twice the size of Germany), poor agricultural productivity, lack of basic infrastructures and services – health, education, housing, water, power supply, poverty and diseases, transport and communication. With the growth rate, adequate measures need to be taken to avoid food shortage, famine and hunger. The growth rate, as at now, outstrips the rate of food production..This is exactly what an economic theorist Rev. Fr. Malthus predicted in the 19th century.

In his theory, known as Malthusian population theory, he saw that population growth was increasing at a geometric progression while food production was increasing at an arithmetic progression. He therefore expressed further that if population growth is unchecked, there was going to be food shortage.

In view of this therefore, government decided to use macroeconomic tools to regulate agricultural produce. Macro economics is the “big picture” of a country's overall economic performance. It is the policy that government uses to influence the pattern she wants the entire economy to grow. These policies stressed in macroeconomics are those

of monetary policy and fiscal policy. The big question, therefore, is how does Government's macroeconomic policy influence agricultural productivity in Nigeria? What are these policies (past and present)? What positive effects did these policies achieve on agricultural productivity?

Various literatures on macroeconomic variables of exchange rate policy, interest rate policy, agricultural research policy, agricultural extension policy, agricultural credit policy, trade policies and the impact of Structural Adjustment Program on agricultural development have been reviewed for the purposes of this study.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the impact of exchange rate policy
- identify the price, exchange rate volatility and Nigeria's agricultural sector
- discuss the impact of SAP on agricultural sector in Nigeria.

3.0 MAIN CONTENT

3.1 Exchange Rate Policy

Since the adoption of floating exchange rates in the developing countries in 1973, the question of whether exchange rate changes/uncertainties have independent adverse effects on exports and trade has attracted a lot of attention in the literature. The introductions of Structural Adjustment Programme[SAP] by many of these countries and the attendant liberalisation of exchange rates have brought the discussion of this issue further into global focus. A review of the literature shows that the issue is far from settled though not all studies are fully comparable. For example, Lastrapes and Koray (1990), Cushman (1988), and Caballero and Corbo (1989) indicated a significant depressive effect of exchange risk. IMF (1984), Gotur (1985), and Chambers and Just (1991), however, supported a contrary view. Abel (1983) showed that if one assumes perfect competition, convex and symmetric costs of adjusting capital, and risk neutrality, investment is a direct function of price (exchange rate) uncertainty.

There is also a vast body of empirical literature on exchange rate effects on external trade and it is reasonable to focus on the most relevant ones. Much of this research concentrated on the manufactured goods trade and also produced inconclusive results (Hooper and Kohlhagen, 1978; Gotur, 1985; Lastrapes and Koray, 1990).

Maskus (1986), however, provided a link between his study and previous work by comparing the effects of exchange rate risk across major sectors of an economy, e.g., manufactured goods, agriculture, chemicals and others. He found that aggregate bilateral agricultural trade (the United States and its major western trading partners) is particularly sensitive to exchange rate uncertainty. Maskus argued that agriculture, compared with manufactured goods trade, is more responsive to exchange rate changes because (a) agricultural trade is relatively open to international trade (where openness is measured by the ratio of exports and imports to domestic agricultural output), and (b) agriculture exhibits a low level of industry concentration.

In Nigeria, Ajayi (1988) and Osagie (1985), while taking the structuralist approach in their study of external trade flow, opposed the adoption of a more flexible exchange rate policy in Nigeria. Their arguments were based on the structuralist thesis that exchange rate devaluation would be stagflation and have no significant effects on the external trade balance in the less developed countries. This is because of low price elasticity generally associated with the excess import and export demand functions (Taylor and Krugman, 1977). The findings of Ajayi (1988) and Osagie (1985) support an earlier study by Ojo (1978), who suggested that exchange rate changes need not play any significant role in the explanation of Nigerian import-export balance.

3.2 Price, Exchange Rate Volatility and Nigeria's Agricultural Sector

The study was between 1960 and 1994 and the overall objective was to determine empirically the dynamic effects of exchange rate fluctuations on Nigeria's agricultural export markets and to examine the relevance of exchange rate risk in agricultural trade flows.

The fact remains that volatility or risk in international commodity trade usually emanates from two main sources: changes in world prices or fluctuations in exchange rates. These may affect trade by increasing the uncertainties of trade or effecting a change in the cost of transaction, processing, etc. With the increasing embrace of the Structural Adjustment Programmes that have devaluation of currency or market determination of exchange rate and all prices, the attention has shifted to the fortunes of the currencies at the foreign exchange market. Given the erratic pattern of the exchange rate in most developing countries as a result of devaluation, there has been increasing concern about the possible effects of exchange rate volatility on trade.

In the study, data on trade refer to the indicators of agricultural trade. The agricultural trade data include both import and exports trade with

some exogenous variables. Using the extended vector autoregressive (EVAR) model in first differences and carrying out unit root test (trade volume, relative price and other exogenous variables tested for stationarity), very interesting results were discovered.

- Exchange rate volatility has a direct negative effect on the level of agricultural exports trade in Nigeria by causing a decline in export production.
- An increase in exchange rate (appreciation of the local currency decreases export earnings in local currency), while an increase in export price increases export earnings.
- Price volatility exerts a positive effect on the level of agricultural exports from Nigeria.
- The more erratically the export price changes, the greater the export earnings – but a volatile exchange rate reduces the export trade.

Similarly, on the impact of price and exchange rate volatility on import trade, price and exchange rate volatility coefficients were not significant. Thus, structural parameters like foreign exchange reserves played a more prominent role in the determination of the level of imports of agricultural produce. From the results the following inferences were drawn.

- Exchange rate exerts a significant negative influence on agricultural import levels in Nigeria.
- Exchange rate volatility positively and significantly affects the level of agricultural imports in Nigeria, either directly or indirectly through import prices.
- Import price volatility affects import levels positively but has a negative effect on import price.

The major findings and conclusion from this study can be summarised herewith. That exchange rate volatility has a negative effect on agricultural exports, while price volatility has a positive effect. Thus, the more volatile the exchange changes, the lower the income earnings of farmers, which subsequently also leads to a decline in output production and a reduction in export trade. However, price volatility exerts a positive effect on the level of exports. Also an appreciation of the local currency decreases exports earnings, while an increase in export price influences the level of exports positively. According to them, the implication is that if the exchange rate change is more volatile, it tends to increase the prices of export crops, but the general effect leads to a decline in export production. Furthermore, the study also established the efficacy of price increase as a tool for increasing output of export crops. For import trade, the appreciation of the exchange rate reduces imports,

while its volatility has a positive effect. If the exchange rate and import prices are volatile, they tend to increase the level of imports.

The study also concluded that the SAP era, though beneficial in terms of price increases of agricultural exports, has also resulted in a high level of price and exchange rate fluctuations.

Based on their findings, two policy implications arise.

- a) The monetary authorities should adopt a mechanism that will lead to the stability of the exchange rate. Erratic changes in the exchange rate have a long-term negative effect on production of agricultural exports.
- b) The government should monitor the marketing system of agricultural exports to ensure that farmers are paid fully by the buying agents so that, the full benefit of production increases, resulting from liberalisation, can be reaped.

Community exchange programmes should be explored as a plausible mechanism for assisting farmers and exporters to hedge against a rash of changes in the marketing system in both prices and exchange rates.

3.3 Impact of SAP on the Agricultural Sector

A structural adjustment program comprises a mix of demand-side policies, supply-side policies and other policies designed to improve a country's international competitiveness (Koester, Schafer and Valdes, 1989). To deal with the deteriorating economic conditions, the government, with the assistance of the World Bank, designed a Structural Adjustment Program (SAP) which was to be implemented beginning June 1986. The SAP aimed at facilitating economic growth as a means of jump-starting the economic growth and development.

Tackie N.O. (2001) and Abhulimen O.S. (2001) in their study of the subject matter stated that generally, structural adjustment entail policies, designed by world financial institutions such as World Bank and the International Monetary Fund (IMF), aimed at improving the socioeconomic conditions of implementing nations. Adoption and implementation of such policies (e.g., currency devaluation, trade liberalisation, privatisation, and removal of subsidies) in the 1980s and 1990s was perceived as a means of reversing the pervasive social and economic problems of developing nations. There has been considerable debate about the effects of such SAP measures. Reed (1996), Nwosu (1992) and Otomola (1994) believe that structural adjustment policies are essential prerequisites for economic recovery, adjustment to, and

development in the new global market place. On the contrary, many other economists and social scientists such as Igbedioh and Aderiye (1994), Awoyomi (1989), and Momoh (1995), argue that SAP measures have led to recessions and poor standard of living in developing countries.

Generally, structural adjustment policies are aimed not only at correcting existing price distortions in the economy but also structural imbalances and for promoting non-price factors which would enhance the effectiveness of price factors.

In the context of Nigeria and with particular reference to the country's agricultural adjustment process, the economic philosophy underlying the Structural Adjustment Programme has as its key elements, the following principles.

- a) Agriculture is essentially a private-sector business and the role of government must be largely facilitating and supportive of private sector initiative.
- b) The agricultural economy should be as free of government administrative control as possible and market forces must be allowed to play a leading role in directing the economy.
- c) The agricultural economy should be more inward looking and self-reliant by depending more on local resources while also ensuring self-sufficiency in food production and the supply.
- d) The agricultural economy should serve as a primary avenue for the diversification of exports.

The main thrust of the fiscal policy under SAP was the introduction of a five-year tax free period for profits earned by companies engaged in agricultural production and agro-processing in 1987, provided at least 10 per cent of the equity capital of the companies was imported into Nigeria not earlier than the beginning of 1997 and provided the companies were incorporated in Nigeria. For monetary policy, the major thrust policy was largely restrictive to reduce liquidity in the economy, control aggregate demand and moderate inflationary pressure. The following are the features of the monetary policy.

- a) Deregulation of interest rate with minimum interest stipulated at 8.5 per cent for time deposits while minimum bank lending rate was increased from 13 per cent to 15 per cent. Agricultural loans however, attracted between 10 and 11 per cent.
- b) Liberalisation of agricultural loan terms so that small-scale farmers could obtain loans of up to N5, 000 without tangible collateral.

- c) In 1988, the grace period for the repayment of commercial bank loans and advances to investors in long-gestation cash crops was increased from 4 to 7 years while that of investors in mechanised large-scale farms was increased from 5 to 7 years.
- d) In 1998 as well, the minimum share of total deposits mobilised by rural banks, which must be given as loans, and advances in the rural localities was raised from 40 to 45 per cent.
- e) The People's Bank of Nigeria was established in October 1989 to among other things provide basic credit requirements for under-privileged Nigerians in both urban and rural areas who could not normally benefit from the services of the orthodox banking system due to their inability to provide collateral security.

Trade and exchange policies under SAP focused on trade liberalisation, import substitution, local sourcing of raw materials, protection of local industries, and naira exchange rate among other things. The summary of the policy issues is highlighted below.

- a) Devaluation of naira through the creation of a second-tier foreign exchange (SFEM) where the value of the naira in relation to other currencies would be freely determined by the forces of demand and supply. This resulted in drastic and sustained decline in the value of the naira from about 1.1206 in 1985 to 0.1312 in 1989. This devaluation had remarkable effects on both agricultural inputs and output prices most of which had increased several folds.
- b) Under the trade liberalisation measures, commodity-marketing boards were abolished; many import duties levies were abolished while some excise and import duties were reduced. In addition, there was reduction from 100 per cent to 25 per cent of the advance payment of import duties required at the time of opening letters.
- c) Export promotion of non-oil goods, including agricultural commodities, by allowing exporters to keep all their foreign exchange earnings in a domiciliary account and could freely draw for their foreign exchange transactions.
- d) Import substitution measures, which involved the selective use of import regulations to restrict or ban the importation of many types of food and industrial raw materials in order to encourage their local production.

Under SAP, some institutional policies were put in place to focus on the following:

- a) Most of the enterprises owned by the government and parastatals were to be either privatised or commercialised.

- b) The River Basin Development Authorities were reorganised in 1986 to focus strictly on land development and water resources management including irrigation facilities
- c) Directorate of Foods Roads and Rural Infrastructure (DFFRI) was established in 1986 for the purposes of executing rural development programs. The directorate was actively involved in the construction of feeder roads, rural electrification projects, rural water supply schemes and some agricultural development projects.
- d) The National Directorate of Employment (NDE) was established in 1987 to promote employment programs all over the country as a way of ameliorating Nigeria's increasing unemployment problems.
- e) In 1987, a National Agricultural Insurance Company was established to operate and administer the National agricultural insurance scheme. This was set up to enhance the confidence of commercial banks in giving loans to small farmers. The insurance certificate will serve as collateral and funds mobilised would be utilised for agricultural investments.

The study by Tackie N.O. (2001) and Abhulimen O.S. (2001) attempted to analyse the effects of SAP on the agricultural sector and economy of Nigeria. Specifically, it assessed the influence of structural adjustment on social indicators – agricultural production, net agricultural export, contribution of agriculture to GDP, and real GDP growth rate – and the relative impact of these indicators on the agricultural sector.

Collating data for the variables from the Food and Agriculture Organisation (FAO) and using a multi-stage path model or path analysis, they discovered that the program's effects on agricultural production, net agricultural exports, and real GDP growth rate are positive as expected. However, the program's effect on contribution of agriculture to GDP is negative, contrary to expectation, and the direct effect of SAP on agricultural production was positive (.85)

The result of the multiple regression analysis on contribution of agriculture to GDP were positive (.25), negative (-.47) and positive (.48) for SAP, agricultural production and net agricultural exports, respectively. The direct effect of SAP on contribution of agriculture to GDP was positive (.25) and indirect effect was negative (-.19). And the combined effect of SAP on contribution of agriculture to GDP was positive (.6), expected sign.

Also, agricultural production, net agricultural exports, and contribution of agriculture to GDP have a positive influence on real GDP growth rate. However, the SAP variable had a negative direct impact of -.36 on

the real GDP growth rate. This expected sign may be explained by the inflation factor. That is, with inflation accounted for in real GDP the “true” direct effect of SAP reflects a negative or decreased value.

It was hypothesised that the SAP will improve agricultural production which will positively influence net agricultural exports, which will in turn positively influence contribution of agriculture to GDP, and this will ultimately improve real GDP growth rate in total. Their results indicate that the hypotheses are not contradicted. It was also discovered that SAP had an overall expected positive causal impact of .69 on real GDP growth rate. This comprises a direct and indirect effect. The direct effect is -.36 and indirect effect passes through three intervening variables, agricultural production (.85), and net agricultural exports (1.4) and contribution of agriculture to GDP (.06). It is the sum of the direct and indirect effects at each stage that yields the total casual impact. The indirect effect offsets the negative value of the direct effect. Thus, the statistical analysis shows that overall, SAP in the agricultural sector resulted in an improvement in real GDP growth rate.

The findings of Olayemi (2000) and Ditto (2000) on the performance of agricultural sector under the structural adjustment program of between 1986 and 1990 as indicated by the performance indicators which are discussed below would suggest that the structural adjustment programs had the desired impact. This position complemented the empirical findings above.

- a) Agricultural-sector GDP at 1984 market prices increased from an average of 24.7 billion per annum in the pre-SAP period (between 1981 and 1985) to 32.8 billion per annum under SAP from 1986 to 1990. Agricultural-sector GDP increased at a higher rate of 5.4% that the total GDP rate of 3%. Consequently, the average share of the sector’s GDP in the total GDP increased from about 32% in the 1980 – 1985 period to 41% during the SAP period. It may therefore be concluded that the agricultural economy performed slightly better than the entire economy under SAP.
- b) The index of aggregate production increased from an average of 91.7 during the 1980-1985 periods to 114.8 during the SAP period. The index increased by 6.2% under SAP against an average annual decline of 2.7% during the pre-SAP era of 1980-1985.
- c) There was modest improvement in the agricultural exports during the SAP period. Agriculture’s share of total export increased

from 2.3% in the pre-SAP era to about 3.8% between 1986 and 1990.

- d) The average share of food and live animals in Nigeria's total import value rose from 8.7% in the 1971-1975 periods to 16% in the 1980-1985 period. The situation however improved during the SAP period with a drop to 8.3%
- e) Net investment in agriculture however did not improve significantly under Structural adjustment Programme and neither did the employment generation capacity of the sector improve. The rate of rural unemployment which stood at about 4.1% in 1985, before the SAP was still 3.9% as at 1991 unlike the urban unemployment rate though high but declined from about 9.25% in 1985 to 5.5% in 1991.
- f) The nominal capital expenditure of the federal government increased by 91.5% between the 1981-1985 and 1986-90 periods. From an average of N6, 667.2 million per annum between 1981 and 1985, the nominal capital expenditure of the federal government increased to N12, 750.6 per annum between 1986 – 1990 periods. In real terms however, there was a decline of 17% in capital expenditure in the 1986-1990 period relative to the 1981-1985 period.
- g) The agricultural price parity ratio, which was unfavourable to agriculture before 1986, however became favourable under SAP. The price parity ratio, which stood at 0.98 between 1983 and 1995, increased significantly to about 1.40 between 1986 and 1990.

In conclusion, they posited that overall SAP is beneficial to the Nigerian agricultural sector and economy. Therefore, the Nigerian authorities should keep the SAP policies in the agricultural sector in place. Since agriculture is very important to the Nigerian economy, an improvement or growth in this sector ultimately influences growth of the overall economy.

4.0 CONCLUSION

In conclusion, macroeconomic variables such as exchange rates policies, price volatility and Structural Adjustment Programme constitute significantly to low output in agricultural sector.

5.0 SUMMARY

This study discussed the impact of exchange rate policy on agricultural output, it also examined the price volatility of exchange rate and finally analysed the impact of Structural Adjustment Programme on Agriculture.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the impact of SAP on Agricultural sector in Nigeria?

7.0 REFERENCES/FURTHER READING

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UNIT 5 TRADE POLICIES AND AGRICULTURAL SECTOR

CONTENTS

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1.0 INTRODUCTION

An assessment of trade policy in Nigeria since the 1960s has witnessed extreme policy swings from high protectionism in the first few decades after independence to its current more liberalised stance (Adenikinju 2005). Attempts were made to use trade policy to promote manufactured exports and enhance the linkages in the domestic economy, to increase and stabilise export revenue, and scale down the country's reliance on the oil sector (Olaniyi 2005). Trade policies were accordingly directed at discouraging dumping, supporting import substitution, stemming adverse movements in the balance of payments; conserving foreign exchange; and generating government revenue (Bankole and Bankole 2004).

According to Briggs (2007), during the first decade of independence, Nigeria pursued an import substitution industrialisation strategy. This involved the use of trade policy to provide effective protection to local manufacturing industries, through such measures as quantitative restrictions and high import duties. Although the import substitution strategy continued even after the civil war in 1970, the trade policy between 1970 and 1976 assumed a less restrictive stance, perhaps due to the necessity of post-war reconstruction. The 1960s and early 1970s also saw the application of export duties ranging from 5% to 60% on agricultural exports such as cocoa, rubber, cotton, palm oil, palm kernel and ground nuts. The duties were again abolished in 1973 due to oil boom and the need to promote agricultural exports as part of the export diversification strategy. However, this spurt of liberalisation ended in 1977, when a wide range of imported finished goods requiring licenses came to be placed on very high duties or were banned outright.

From 1981, there was policy shift towards export promotion and a move to intensify the use of local raw materials in industrial production. However, the increase in the value of imports led to a worsening of balance of payments, which forced the government to promulgate the Economic Stabilisation Act in April 1982. From 1986, there was a significant shift in the trade policy direction towards greater liberalisation, which is attributable to the adoption of the Structural Adjustment Programmes. The Customs, Excise, Tariff etc Decree enacted in 1988 provided for a 7-year (1988 – 1994) tariff regime, with the objective of achieving transparency and predictability of tariff rates. A new 7-year (1995 – 2001) tariff regime, established by Decree of 1995 succeeded the previous regime. The tariff structure over this period increased import duties on raw materials and on intermediate and capital goods while tariffs on consumer goods were slightly reduced. This was aimed at reducing distortion in resource allocation and combating smuggling.

The trade policy under the NEEDS era (1999 – 2006) has been geared to enhancing competitiveness of domestic industries. The mechanism adopted to this end is gradual liberalisation of the trade regime. A general assessment of the tariff structure reveals that tariff rates are widely dispersed, ranging from 2.5% to 150%, with a total of 19 bands applied. This mixed escalation is attributable to the high tariffs on agricultural commodities, which seems to indicate a policy bias in favour of agricultural protection. A review of sectoral distribution of tariffs shows overall wide dispersal but with significantly higher levels of protection for agricultural products. The average Most Favoured Nation (MFN) rate for agriculture according to WTO was 50.2%, as against 32% in 1998. There was an even sharper rise in tariffs in 2002, particularly on several agricultural products. Tariff amendments introduced in 2002 led to tariff rates of 100% on several agricultural products. Given the relatively high level of protection for agricultural products, the overall tariff structure has displayed a mixed escalation, showing negative from the first to second stages of processing and positive from the second stages to the third stages. This implies a high effective rate of protection to these industries, thus increasing the profitability of production in the sector and hence influencing the pattern of resource allocation in their favour.

Import prohibition continues to be a major non-tariff tool for pursuance of trade policy. Comparison between 1998 and 2005 has seen the addition and withdrawal of items on prohibition list. Since 1991, several items had been removed from the list, which include vegetable oil, processed wool, textile fabrics, furniture, fluorescent tubes and lamp bulbs. Import of motor vehicles over eight years of manufacture, were also banned, but again re-authorized in 1998. However, in line with

government's desire to scale down prohibitions, a number of prohibitions were replaced with high tariffs between 1999 and 2001. Since 2002 however, there has been a sharp reversal of policy. Thus, as at November 2004, agricultural and non-agricultural goods under some 218 HS four-digit codes have been subjected to import restrictions, mainly for purposes of protecting domestic industries. Under the Export Prohibitions Act, certain agricultural products have also been placed under prohibition to enhance food security and support local processing. The impact of the measures taken on local production, shows that the aggregate index of agricultural production registered an increase of 6.1% in 2003 over the preceding year. The Central Bank Report has attributed the success partly to the imposition of bans in the sector.

In conclusion, Briggs (2007) in assessing the performance of trade policy, has often expressed the view that trade policy in itself may not be able to accomplish the desired policy objectives, in the absence of appropriate complementarities. Studies of trade liberalisation since the 1980s have shown that trade liberalisation has failed in many instances due to lack of appropriate accompanying measures, and not so much as a result of faulty design of the trade policies themselves. Such associated policies are macroeconomic policies, pro-growth regulatory and competition policy, investments in infrastructure, human resource development, governance and the rule of law Osakwe and Sarath (2001). Trade policy has witnessed a series of swings in relation to the use of high tariffs, prohibitions and exemptions especially between 1986 and 2001. There have been sharp policy reversals, with a rise in the use of import ban and high tariffs as well as other non-tariff measures aimed at protecting domestic sector. Unfortunately, this policy of protection has led to inefficient allocation of resources. This rise in consumer prices has undermined the government's efforts at poverty reduction. The implication of the uncertainty surrounding government tariff policy is that it affects private-sector initiatives to commit themselves to long-term investment and production decision for the fear of potential losses that could arise from such reversals, Adekinju (2005). It is interesting that a positive trend has been observed in the performance of the agricultural sector following the reversal, in 2002, of policies which had tended to impose higher protective tariffs on agricultural products. It is still debatable though, whether high tariffs and in particular import prohibitions have generated the positive growth or whether it should be attributable to other government interventions in the sectoral policy measures on agriculture.

2.0 OBJECTIVES

At the end of this study, you should be able to:

- identify various agricultural credit policies
- explain how to invest in agricultural sector.

3.0 MAIN CONTENT

3.1 Agricultural Credit Policies

The major institutional arrangements for providing agricultural credit in Nigeria are the commercial and merchant banks, development finance institutions and community banks. Others include state government investment corporations, the Agricultural Development Programmes (ADPs), and co-operative societies. Sanusi J.O (2003). An analysis of the activities of these institutions showed that prior to the deregulation exercise in 1986, credit to the sector was at concessionary interest rates. Interest rate differential between agricultural and other sectors were between 2 and 5 percentage points until the deregulation. Provisions were also made within the monetary policy guidelines to penalise commercial and merchant banks, which failed to comply with prescribed credit allocation targets.

According to Sanusi J.O. (2003), due to the dearth of banking services in the rural areas and to ensure that farmers and rural dwellers were not unduly discriminated against in credit allocation, the rural banking scheme was introduced in 1977. Under the scheme, deposit money banks were compelled to open rural branches and to plough back at least 40% of the savings mobilised within their rural domain as credit to the rural dwellers. In 1990, the Peoples Bank of Nigeria was established by Decree No. 22 to cater for the credit needs of the less privileged members of the society who would otherwise, not have access to loans because of their inability to meet the credit requirement of the conventional banks, especially that of providing collateral.

The Nigerian Agricultural and Co-operative Bank (NACB), which is a specialised agricultural lending institution, was established in 1973 to finance agriculture. The institution had an initial capital base of N50million, which was originally held by the Federal Government (60%) and the Central Bank of Nigeria (CBN) 40%. The NACB supplies credit to farmers either directly, or through on-lending programmes of co-operatives and state governments at concessionary interest rates. The direct small holder schemes were introduced in 1981 as part of a programme to finance small farming credit needs. In 2001, the Federal Government merged the Peoples Bank, the NACB and the

Family Economic Advancement Programme to form the new agriculture bank known as the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) Plc. By 1990, communities were encouraged to establish banks with a minimum paid up capital of N250,000. The banks were to carry out most regular banking businesses at the local level and mainly to provide agricultural credits. In order to reduce the risk associated with bank's intermediation in the agricultural credit market, the Agricultural Credit Guarantee Scheme (ACGS) was introduced in 1978 by the CBN and the federal government, to provide 75% guarantee to banks for credit granted to farmers.

The credit institutions have been contributing to agricultural credit delivery through the provision of loans and advances to small and medium scale farmers. However, they have not been able to meet the needs of the farmers especially in long term funding. For instance, in 1980, the share of agriculture in aggregate credit stood at 9% but managed to reach a peak of 17.2% in 1989. Of the N57.7 billion aggregate credit to domestic economy in 1990, only N5.3 billion or 9.3% went to agriculture. The anti-climax was in 1994 when only N21.1 billion or 5.1% of the N413.9 billion aggregate credit to the domestic economy went to agriculture. Analysis showed that, out of the N426.3 million average annual credit to the economy during the period 1990 – 2002, only N30.5 million or 7.2% went to agricultural sector.

Lending institutions have generally not been enthusiastic about agricultural enterprises, as profit entities to be targeted for credit purveyance. The preference for other sectors considered less risky by banks, and the perceived high cost associated with small loans have been responsible for the apathy in loans commitment to agriculture. Some of the other possible causes of low credits to agricultural sector include; poor agricultural risk management resulting from high default rate and lack of sustainable sources of funds for lending institutions. On the overall, according to Sanusi J.O. (2002), agricultural sector was completely marginalised in the credit market, despite institutional policy efforts.

3.2 Investment in Agricultural Sector

Evidences from both literature (secondary data) and field survey identify two broad categories of investment in agriculture, namely, local and foreign sources. The local sources include public and private investments, while the foreign sources include bilateral, multilateral and private investment. Generally, available data on investment in Nigeria's agriculture are very scanty and data on domestic investment are even scantier than those of foreign investment. (A. Ikpi, V.M. Manyong 2000).

A look at the past investment trend in Nigeria showed that a leaning towards the control of natural factors appears to have greatly influenced the share of investment and gross fixed capital formation in Nigeria's economy between the public and private sectors since the early 1960s. By the end of 1960, Gross Fixed Capital Formation (GFCF) in Nigeria stood at ₦258.2 million out of which the private sector accounted for about 52%. By 1963, the GFCF had risen to ₦354 million with private sector accounting for about 64%. The GFCF rose further to ₦485.2 million in 1966 with the share of private sector being about 63%. The private sector still accounted for about 60% of GFCF in 1970 (Iwayemi, 1995; Jerome, 2000).

Throughout the 1970s, rising oil prices and revenues created a public-sector-led investment boom and altered the share of the total investment in favour of the public sector. National gross domestic investment increased at an average rate of about 56% per annum between 1970 and 1975, but increased at a drastically reduced rate of 7% per annum between 1976 and 1980, and actually declined in absolute terms by about 13% per annum between 1981 and 1985. By 1974, the public sector was already accounting for more than 50% of the total gross fixed investment in the economy, up from about 40% in 1970. This trend increased until it reached 75% by 1985. But most of the public sector investments were in large-scale commercial enterprises like fertilizer, iron and steel, aluminium and liquefied natural gas plants, virtually all of which failed to perform as expected.

4.0 CONCLUSION

In conclusion, we can deduce that rural development can be achieved through different means, methods and techniques as well as programmes through which we can change the value of our rural dwellers so as make life more meaningful to them.

5.0 SUMMARY

In the course of this study, we were able to discuss rural development, socio-economic conditions of rural areas, the meaning of some relevant terms, strategies and programmes of rural development in Nigeria, agents of rural development, the concepts of bottom-top approach and finally, the role of women in rural development.

6.0 TUTOR-MARKED ASSIGNMENT

Briefly discuss credit policies in agricultural sector in Nigeria?

7.0 REFERENCES/FURTHER READING

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MODULE 2

Unit 1	Women and Economic Reform in Nigeria
Unit 2	Choosing a Form of Business Ownership
Unit 3	The Impact of Government Poverty Alleviation on Entrepreneurship Development in Nigeria
Unit 4	Foreign Operation
Unit 5	Business Management

UNIT 1 WOMEN AND ECONOMIC REFORM IN NIGERIA

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1.0 INTRODUCTION

This unit provides a theoretical base for the course. Here, Abdul-Ganiyu Garba provides a framework for predicting and evaluating the effects of the Structural Adjustment Programme (SAP) on women, by extending the works of feminists' economists who are seeking to engender economic analysis.

Garba produces a five-economy disaggregation that reflects five key dualities common to all economies, including Nigeria: male dominated-female dominated, rural-urban; subsistence-commercial; informal-formal; private-government. Others are differentiation of labour by gender and skills, production technologies by capital inputs, government provided infrastructures by location and households by gender and

employment of the head. These differentiations create gender variables that make it possible to predict the impact of SAP instruments on women.

The framework also makes it possible to investigate the effects of a two-part household budget balance (money income balance and reproductive and subsistence balance) on gender inequalities and factors that worsen it.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- state the concept of initial gender and macroeconomic conditions
- justify the preferences of structural adjustment programme
- explain the gender model of production and households
- discuss the five economic disaggregation
- describe possible effect of SAP on Nigerian women and
- explain macroeconomic impacts.

3.0 MAIN CONTENT

3.1 Economic Adjustment and Women: A Theoretical Framework (Abdul-Ganiyu Garba)

The theoretical framework for predicting and evaluating the effects of the Structural Adjustment Program (SAP) on Nigerian women is provided in this unit of the course. It is essentially an extension of the works of feminist economics seeking to engender economic analysis. The frame work developed begins with an extension of the dual-economy disaggregation of Elson (1994) to a five-economy disaggregation to reflect five key dualities common to all economies including Nigeria: male dominated-female dominated; rural-urban; subsistence-commercial; informal-formal; private-government. The two part model (production and households) differentiates labour by gender and skills, production technologies by capital inputs, government-provided infrastructures by location and households by gender and employment of the head. These differentiations make it possible to determine the factors that impact on:

- female enrolment and completion,
- growth of skilled and semi-skilled female labour,
- production possibilities of the reproductive economy,
- employment of skilled, semi-skilled and unskilled women;

- household income and gender inequalities in household consumption and investment; and
- a two-part household budget balance (money income balance and reproductive and subsistence balance) and the gender choices imposed by it.

Thus, the model provides a framework for organising theoretical and empirical evaluation of the effects of SAP on women through its direct and indirect impacts on the afore-mentioned gender variables.

3.2 Initial Gender and Macroeconomic Conditions

Initial condition is the primary reference point of any adjustment (economic, social, political and institutional) while its destination or expected result is its secondary reference point. Conflicts in perceptions of elements of the set of initial conditions and their preference ordering, lead to conflict in what, how and when to adjust. It is therefore, very important to clarify what the initial conditions are to have a clear picture of the conditions competing for adjustment, alignment, improvement and alleviation. This unit does that with respect to gender and macroeconomic conditions in Nigeria during the period immediately preceding the adjustment policies.

3.2.1 Initial Gender Conditions

The gender conditions consist of:

- a. gender structure of social and economic infrastructure: education, health, water supply, electricity, and so on;
- b. gender structure of employment;
- c. gender structure of political empowerment.

3.2.2 Gender Structures of Social and Economic Infrastructure

Data availability limits the discussion mainly to education and, to a lesser extent, mortality rates and access to safe water. Table 1a shows female enrolment as a percentage of total enrolment. The table reveals fairly familiar patterns.

- Lower enrolment of girls relative to boys; and
- Relatively higher female enrolment rates in primary schools than at post-primary levels.

The rate on table 1a, overstates the ratio of female enrolment to corresponding female population. For instance, available data (The

Global Coalition for Africa, 1992) shows that only 29% of the secondary school age population was enrolled in 1985. This implies that only about 12% of the female population of secondary school age was enrolled in 1985. Thus we can infer that at least 88% females of post-primary school age were not enrolled in schools in 1985.

Table 1a: Female Enrolment, 1981 – 1985 (%)

Yr	Pry. School	Sec. School	Coll. Edu.	Of	Coll. Tech.	Of	University
1981	43.4	25.0	33.3		n.a		22.0
1982	43.0	28.9	24.9		n.a		22.5
1983	43.1	26.9	28.8		n.a		24.1
1984	44.0	n.a	33.3		n.a		22.8
1985	44.3	41.2	27.7		18.8		22.8

Source: FOS (1995)

Table 1b shows that only 22.2% and 14.3% of university and polytechnic graduates in 1985 were females. These rates are consistent with enrolment rates. The size of female relative to male doctors and dentists reflect lower female enrolment and graduation rates.

Table 1b: Female Graduates, 1981 – 85 (%)

Yr	University	P.technic	M. Doctor	F. Doctor	M. Dent.	F.Dent
1981	18.2	n.a	5949	916	75	n.a
1982	20.9	n.a	6896	1030	284	44
1983	20.5	n.a	8072	1252	366	88
1984	21.7	13.1	8522	1456	456	128
1985	22.2	14.3	10146	1760	530	164

Source: FOS (1995)

The global coalition for Africa (1992) showed that only 20% of Nigerians, living in rural areas, had access to safe drinking water and sanitation in 1985. This implies that *at least 60% of Nigerians, half of them women, had no access to safe drinking water and sanitation.* Similarly, FOS (1995) shows that between 1983 and 84, 76 in 1000 urban females fell ill while 96 in 1000 rural women fell ill. The figures were 73 and 87 for urban and rural men respectively. The data also show that females between 0 and 4 years and those above 45 years were most vulnerable in both urban and rural areas.

Table 1c shows neonatal, infant and maternal mortality rates of 48.7, 96 and 15 in every 1000, while the infant mortality rate in 1985 is lower than the average sub-Saharan rate (118), it is higher than the North Africa (84) and South African (76) rates.

Table 1c: Selected Mortality and Fertility Rates, 1975-85 (%)

Yr	Neo-natal mort. Rate	Infant mort. Rate	Maternal mort. Rate	Fertility rate
1975-80	51.9	99	15	n.a
1980-85	48.7	96	15	6.7

Source: FOS (1995)

3.2.3 Gender Structure of Employment

Tables 2a and 2b show gender and demographic structures of activity and occupations respectively. The key points of table 2a are:

- (a) A total of 68.5% of the urban female civilian population are in non-income paying employment or activities. The corresponding figure for males is 28.7% and 17%.
- (b) Most of the female population- 51.9% (urban) and 54% (rural)- are employed in the non-income generating males are students.
- (c) The reproductive economy is female dominated. The male-female ratio is 1: 74 (urban) and 1: 90 (rural).

The highlights of Table 2b are:

- (a) Primary activities (agriculture, forestry and fishing) and services (trade, restaurant and hotel; and community, social and personnel services) employ 79% (urban) and 90.3% (rural) working Nigerians.
- (b) About 80.4% of employed rural women are employed in primary activities, while only 25.2% of urban women are employed in primary activities. However, the proportion engaged in primary activities and services are almost the same: 89% (urban) and 89.1% (rural). This implies that most urban females are employed in services.

Table 2a: Civilian Population Aged 15-59: Activity by Gender, December, 1984 (%)

Activity status	Urban both sexes	Male	Female	Rural both sexes	Male	Female
Total civilian population	100	100	100	100	100	100
Civilian labour force						
1.employed	51.0	70.9	31.4	56.7	82.9	33.7
2.unemployed	4.1	5.3	3.4	2.6	3.0	2.3
Not in civilian labour force						
i. student	17.2	21.8	12.7	10.9	12.7	9.4
ii.homemakers	26.5	0.7	51.9	29.1	0.6	54.0
iii.retired and income recipients	0.5	0.4	0.1	0.1	0.1	0.0
iv.others	0.7	0.9	0.5	0.6	0.7	0.6
Non-income Earning	48.5	28.4	68.5	43.2	17.0	66.3

Table 2b: Gender and Sectoral Structure of Employees, 1984 (%)

Activity status	Urban both sexes	Male	Female	Rural both sexes	Male	Female
All occupations	100	100	100	100	100	100
Agriculture, forestry and fishing	22.6	25.2	16.6	72.9	80.4	56.9
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	0.1
Clerical and related workers	7.3	7.6	6.8	1.8	2.2	1.1
Manufacturing, electricity, gas and water	0.9	1.2	0.4	0.2	0.2	0.1
Construction	3.1	4.5	-	1.0	1.4	-
Trade, restaurant and hotel	28.7	17.5	53.9	11.6	3.7	28.7

Transport, storage and communication	6.4	9.1	0.6	1.2	1.7	0.1
Finance, insurance, real estates and business services	1.8	1.9	1.3	0.2	0.3	-
Community, social and personnel services	27.7	31.4	19.5	5.8	7.0	3.5
Others	3.0	2.4	4.4	1.0	1.2	0.4

Source: FOS (1995)

3.2.4 A Gender Model of Production and Households

Feminist's works on structural adjustment are of two inter-related types: empirical evaluations of its gender-effects and conceptual critiques of macroeconomics, free market and unequal exchange (Catagay, Elson and Grown, 1995). This section extends the seminal attempts to engender macroeconomics (see for instance, Elson, 1991a, 1991b, 1993 and 1994) and provides theoretical supports for much of the empirical studies of the effects of adjustment on women (see for instance, Beneria and Roldan, 1987; Sen and Grown, 1987; Elson, 1991b, 1995). The gender model of production and households extends the works of Elson and associates in three key directions. First, we extend *Elson's dual-economy disaggregation* to a five-economy disaggregation. Second, we categorise labour into six groups based on gender and skills Third, we distinguish households based on the gender and employment of the head.

3.2.5 Macroeconomic Impacts

Table 6 shows the macroeconomic impact of the seven core SAP instruments. This section draws from Garba (1996). The analytical model in Garba (1996) predicts that:

- (a) Market exchange rate would lead to devaluation, which would in turn, lead to fall in public non-debt spending by raising external debt service. Interest rate deregulation would also crowd-out non-debt spending by raising domestic debt service. Therefore, real government spending on education and on other social and economic infrastructures would most likely fall

- (b) Fall in government spending on education would most likely cause a shift in the burden of education to parents and a rise in the costs of education
- (c) Fall in government spending on social and economic infrastructure shrinks government-provided infrastructures while privatisation and commercialisation of public enterprises would raise the price of public utilities
- (d) Devaluation, subsidy reduction and abolition of commodity boards would raise the price of imports, manufactured goods, luxury goods and food
- (e) Rationalisation of public employees, devaluation, commercialisation and privatisation would shrink the size of employment of the government and formal sub-economies
- (f) Wage freeze, devaluation, subsidy reduction, commercialisation and privatisation would shrink real incomes of most households.
- (g) Interest rate deregulation would raise interest rates and cause a fall in real investment.

Table 6: Possible Macroeconomic and Gender Effects of SAP

Instruments	Macroeconomic effects	Possible effects on women
1. market-determined exchange rate and abolition of import license	Devaluation which leads to: (a) increase in external debt service, decrease in allocations to capital and personnel costs; and (b) Increase in prices, decrease in real incomes	<ul style="list-style-type: none"> • Decrease in growth and employment of skilled female labour • Increase in trading and social constraints to female preferences and choices
2. commercialisation	Increase in price/fall in employment/fall in real incomes	Increases trading and social constraints to female preferences and choices and fall in employment of skilled females Reduces the set of feasible female preferences and choice
3. privatisation	Unequal transfer of public assets/plus effects of commercialisation	Increase gender inequalities in asset holding/plus effects of commercialisation

4. subsidy removal	Higher costs of relatively efficient sources of fuel, energy, water, transport, and so on. Decrease in real income	Economic, socially, physically and environmentally inefficient fuel, energy and water choices Decrease in marginal productivity of the reproductive economy; increase in stress and trading constraints Increase in trading and social constraints to female preferences and choices
5. abolition of commodity boards and export taxes	Higher prices in short-term but unstable product prices and incomes in long term Loss of protection from unequal exchange and of support services Easier exportation and short term increase in absolute prices	Increase gender inequalities and increased constraints to money balances
6. interest rate deregulation	Increase in debt service and decrease in allocations to capital and personnel and operating costs	Decrease in growth and employment of skilled women, female income and decrease in access to credit.
7. wage freeze/rationalisation of staff	Decrease in real income/increase in unemployment	Decrease in women employed in formal/government Increase in trading constraints/increase in economic and social burdens

4.0 CONCLUSION

This unit showed that the targets of SAP completely excluded the adverse economic, social and political conditions of the Nigerian female population that required adjustment, realignment and alleviation. In

addition, it excluded most of the key macroeconomic problems which improvements could have improved the welfare of most Nigerians including the female population. Therefore, SAP was indeed, biased against Nigeria women. However, it did not favour most of the male population either.

The unit also extended the works of feminist economists seeking to engender economic analysis in three key areas to deduce a gender model of production and households. Some of the extensions are a five-economy disaggregation of production and differentiation of labour by gender and skills, production technologies by capital inputs, government-provided infrastructures by location and households by gender and employment of the head. These differentiations generate gender variables that make it possible to:

- (a) specify their determinants and
- (b) predict the possible effects of SAP on women. For instance, the production part of the model specifies the growth of skilled female labour and employment of female labour in sub-economies, and deduces the production possibility frontier of female labour-dominated sub-economies and their links to government policies. The household part investigates the income of the six different types of households, their gendered consumption and investment allocations, the household budget constraint and implications.

Two key assumptions underpin the link between SAP and female variables. First, the growth of skilled and semi-skilled women, their employment in high and stable-income sub-economies, more efficient reproduction technologies, lower trading constraints and more equitable income and asset distribution empower women economically and socially. Second, economic and social empowerments induce political empowerment of women which are predictable from its economic effects.

The model predicts that SAP would have adverse effects on:

- (a) the growth and employment of skilled and un-skilled women;
- (b) gender equities in income distribution;
- (c) efficiency of the reproductive economy;
- (d) efficiency of social and gender equity enhancing choices and
- (e) welfare of women. In general SAP would increase social, economic and environmental constraints on women and hence, restrict their feasible choice sets.

A prior prediction of the gender effects of economic adjustment has two ends. First, they specify the channels through which economic adjustment impact on women. Second the predictions serve as an analytical guide to the empirical evaluations of adjustment on the economic, educational, social, political and other aspects of women's lives.

5.0 SUMMARY

This unit has been able to provide us with some pieces of information to prove to us the neglect of women in some important activities of SAP considering the rate of employment, skilled labour and level of education.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the possible effect of SAP on Nigerian women

If you were made today's Nigerian president, what would you do to alleviate the problem of gender bias in Nigeria

7.0 REFERENCES/FURTHER READING

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UNIT 2 CHOOSING A FORM OF BUSINESS OWNERSHIP

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Sole proprietorship
 - 3.2 Partnerships
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1.0 INTRODUCTION

Like Donald and Susan Sutherland, hundreds of thousands of people have started new businesses in the United States. In fact, more than 500,000 new U.S. businesses are started each year. Chances are, you have thought of owning your own business or know someone who has. One key to success in starting a new business is to understand how to get the resources you need. You may have to take on partners or find other ways of obtaining money. To stay in business, you may need help from someone with more expertise than you have in certain areas, or you may need to raise more money to expand. How you start your business can make a tremendous difference in your long-term success. You can form a business in one of several ways. The three major forms of business ownership are:

- (1) sole proprietorships,
- (2) partnerships, and
- (3) corporations.

It can be easy to get started in your own business. You can begin a word processing service out of your home, open a car repair center, start a restaurant, develop a web site, or go about meeting other wants and needs of your community. A business that is owned, and usually managed, by one person is called a **sole proprietorship**. That is the most common form of business ownership.

Many people do not have the money, time, or desire to run a business on their own. They prefer to have someone else or some group of people get together to form a business. When two or more people legally agree

to become co-owners of a business, the organisation is called a **partnership**.

There are advantages to creating a business that is separate and distinct from the owners. A legal entity with authority to act and have liability separate from its owners is called a **corporation**. The almost 5 million corporations in the United States comprise only 20 percent of all businesses, but they earn 81 percent of the total receipts.

As you will learn in this unit, each form of business ownership has its advantages and disadvantages. It is important to understand these advantages and disadvantages before attempting to start a business. Keep in mind that just because a business starts in one form of ownership, it doesn't have to stay in that form. Many companies start out in one form, then add (or drop) a partner or two, and eventually become corporations, limited liability companies, or franchisors.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- compare the advantages and disadvantages of sole proprietorships.
- describe the differences between general and limited partners, and compare the advantages and disadvantages of partnerships.
- compare the advantages and disadvantages of corporations, and know what is meant by the term Limited Liability.

3.0 MAIN CONTENT

3.1 Sole proprietorships

Sole proprietorship has been explained in the introductory part of this unit. Without wasting time, we shall be considering the advantages and disadvantages of sole proprietorship.

Advantages of Sole Proprietorships

Sole proprietorships are the easiest kind of businesses for you to explore in your quest for an interesting career. Every town has sole proprietors you can visit. Talk with some of these businesspeople about the joys and frustrations of being on their own. Most will mention the benefits of being their own boss and setting their own hours. Other advantages they mentioned include the following:

1. **Ease of starting and ending the business:** all you have to do to start a sole proprietorship is to buy or lease the needed equipment (e.g., a saw, a word processor, a tractor, a lawn mower) and put up some announcements saying you are in business. It is just as easy to get out of business; you simply stop. There is no one to consult or to disagree with about such decisions. You may have to get a permit or license from the local government, but often that is no problem.
2. **Being your own boss:** working for others simply does not have the same excitement as working for yourself at least, that's the way sole proprietors feel. You may make mistakes, but they are your mistakes and so are the many small victories each day.
3. **Pride of ownership:** people who own and manage their own businesses are rightfully proud of their work. They deserve all the credit for taking the risks and providing needed goods or services.
4. **Leaving a legacy:** business owners have something to leave behind for future generations.
5. **Retention of company profit:** other than the joy of being your own boss, there is nothing like the pleasure of knowing that you can earn as much as possible and not have to share that money with anyone else (except the government, in taxes).
6. **No special taxes:** all profits of a sole proprietorship are taxed as the personal income of the owner, and the owner pays the normal income tax on that money. (However, owners do have to estimate their taxes and make quarterly payments to the government or suffer penalties for nonpayment.)

Disadvantages of Sole Proprietorships

Not everyone is equipped to own and manage a business. Often, it is difficult to save enough money to start a business and keep it going. The costs of inventory, supplies, insurance, advertising, rent, computers, utilities, and so on may be too much to cover alone. There are other disadvantages of owning your own business:

1. **Unlimited liability-the risk of personal losses:** when you work for others, it is their problem if the business is not profitable. When you own your own business, you and the business are considered one. You have unlimited liability; that is, debts or damages incurred by the business are your debts and you must pay them, even if it means selling your home, your car, or

whatever else you own. This is a serious risk, and one that requires not only thought but also discussion with a lawyer; an insurance agent, an accountant, and others.

2. **Limited financial resources:** funds available to the business are limited to the funds that the one (sole) owner can gather. Since there are serious limits to how much money one person can raise, partnerships and corporations have a greater probability of obtaining the needed financial backing to start a business and to keep it going.
3. **Management difficulties:** all businesses need management; that is, someone must keep inventory records, accounting records, tax records, and so forth. Many people who are skilled at selling things or providing a service are not so skilled in keeping records. Sole proprietors often find it difficult to attract good, qualified employees to help run the business because they cannot compete with the salary and fringe benefits offered by larger companies.
4. **Overwhelming time commitment:** though sole proprietors may say they set their own hours it is hard to own a business, manage it, train people, and have time for anything else in life. This is true of any business, but a sole proprietor has no one with whom to share the burden. The owner often must spend long hours working. The owner of a store, for example, may put in 12 hours a day, at least six days a week, almost twice the hours worked by a non-supervisory employee in a large company. Imagine how this time commitment affects the sole proprietor's family life. Tim DeMello, founder of the successful company Wall Street Games Inc., echoes the feelings of countless other sole proprietors when he says, "It's not a job, it's not a career, it's a way of life."
5. **Few fringe benefits:** if you are your own boss, you lose the fringe benefits that often come from working for others. You have no paid health insurance, no paid disability insurance, no sick leave, and no vacation pay. These and other benefits may add up to approximately 30 percent of a worker's income.
6. **Limited growth:** expansion is often slow since a sole proprietorship relies on its owner for most of its creativity, business know-how, and funding.
7. **Limited life span:** if the sole proprietor dies, is incapacitated, or retires, the business no longer exists (unless it is sold or taken over by the sole proprietor's heirs).

3.2 Partnerships

A partnership is a legal form of business with two or more owners. There are several types of partnerships: (1) general partnerships, (2) limited partnerships, and (3) master limited partnerships.

A **general partnership** is a partnership in which all owners share in operating the business and in assuming liability for the business's debts.

A **limited partnership** is a partnership with one or more general partners and one or more limited partners.

A **general partner** is an owner (partner) who has unlimited liability and is active in managing the firm.

A **limited partner** is an owner who invests money in the business but does not have any management responsibility or liability for losses beyond the investment.

Limited liability means that limited partners are not responsible for the debt of the business beyond the amount of their investment, their liability is limited to the amount they put into the company; their personal assets are not at risk.

A newer form of partnership, the **Master Limited Partnership (MLP)**, looks much like a corporation (which we discuss next) in that it acts like a corporation and is traded on the stock exchange like a corporation, but it is taxed like a partnership and thus avoids the corporate income tax. For example, Sunoco Inc. formed MLP Sunoco Logistics (SXL) to acquire, own, and operate a group of crude oil and refined-product pipelines and storage facilities. SXL began trading on the New York Stock Exchange in 2002. Income received by SXL is not taxed before it is passed on to investors in the form of dividends as it would have been if SXL were a corporation.

Another newer type of partnership was created to limit the disadvantage of unlimited liability. All states are now allowing partners to form what is called a **Limited Liability Partnership (LLP)**. LLPs limit partners' risk of losing their personal assets to only their own acts and omissions of people under their supervision. This means that the LLP allows you to operate without the fear that one of your partners might commit an act of malpractice that would result in a judgement that takes away your house, car and retirement plan, as would be the case in a general partnership. However, in many states, this personal protection does not extend to contract liability protections for LLPs. The LLP is in many ways similar to an LLC.

All states except Louisiana have adopted the Uniform Partnership Act (UPA) to replace laws relating to partnerships. The UPA defines the three key elements of any general partnership as (1) common ownership, (2) shared profits and losses, and (3) the right to participate in managing the operations of the business.

Advantages of Partnerships

There are many advantages to having one or more partners in a business. Often, it is much easier to own and manage a business with one or more partners. Your partner can cover for you when you are sick or go on vacation. Your partner may be skilled at inventory control and accounting, while you do the selling or servicing. A partner can also provide additional money, support, and expertise. Partnerships usually have the following advantages:

1. **More financial resources:** when two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. A limited partnership is specially designed to help raise money. As mentioned earlier, a limited partner invests money in the business but cannot legally have any management responsibility and has limited liability.
2. **Shared management and pooled complementary skills and knowledge:** it is simply much easier to manage the day-to-day activities of a business with carefully chosen partners. Partners give each other free time from the business and provide different skills and perspectives. Some people find that the best partner is a spouse. That is why you see so many husband and wife teams managing restaurants, service shops, and other businesses.
3. **Longer survival:** one study that examined 2,000 businesses started since 1960 reported that partnerships were four times as likely to succeed as sole proprietorships. Being watched by a partner can help a businessperson become more disciplined.
4. **No special taxes:** as with sole proprietorship, all profits of partnerships are taxed as the personal income of the owners, and the owners pay the normal income tax on that money. Similarly, partners must estimate their taxes and make quarterly payments or suffer penalties for nonpayment.

Disadvantages of Partnerships

Any time two people agree, there is the possibility of conflict and tension. Partnerships have caused splits among families, friends and marriages. Let's explore the disadvantages of partnerships:

- 1. Unlimited liability:** each general partner is liable for the debts of the firm, no matter who was responsible for causing those debts. You are liable for your partners' mistakes as well as your own. Like sole proprietors, general partners can lose their homes, cars, and everything else they own if the business loses a lawsuit or goes bankrupt.
- 2. Division of profits:** sharing risk means sharing profits, and that can cause conflicts. There is no set system for dividing profits in partnership, so profits are not always divided evenly. For example, two people form a partnership in which one puts in more money and the other puts in more hours working the business. Each may feel justified in asking for a bigger share of the profits. Imagine the resulting conflicts.
- 3. Disagreements among partners:** disagreements over money are examples of potential conflicts in a partnership. Who has final authority over employees? Who hires and fires employees? Who works what hours? What if one partner wants to buy expensive equipment for the firm and the other partner disagrees? Potential conflicts are many.
- 4. Difficulty of termination:** once you have committed yourself to a partnership, it is not easy to get out of it (other than death, which immediately terminates the partnership). Sure, you can end a partnership just by quitting. However, questions about who gets what and what happens next are often very difficult to solve when the partnership ends.

How to Form a Partnership

It is not hard to form a partnership, but it is wise for each prospective partner to get the counsel of a lawyer experienced in such agreements. Lawyers' services are usually expensive, so would-be partners should read all about partnerships and reach some basic agreements before calling a lawyer.

For your protection, be sure to put your partnership agreement into writing. The model business corporation act recommends including the following in a written partnership agreement.

1. The name of the business. Many states require the firm's name to be registered with state and/ or county officials if the firm's name is different from the name of any of the partners.
2. The names and addresses of all partners.
3. The purpose and nature of the business, the location of the principal offices, and any other locations where business will be conducted.
4. The date the partnership will start and how long it will last. Will it exist for a specific length of time, or will it stop when one of the partners dies or when the partners agree to discontinue?
5. The contributions made by each partner. Will some partners contribute money, while others provide real estate, personal property, expertise, or labour? When are the contributions due?
6. The management responsibilities. Will all partners have equal voices in management, or will there be senior and junior partners?
7. The duties of each partner.
8. The salaries and drawing accounts of each partner.
9. Provision for sharing of profits or losses.
10. Provision for accounting procedures. Who'll keep the accounts? What bookkeeping and accounting methods will be used? Where will the books be kept?
11. The requirements for taking in new partner.
12. Any special restrictions, rights, or duties of any partner.
13. Provision for a retiring partner.
14. Provision for the purchase of a deceased or retiring partner's share of the business.
15. Provision for how grievances will be handled.
16. Provision for how to dissolve the partnership and distribute the assets to the partners.

3.3 Corporations

Although the word corporation makes people think of big businesses like General Motors, IBM, Ford, Exxon, General Electric, Microsoft, and Wal-Mart, it is not necessary to be big in order to incorporate. Obviously, many corporations are big in order to incorporate. Obviously, many corporations are big and contribute substantially to the U.S. economy. However, incorporating may be beneficial for small businesses as well.

A **conventional © corporation** is a state-chartered legal entity with authority to act and have liability separate from its owners (the corporation's stockholders are its owners). What this means for the owners is that they are not liable for the debts or any other problems of the corporation beyond the money they invest. Owners no longer have to

worry about losing personal belongings such as their house, car, or other property because of some business problem. A corporation not only limits the liability of owners but often enables many people to share in the ownership (and profits) of a business without working there or having other commitments to it. Corporations can choose whether to offer such ownership to outside investors or whether to remain privately held.

Advantages of Corporations

Most people are not willing to risk everything to go into business. Yet for a business to grow and prosper and create economic opportunity, many people would have to be willing to invest their money in it. One way to solve this problem is to create an artificial entity that exists only in the eyes of the law - a corporation. Let's explore some of the advantages of corporations.

- 1. Limited liability:** a major advantage of corporations is the limited liability of owners. Corporations in England and Canada have the letters *Ltd.* after their name, as in British Motors Ltd. The *Ltd.* stands for "limited liability," probably the most significant advantage of corporations. Remember, limited liability means that the owners of a business are responsible for losses only up to the amount they invest.
- 2. More money for investment:** to raise money, a corporation can sell ownership (stock) to anyone who is interested. This means that millions of people can own part of major companies like IBM, Xerox, and General Motors and smaller companies as well. Corporations can also borrow money from individual investors through issuing bonds. Corporations may also find it easier to obtain loans from financial institutions, since lenders find it easier to place a value on the company when they can review how the stock is trading.
- 3. Size:** that one word summarises many of the advantages of some corporations. Because they have the ability to raise large amounts of money to work with, corporations can build modern factories or software development facilities with the latest equipment.
- 4. Perpetual life:** because corporations are separate from those who own them, the death of one or more owners does not terminate the corporation.

5. **Ease of ownership change:** it is easy to change the owners of a corporation. All that is necessary is to sell the stock to someone else.
6. **Ease of drawing talented employees:** corporations can attract skilled employees by offering such benefits as stock options (the right to purchase shares of the corporation for a fixed price).
7. **Separation of ownership from management:** corporations are able to raise money from many different investors without getting them involved in management.

Disadvantages of corporations

1. **Extensive paperwork.** The paperwork filed to start a corporation is just the beginning. Tax laws demand that a corporation prove that all its expenses and deductions are legitimate. Corporations must therefore process many forms. A sole proprietor or a partnership may keep rather broad accounting records; a corporation, in contrast, must keep detailed financial records, the minutes of meetings, and more.
2. **Double taxation.** Corporate income is taxed twice. First the corporation pays tax on income before it can distribute any to stockholders. Then the stockholders pay tax on the income (dividends) they receive from the corporation. States often tax corporations more harshly than they tax other enterprises. Sometimes, they levy special taxes that apply to corporations but not other forms of business.
3. **Two tax returns.** If an individual incorporates, he or she must file both a corporate tax return and an individual tax return. Depending on the size of the corporation, a corporate return can be quite complex and require the assistance of a certified public accountant (CPA).
4. **Difficulty of termination.** Once a corporation is started, it's relatively hard to end.
5. **Initial cost.** Incorporation may cost thousands of dollars and involve expensive lawyers and accountants.
6. **Possible conflict with shareholders and board of directors.** Some conflict may brew if the stockholders elect a board of directors that disagrees with the present management.

7. **Size.** Size may be one advantage of corporation but it can be a disadvantage as well. Large corporations sometimes become too inflexible and too tied down in red tape to respond quickly to market changes.

4.0 CONCLUSION

As you can see, you may participate in the business world in a variety of ways. You can start your own sole proprietorship, partnership or corporation. There are advantages and disadvantages to each. However, there are risks no matter which form you choose. Before you decide, you need to evaluate all the alternatives carefully.

5.0 SUMMARY

In summary, sole proprietorship is the type of business ownership that is owned and controlled by one person. Partnership, on the other hand, is the type of business ownership in which two people come together to start a business while corporation is the type in which the business is separated totally from the owners property and is legally backed up.

6.0 TUTOR-MARKED ASSIGNMENT

Compare and contrast the three types of business ownership discussed. Which one is the best for a beginner?

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UNIT 3 THE IMPACT OF GOVERNMENT POVERTY ALLEVIATION ON ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
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1.0 INTRODUCTION

One of the main issues in development is how to tackle poverty. Therefore, a major concern to multilateral institutions and policy makers in different countries is to identify appropriate strategy for poverty alleviation. Several scholars have contributed in this regard. For instance, a World Bank poverty assessment report on Nigeria (World Bank 1996) focussed on strategies that could help to alleviate poverty in the country. This assessment was one of the most authoritative poverty alleviation studies on Nigeria. However, the study fails to examine the link between entrepreneurship development and poverty alleviation. In a similar manner, the Nigeria Economic Society has as its theme for 1997 Annual Conference, "Poverty Alleviation in Nigeria". Some thirty-one papers were presented at the conference, eight of which focussed on strategies for poverty alleviation without consideration for entrepreneurship development as a viable strategy.

Conceptually, according to Meredith *et al* (1982), an entrepreneur is one who has ability to see and evaluate business opportunities, and gather the necessary resources to take advantage of them and also to initiate appropriate action to ensure success. Entrepreneurship is the process of wealth creation in a society. Therefore, an entrepreneur can easily be described as one who perceives needs, conceives goods and services to satisfy the needs, organises the factors of production and creates and markets products (Loucks 1988). Countries are generally endowed by nature with different resources such as land, labour, machinery, technology etc which when processed are able to generate economic goods and services and in turn, used to promote socio-economic growth

and development. A key factor in the process of combination of various resource endowments for wealth creation is the entrepreneur.

This is why Joseph Schumpeter (1911) had early in the century recognised an entrepreneur as an important factor of production. He maintained that endogenous economic growth is generated and sustained by technology, innovation and knowledge. He therefore, advocated a process of 'creative destruction'. This is a process in which new products, new market, and new organisations simply replace the old system, process or products. For this to happen, Schumpeter maintained that the entrepreneur must undertake investment. A recent school of economic thought called Schumpeterianism, drawing inspiration, from Joseph Schumpeter's idea on entrepreneurship has also emphasised the importance of elements like technology, innovation and knowledge as holding the key to endogenous growth process. (International Business Week, May 16, 1994. P. 44).

According to Umo (1995), "when entrepreneurship is situated in the emerging global context, it becomes that a modern entrepreneur has to be deliberately cultivated and assisted to perform". How does a country recognise and encourage this special class of people? In developed countries, deliberate efforts are made to encourage entrepreneurial class through specialised training and provision of logistic supports for business creation and running of businesses. Against the background of the implementation of Structural Adjustment Programme by most African countries, in the early eighties, the expectation of policy makers is that, the opportunities created by the liberalisation, privatisation and deregulation components of the programme will be seized by the private sector to contribute to reviving most of the stagnant African economies. These expectations were however not met as the supply response of private sector enterprises were below average and uninspiring. The question that naturally arises therefore is whether there are enough entrepreneurs of the appropriate types that would be able to respond to the opportunities and challenges offered by the Structural Adjustment Programme. What are the determinant factors of African entrepreneurship and its capability to respond?

In an attempt to answer these questions, Oyejide (1991) found that the private sector in an African economy is made up of several types of enterprises, which include informal enterprises, micro enterprises and small, medium, and large-scale modern firms. The study shows that firms with less than ten employees provide 59 percent of total private sector employment in Kenya, 75 percent in Nigeria, 83 percent in Zambia and 90 percent in Sierra-Leone. In other words, the sector is the largest employer of skilled and unskilled labour in Africa. Furthermore, the study found that, African private sector enterprises have low level of

managerial skills, most operators also have low skills, and low technological capacities as many of them acquired their skills through a process of apprenticeship. This process of skill acquisition imposes a serious limitation on transferability of such skills to subsequent activities in the medium- and large-scale enterprises. In all, the study identified three sets of obstacles to enterprise development. These are:

- i) shortfalls on the supply of individuals with the attributes of entrepreneur;
- ii) weaknesses in the external economic environment within which enterprises operate and associated high cost of gaining access to resources and markets; and
- iii) regulatory environments which make erroneously burdensome demands on enterprises in their relations with government bureaucracy.

The study noted that most programmes targeted at promoting entrepreneurship development in Africa, Nigeria inclusive, have not been effective due to reasons that include inappropriate design and implementation. Also special training programmes were found to have fallen short of their targets. It was noted that, although, the various adjustment programmes adapted across Africa incorporated several measures to address the various deficiencies observed with entrepreneurship development, they have not been effective in enhancing the growth and performance of the African entrepreneur.

Poverty was shown to have increased in Nigeria over the last three decades. For instance the World Bank Report, (1996) showed that Nigeria has witnessed increased incidences of poverty due to economic policy reversal and policy incredibility. Corroborating evidence from the Federal Office of Statistics also showed that poverty increased from 42 percent in 1992 to 69.3 percent in 1996. Given the poverty situation in Nigeria, successive governments have realised the need to empower the poor and provide them the means by which they can make use of their abundant resources (labour). In this regard, various programmes and policies have been put in place that can provide the poor and the self employed the opportunity for self actualisation through entrepreneurship (training and skill enhancement), cushioning them against economic shocks and providing them the access to credit facilities.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain some programmes in the past to alleviate poverty in Nigeria by the past governments
- discuss the impact of poverty alleviation programmes on entrepreneurs.

3.0 MAIN CONTENT

3.1 Better Life Programme (BLP)

In 1987, the Better Life Programme[BLP] was first introduced as a programme mainly for rural women by the then first lady, Mrs. Maryam Babangida. The programme was generally aimed at completing the existing federal government policy to develop the rural areas. The programme's objectives were to:

- stimulate and motivate women in rural areas towards achieving a better and higher standards of life, as well as sensitise the general populace to the plight of rural women;
- educate women on simple hygiene, family planning, importance of childcare and increase literacy;
mobilise women for concrete activities towards achieving specific objectives, including seeking leadership roles in all spheres of national life; and
- raise the social consciousness of women about their rights, as well as social, political and economic responsibilities.

As the implementation of the programme progressed, it was realised that the scope of the programme had to be widened to include urban women and cooperatives where men were members. Thus, the name was changed from better life programme for rural women to Better Life Programme (BLP). The programme generally covered many areas that relate to enhancing labour productivity and entrepreneurship development. The areas were: health, agriculture, education, social welfare and cooperatives. It is the formation of cooperatives that has direct bearing to entrepreneurial development. Numerous fishing, farming, marketing, weaving and sundry craft cooperatives were set-up. The cooperatives were supported in greater access to credit facilities from People's Bank, which owes its existence partly to the better life programme. Thus a linkage was effectively created between the two agencies.

During the Abacha regime, the programme appeared to narrow down its activities and was re-named Family Support Programme (FSP) with greater emphasis on the health component. However, in an attempt to create a more embracing socio-economic poverty alleviation programme by the regime, a new agency called Family Economic Advancement Programme (FEAP) was established. The FEAP was established to stimulate economic activities by providing loans directly to Nigerians through cooperative societies and informal associations. Between 1997 and 1998, a total sum of N5.9 billion was committed to the programme by the federal government. Out of the amount, the sum of N4.50 billion was earmarked as loans to co-operative societies. A total of 70,000 cooperatives nation-wide registered with the organisation. The organisation is now defunct while its assets and liabilities have been taken over by the newly created National Agricultural Cooperative and Rural Development Bank. (NACRDB).

3.2 National Directorate of Employment (NDE)

This is a skill formation and credit-granting scheme with consequences on accelerating entrepreneurship development. The Directorate was set up in 1986 with the underlying philosophy of self-enterprise, which emphasises self-employment in preference to wage employment. The Directorate implements four core programmes namely; Vocational Skills Development Programme (VSDP), Special Public Works (SPW), Small Scale Enterprises (SSE) and Rural Employment Promotion Programme (RPP). The Vocational Skills Development Programme is a skill acquisition programme which consists of 80 trades spread through its four ancillary schemes.

- The National Open Apprenticeship Scheme (NOAS): this scheme emphasises on-the-job training by which apprentices are attached to master craftsmen or women, companies, ministries and parastatals for periods varying between six months to three years. Between its inception and 1995, the scheme has trained 392,275 persons.
- The school on wheel scheme: this involves the use of mobile workshop to take vocational training to the rural areas. A total of about 15,000 youths benefited from this scheme through its mobile training workshops located in each of the old 21 states of the federation and Abuja;
- The Wealth-to-Waste Scheme: under this scheme, interested youths are trained to convert discarded materials to useful and valuable products such as jewelry, flower vase, key holders etc. about 6,394 participants have benefited from the scheme since its inception.

- The resettlement scheme: the scheme was set up to assist selected NOAS graduates who lack the means to set up own business and cannot get wage employment. The scheme also provided management support services to young entrepreneurs who may be in need of professional advice.

3.3 People's Bank of Nigeria (PBN)

The PBN was set-up by Decree No. 22 of 1990 with the following mandate.

- The provision of basic credit requirements of the under privileged Nigerians who are involved in legitimate economic activities in both rural and urban areas and who cannot normally benefit from the services of orthodox banking systems due to their inability to provide collateral securities; and
- The acceptance of savings from the same group of customers and making repayment of such savings together with any interest thereon, after placing the money, in bulk sums, on short-term deposits with commercial and merchant banks.

Arising from the mandate are the following specific objectives:

- extension of credit facilities to the less privileged members of the society who cannot normally benefit from the services of the conventional banks;
- provision of opportunities for self-employment for the vast unutilised and underutilised manpower resources in the country;
- complementing government's efforts in improving the productive base of the economy;
- inculcating banking habits at the grass roots and reducing the rural- urban migration;
- eradication of poverty and provision of succor to the poor
- bringing relief to the financially marginalised groups in the society.

By implication, the people's bank is to serve as an alternative banking institution providing easy credit access to the poor who otherwise would not have had access to credit and other banking services at affordable rates of interest and without the complicated requirement of collateral security. It became the most significant financial institution providing micro-credit as part of poverty alleviation programme with special focus on small-scale enterprise development. In order to further strengthen the delivery of credit to small-scale entrepreneurs and the poor as part of the current effort at poverty alleviation, the activities of FEAP and Nigeria Agricultural and Cooperative Bank [NACB] have been rationalised to

avoid duplication and overlapping of functions. Thus, a new institution called the Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) was established mainly to do what these institutions were created to do with a more clearly defined focus.

4.0 CONCLUSION

The authorities in Nigeria have demonstrated commitment to alleviate poverty among the citizens through the establishment of various programmes. However, the impact of these programmes in creating opportunities for entrepreneurship development among the beneficiaries has been limited by poor conception and weak implementation.

As it has been noted in this study, most of the so called poverty alleviation programmes in the country since SAP are not targeted to foster entrepreneurship development. It is therefore not surprising that the programmes have limited impact in promoting entrepreneurship. The programmes have largely failed to solve major constraints of entrepreneurs. Even the NDE, which was to focus on promoting employment opportunities through entrepreneurship training and support, has been identified as one of the least beneficial programmes. Ironically it is still one of the programmes that have survived to date given its pivotal role in promoting and enhancing entrepreneurship development in Nigeria.

5.0 SUMMARY

Better Life Programme was originally established for Nigerian rural women before it was extended to men. Then the name Better Life Programme (BLP), evolved from the initial name Better Life Programme for Rural Women (BLPRW)

National Directorate for Employment aimed at developing skill and creating more entrepreneurs, but the success of it is yet to be determined.

People's Bank of Nigeria, tried to bring credit facilities closer to the rural people.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the People's Bank of Nigeria and how it complements National Directorate for Employment (NDE).

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UNIT 4 FOREIGN OPERATIONS

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- 2.0 Objectives
- 3.0 Main Content
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 - 3.2 Regulation of International Trade
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1.0 INTRODUCTION

Trade policy is increasingly shaped by the forces of globalisation and determined largely in the context of regional and multilateral trade agreements. Nigerian trade policy is not an exception to this general and universal trend. The extent to which Nigerian trade policy reflects this global trend has, of course, varied over time. The trade policy regime that prevailed in Nigeria between the early 1960s and the mid-1980s can be described as inward-looking. Combine with the emergence of the dominant oil sector, this regime appears to have generated considerable anti-export bias, which stifled incentives for non-oil exports. As a result, Nigeria's export of non-oil products has stagnated and the opportunity to participate in and benefit from the growth of international trade missed. The policy reforms embedded in Nigeria's structural adjustment programme of the mid-1980s recognised this problem and explicitly accepted the superiority of a more outward-oriented trade regime as a key component of a growth-enhancing strategy for the country. Hence, the broad objectives of Nigeria's trade policy since the mid-1980s can be expected to reflect this strategic shift.

In this unit, we shall be looking into some investments as related to trade policy and the conceptual aspect of trade policy and the risk involve.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define trade policy
- list some global trade theories
- analyse investments with regards to foreign banking.

3.0 MAIN CONTENT

3.1 International Trade and Economic Cooperation

International trade is the exchange of goods and services across international boundaries or territories. In most countries, it represents a significant share of **GDP**. While international **trade** has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. **Industrialisation**, advanced **transportation**, **globalisation**, **multinational corporations**, and **outsourcing** are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of **globalisation**. International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is also a branch of **economics**, which, together with **international finance**, forms the larger branch of **international economics**.

Global Trade Theories

Ricardian model

The Ricardian model focuses on **comparative advantage** and is perhaps the most important concept in international **trade theory**. In a Ricardian model, countries specialise in producing what they produce best. Unlike other models, the Ricardian framework predicts that countries will fully specialise instead of producing a broad array of goods. Also, the Ricardian model does not directly consider factor endowments, such as the relative amounts of labor and capital within a country.

Heckscher-Ohlin model

The Heckscher-Ohlin model was produced as an alternative to the Ricardian model of basic comparative advantage. Despite its greater complexity, it did not prove much more accurate in its predictions. However from a theoretical point of view it did provide an elegant solution by incorporating the neoclassical price mechanism into international trade theory.

The theory argues that the pattern of international trade is determined by differences in **factor endowments**. It predicts that countries will **export** those **goods** that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. Empirical problems with the H-O model, known as the **Leontief paradox**, were exposed in empirical tests by **Wassily Leontief** who found

that the United States tended to export labour intensive goods despite having capital abundance.

Specific Factors Model

In this model, labour mobility between industries is possible while capital is immobile between industries in the short-run. Thus, this model can be interpreted as a 'short run' version of the Hecksche-Ohlin model. The specific factors name refers to the given that in the short-run specific factors of production, such as physical capital e.t.c., are not easily transferable between industries. The theory suggests that if there is an increase in the price of goods, the owners of the factors of production, specific to the goods, will profit in real terms. Additionally, the owners of opposing specific factors of production (i.e. labour and capital) are likely to have opposing agendas when lobbying for controls over immigration of labour. Conversely, both the owners of capital and labour, profit in real terms from an increase in the capital endowment. This model is ideal for particular industries. This model is also ideal for understanding income distribution but awkward for discussing the pattern of trade!

New Trade Theory

New trade theory tries to explain several facts about trade, which the two main models above have difficulty with. These include the fact that most trades are between countries with similar factor endowment and productivity levels, and the large amount of multinational productions (i.e. foreign direct investment) which exists. In one example of this framework, the economy exhibits **monopolistic competition**, and increasing returns to scale.

Gravity Model

The Gravity model of trade presents a more empirical analysis of trading patterns rather than the more theoretical models discussed above. The gravity model, in its basic form, predicts trade based on the distance between countries and the interaction of the countries' economic sizes. The model mimics the Newtonian **law of gravity** which also considers distance and physical size between two objects. The model has been proven to be empirically strong through **econometric** analysis. Other factors such as income level, diplomatic relationships between countries, and trade policies are also included in expanded versions of the model.

3.2 Regulation of International Trade

Traditionally, trade was regulated through **bilateral** treaties between two nations. For centuries, under the belief in **Mercantilism**, most nations had high **tariffs** and many restrictions on international trade. In the 19th century, especially in **Britain**, a belief in **free trade** became paramount. This belief became the dominant thinking among western nations since the acknowledgement that adoption of the policy coincided with the general decline of Great Britain. In the years since the **Second World War**, controversial **multilateral** treaties like the **GATT** and **World Trade Organisation** have attempted to create a globally regulated trade structure. These trade agreements have often resulted in protest and discontent with claims of unfair trade that is not mutually beneficial.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective **protectionism** for those industries which are strategically important such as the protective **tariffs** applied to **agriculture** by the **United States** and **Europe**. The **Netherlands** and the **United Kingdom** were both strong advocates of free trade when they were economically dominant. Today, the **United States**, the **United Kingdom**, **Australia** and **Japan** are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves. As tariff levels fall there is also an increasing willingness to negotiate non tariff measures, including foreign direct investment, procurement and **trade facilitation**. The latter looks at the **transaction cost** associated with meeting trade and **customs** procedures.

Traditionally, agricultural interests are usually in favour of free trade while manufacturing sectors often support protectionism. This has changed somewhat in recent years. However, agricultural lobbies, particularly in the United States, Europe and Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services.

During **recessions**, there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the **Great Depression**. Many economists have attempted to portray tariffs as the underlining reason behind the collapse in world trade that many believe seriously deepened the depression.

The regulation of international trade is done through the World Trade Organisation at the global level, and through several other regional arrangements such as **MERCOSUR** in South America, **NAFTA** between

the United States, Canada and Mexico, and the **European Union** between 27 independent states. The 2005 Buenos Aires talks on the planned establishment of the Free Trade Area of the Americas (FTAA) failed largely due to opposition from the populations of Latin American nations. Similar agreements such as the **MAI (Multilateral Agreement on Investment)** have also failed in recent years.

Risks in International Trade

The risks that exist in international trade can be divided into two major groups:

Economic Risks

- Risk of insolvency of the buyer,
- Risk of protracted default - the failure of the buyer to pay the amount due within six months after the due date
- Risk of non-acceptance
- Surrendering economic sovereignty
- Risk of Exchange rate

Political Risks

- Risk of cancellation or non-renewal of export or import licences
- War risks
- Risk of expropriation or confiscation of the importer's company
- Risk of the imposition of an import ban after the shipment of the goods
- Transfer risk - imposition of exchange controls by the importer's country or foreign **currency** shortages
- Surrendering **political sovereignty**

3.3 International Investments

A country's **International Investment Position (IIP)** is a financial statement setting out the value and composition of that country's external financial assets and liabilities. The IIP is one component of the capital account of a country's **balance of payments**, containing for example stock of companies, real estate, financial instruments, and so on. By comparison, imports and exports of goods and services are part of the current account.

The difference between a country's external financial assets and liabilities is the **Net International Investment Position (NIIP)**.

International Investment Position = domestically owned foreign assets - foreign owned domestic assets

Bank of Japan and International Operations

The Bank conducts operations in the field of international finance, such as foreign exchange transactions, as well as business related to assisting foreign central banks and international organisations in their investment in yen.

The Bank takes part in various international discussions with foreign central banks on the state of the world economy, and in measures to ensure the stability of financial markets and to improve their structure.

The Bank also carries out international operations on behalf of the government, such as processing of notifications and reports required under the Foreign Exchange and Foreign Trade Law, compiling Japan's Balance of Payments (BOP) statistics, and conducting foreign exchange intervention.

Transactions with Foreign Monetary Authorities and International Organisations

The Bank assists foreign monetary authorities and international organisations in their investment in and financing of yen, by accepting yen deposits, acting as custodian for yen-denominated securities, and providing liquidation services for JGSs.

The Bank itself invests its foreign currency-denominated assets in a safe and efficient manner.

The Bank also provides technical assistance/technical cooperation on central banking business as part of its cooperation with foreign central banks, especially those in Asia.

Measures to Ensure Stability in the International Financial System

At international forums such as meetings of the Group of Seven (G-7) countries, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), and the Meeting of Central Bank Governors of the Group of Ten (G-10) countries, the Bank exchanges detailed information and observations on the current state of global financial markets, including activities of financial institutions with foreign governments and foreign central banks. The Bank also participates in discussions on the formulation of new standards and guidelines for governing international financial markets to contribute to enhancing the stability and efficiency of these markets.

The Bank closely monitors international financial markets and the financial system to identify potential risks, and compiles and makes public a wide range of statistics to facilitate deeper understanding of trends in international financial markets.

When international financial crises are triggered, the governments of industrial countries and international organisations such as the International Monetary Fund (IMF) respond by providing financial support to the governments of the countries in crisis. The Bank takes part in such international support by acquiring loan claims on foreign central banks which are held by the BIS (bridging loans), and providing loans or guarantees for loans to foreign central banks and international organisations.

Center for Monetary Cooperation in Asia (CeMCoA)

The International Department of the Bank established the Center for Monetary Cooperation in Asia (CeMCoA) on November 11, 2005. The center aims to further promote monetary cooperation in Asia by accumulating information and know-how at the Bank and other central banks in the region. The center's main activities are (1) promoting monetary cooperation in Asia, (2) conducting joint research on Asia within researchers at Asian central banks and/or those outside the central banking community, and (3) strengthening technical cooperation and staff training.

International Operations on behalf of the Government

The Bank carries out international operations on behalf of the government, such as processing of notifications and reports required under the Foreign Exchange and Foreign Trade Law, compiling Japan's BOP statistics, and conducting foreign exchange intervention.

On behalf of the government, the Bank processes the filing of requests for permission, and notifications and the reporting of capital transactions, payments and receipt of payments between residents and nonresidents as required by the Foreign Exchange and Foreign Trade Law.

In 2005, the Bank started an online reporting system accessed via the Internet, to accept notifications and reports required under the Foreign Exchange and Foreign Trade Law, in order to make the procedures more efficient and convenient for the users.

The Bank also compiles statistics on Japan's BOP and international investment position (IIP).

The entities that conduct foreign exchange intervention vary from country to country. In Japan, when the yen becomes unstable in the foreign exchange market, the government (Ministry of Finance) may instruct the Bank, its agent, to conduct foreign exchange intervention by buying or selling yen for foreign currencies as needed.

4.0 CONCLUSION

Foreign exchange intervention is, generally speaking, an operation carried out by monetary authorities, such as central banks or finance ministries, buying or selling currencies with the objective of influencing the foreign exchange rate in one way or another. In the case of Japan, the Ministry of Finance is responsible for such operations and the objective is to stabilise the value of the yen. The Bank carries out the actual operations based on instructions from the Finance Minister and acts as the agent

5.0 SUMMARY

International trade is the type of trade that occurs between countries.

Foreign operations made easy with the involvement of banks as seen in the Bank of Japan.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain international trade.
2. Discuss the risks involved in international trade

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The New International Version of Tropical Study Bible.

UNIT 5 BUSINESS MANAGEMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Concept of Small and Medium Scale Enterprise (SME)
 - 3.2 Concept of Management Cycle
 - 3.3 Establishing a Small Scale Business
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Management has been practised since the dawn of human history. It will remain a basic and dominant institution perhaps as long as civilisation itself survives. For management is not only grounded in the nature of the modern industrial system but also in the needs of the modern business enterprise to which an industrial system must entrust its productive resources – both human and material. It expresses the belief in the possibility of controlling man's livelihood through systematic organisation of economic resources. Management expresses the belief that economic change can be made into the most powerful engine for human betterment.

This belief that material can and should be used to advance the human spirit is not the age old human heresy called 'materialism'. In fact, it is incompatible with materialism as the term has always been understood. It is something new, distinctly modern. Resources have always been considered a limit to man's activities -a restriction on his control over his environment -rather than an opportunity and a tool of his control over nature.

Management, which is the organ of society specially charged with making resources productive, that is, with the responsibility for organised economic advancement, therefore reflects the basic spirit of the modern age. It is, in fact, indispensable – and this explains why, once begotten, it grew so fast and with so little opposition.

Conclusively, management, its competence, its integrity and its performance will be decisive to the free world in the decades ahead. At

the same time the demands on management will be rising steadily and steeply. (Introduction by Dr D. O. Faluyi).

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concept of small and medium scale enterprise (SME)
- analyse the fundamentals of business management.

3.0 MAIN CONTENT

3.1 The Concept of Small and medium Scale Enterprise (SME)

What is Business?

To an average Nigerian, the word ‘business’ means buying and selling of commodities, whereas in actual sense, business is an all-inclusive term. It embraces all *profit-oriented* economic or commercial activities carried out by an individual or a group of persons as a means of livelihood. It includes trade, industrial operations, professions, employment, and other related areas. (Nwoye, 1994).

Small business or small scale industry; criteria for definition:

Various schools of thought have proffered varied definitions of small scale business using such parameters as:

1. total investment cost
2. size of work force
3. level of turnover
4. operational environment

Definition of Small Scale Industry

Small scale industry is of numerous definitions as exist in the world and they vary from country to country within and between continents. In America for example, the Small Business Administration (SBA) defines it as a business that is independently owned and operated, is not dominant in its field and meets certain specified criteria for SBA – sponsored loan programmes. The latter requirement is on the condition that the annual receipt of the SSEs should not exceed five million dollars in special trade construction or eight million dollars in service industries.

Similarly, in the Far East (mainly China, Hong Kong, Taiwan and South Korea), manufacturing SSEs are classified as establishments whose annual turnover on the average does not exceed three million American dollars and present capital invested is generally below one million American dollars.

In Europe, particularly in the United Kingdom and Western Germany, the annual turnover of the establishments that are classified as small-scale industries does not exceed the maximum in America and the Far East. (NISER, 1987).

Within the context of Nigeria present industrial situation, a small scale industry could be defined as any business with a total capital investment of less than two million naira (2,000,000); with the number of employees not more than 50.

What is Management?

Management is not a mystery, but unfortunately its principles are often made obscure by verbiage. Management is the body of knowledge about managing. Managing is the process of planning and organising both human and material resources so as to secure the optimum achievement of objectives.

Managers are persons assigned to this process. They get things done through other people. With stated objectives to achieve, that is to produce certain goods or services; he directs human activities, with the help of the other resources available, towards those ends. (Faluyi, 1986)

3.2 A Concept of Management Cycle

The overall job of a manager is to 'create within the enterprise the environment which will facilitate the accomplishment of its objectives'. In doing this, the manager plans the work of his subordinates and his own activity, selects and trains subordinates by staffing his operations, organises the work, and controls results by measuring performance against plan. These are the traditional functions of the manager.

The foregoing functions of management are not performed sequentially, nor is there any special time sequence involved. Planning is involved in organising, directing, and controlling. Each function affects the others and all are interrelated to form the management process. The general nature by which these processes operate can be described thus:-

Planning

1. Setting objectives for the manager's area of activity.
2. Perceiving opportunities and problems surrounding the achievement of the objectives.
3. Diagnosis of opportunities, analysis of objectives and selection of a course of action.
4. Designing a programme of action to achieve the objective.

Direction

Leadership is the necessary organisational action required to achieve the programme including communication and motivation of subordinates.

Organising

This is the supervision of the action plan through an organisation in which task relationships are defined and understood.

Control

1. Observation and measurement of performance against standards for achieving the plan and correction of performance deviations as and when required.
2. Observing significant trends within and without the manager's activity so that goals and programmes may be modified as necessary.

Feedback

Re-cycling of information concerning plans, actions, and progress at different stages of the management process to ensure that proper programming to achieve the objective is being accomplished.

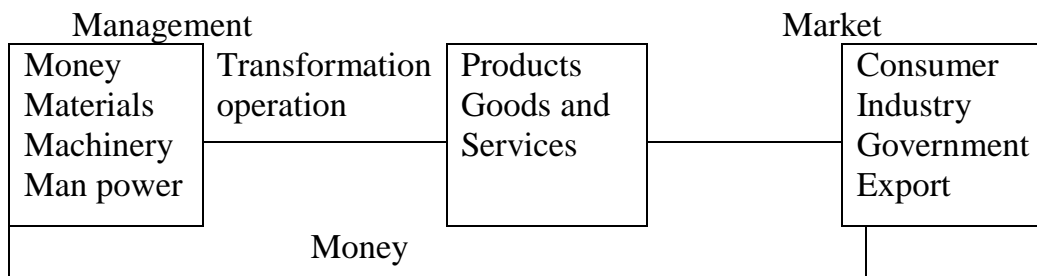
3.3 Establishing a Small Scales Business

Before going into any business at all, one must consider these two basic things:

1. The reason why you are going into the business. Do not go into business because people are doing it
2. Consider your entrepreneurial ability.

To be a successful business person, your personality as an investor must be considered and also, the product/market, source of finance, and the target customers.

A Model of Contemporary Business



Entrepreneurial ability must be discussed that is, the competence, as this has a long way to determine the success or failure of a business venture.

The Entrepreneur

Cooper provides the most comprehensive and useful frame work for explaining the various factors which may contribute to the 'entrepreneur's decision'. He classifies them into three groups.

1. 'The entrepreneur, including the many aspects of his background which affect his motivations, his perceptions, and his skills and knowledge.'
2. 'The organisation for which the entrepreneur had previously been working which characteristics influence the location and the nature of new firms, as well as the likelihood of spin-offs'.
3. 'Various environmental factors external to the individual and his organisation, which make the climate more or less favourable to the starting of a new firm'.

Cooper defines the three groups as Antecedent Influences; the Incubator Organisation; and Environmental Factors.

Table 1: Influences on Entrepreneurial Decision

Antecedent Influences

1. genetic factors
2. family influences
3. educational choices
4. previous career experiences

Incubator Organisation

1. geographical location
2. nature of skills and knowledge acquired
3. contact with possible fellow founders
4. motivation to stay with or leave organisation
5. experience in a 'small business' setting

Environmental Factors

1. economic conditions
2. accessibility and availability of venture capital
3. examples of entrepreneurial action
4. opportunities for interim consulting
5. availability of personnel and supporting services; accessibility of customers.

Entrepreneur or small businessman

A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any marketing or innovative practices.

An entrepreneurial venture is one that engages in at least one of schumpeter's four categories of behaviour: that is, the principal goals of an entrepreneurial venture are profitability and growth and the business is characterised by innovative strategic practices.

A small business owner is an individual who establishes and manages a business for the principal goals of profit and growth. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires.

An entrepreneur is an individual who establishes and manages a business for the principal purpose of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business.

It is clear from the above that the study of entrepreneur is not tidy, and that there are no easy formulas available to help in the task of picking the winners- those entrepreneurs who can, and wish to, start the large firms of the future.

4.0 CONCLUSION

At this juncture, I want to believe that going into business will no longer give you much problem, but nevertheless, your feasibility study is very important. You can consult any textbook that gives the detail on feasibility studies.

5.0 SUMMARY

Before going into business as an investor, here is the checklist:

A. Personality of the Potential Investor

- i) He must be a self-starter with strong self-confidence
- ii) He has to have the attributes of a leader and be good at getting along well with others
- iii) He must have vision
- iv) He must be a good organiser and hard working, willing to put in long hours
- v) He must be able to take timely decisions and take responsibility for the outcome
- vi) He must be in good health
- vii) He must be able to cope with failure.

Many Nigerians believe that success or failure in business depend on luck, faith or witchcraft. The would-be entrepreneur must believe that success and set-backs are within his control and be ready to deal with them.

B. The Product/Market

- i) Look for products whose markets have already been developed, and with high demand.
- ii) Concentrate on products with minimal import duties and foreign exchange content. Emphasise the use of local raw materials.
- iii) A pre-feasibility study is needed in identifying a suitable product. An ideal product would be such that would ensure high turnover at regular intervals.

With regards to this, the Federal Government's Industrial Development Centers exist to offer guidance to potential investors on the most profitable product on lines, for small scale operation.

C. Finance

- i) How much money will be needed to get the particular business started?
- ii) How much is the potential investor willing and ready to put into the business?
- iii) Does the investor know where to borrow or how to get the required capital?
- iv) Has he discussed with any Banker about his plans?
- v) Is he aware of the Federal Government's incentive schemes for small scale industries?

D. Partners/Human Resources

- i) These have to be people you can get along with.
- ii) Do not hire employees just because they are relatives.

E. Customers

- i) Find out if people like to live or visit the areas in which you plan to open the business.
- ii) Are there similar businesses in the area?

Now that you have seen the true picture of yourself, you can go into setting up of business. Here are the steps to follow:

1. conception of idea
2. feasibility study (investigation)
3. if not feasible drop it, if feasible continue to the next step.
4. further investigation if necessary.
5. plan.
6. operation.

Feasibility study will give an insight into the potential outcome of the business.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the basic characteristics of an entrepreneur.
2. What do you understand by management cycle?

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MODULE 3

Unit 1	Sources of Finance
Unit 2	The Nature of Entrepreneurship
Unit 3	Rural Development through Small and Medium Scale Business
Unit 4	How to Prepare a Business Plan
Unit 5	Rural Development and Feasibility Studies

UNIT 1 SOURCES OF FINANCE

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Importance of Finance in Business
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Reading

1.0 INTRODUCTION

Finance is very crucial and indispensable for the success of any business organisation. No special or business organisation can succeed without funds hence, it is necessary to be exposed to the various sources of finance, especially for small and medium scale enterprises which is the subject of this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- recall the importance of finance in business
- examine the kinds of capital available in business
- describe how small firms can raise capital.

3.0 MAIN CONTENT

3.1 Importance of Finance in Business

First, it is necessary to place finance or funds in its proper perspective with regards to the operation of a business enterprise, be it large or small.

The four traditional factors of production are:

- land
- labour
- capital
- entrepreneurship

Today, we may add a fifth factor, which is technology, information or technical know-how. Our focus in this unit is on the third factor which is capital, otherwise known as finance, money or funds.

In management, we have the four capital Ms.

- Man
- Money
- Materials, and
- Markets.

The importance of capital or finance cannot be overemphasised because no form of business large or small, concept or scope, can succeed without capital. Capital can simply be defined as wealth used in the production of further wealth. This we say in Economics that demand for capital is **Derived Demand** because capital is required for the procurement of equipment, machinery and foods; for the purchase of raw materials and for payment of wages etc. It follows therefore, that an organisation without finance is like a ship without radar or an automobile without an engine.

Kinds of Capital

The capital used in the running of the business enterprise can be divided into two broad categories. These are fixed and circulating capital.

Fixed Capital

The fixed capital of a firm is the money needed for permanent investment such as the purchase of land, erection of factory buildings, purchase and installation of equipment, etc. from the foregoing, we deduced that fixed assets of a firm include the land on which the firm stands, the buildings, machines, trucks and furniture which usually depreciate over a long period of time.

The commercial banks and jointly-stock banks or limited liability organisations owe a duty to their shareholders to make profits. Consequently, banks usually do not engage in very risky investments such as financing projects that are not likely to be viable, or giving long-

term credits or loans. As such, firms have to explore other sources of finance in order to provide the capital needed for their fixed assets.

Circulating Capital

This is otherwise known as working capital and is the money needed for defraying the recurrent expenditure of firms. Working capital is used for such purposes as payment of wages and salaries, purchase of raw materials, fueling of vehicles, settlement of electricity bills, etc. Since these are short-term credits, firms can obtain loans from banks to finance their working capital.

Sources of Capital

The capital available to a business organisation can be raised from two main sources:

Internal Sources

These include the firm's own funds or self financing, money realised from past savings, ploughing back of undistributed profits into the business, mergers and the pooling together of resources as in the case of partnership and joint ventures.

External Sources

The external sources of capital comprise loans or all sorts of borrowing from banks, private sources, investment trusts and finance corporations, government subsidy or grants, and capital realised from the issue of shares, stocks and debentures as in the case of public limited liability companies.

Capital for Large and Small Firms

All the various sources of capital summarised above are not accessible to all types of firms. Much depends on the type, age, size and magnitude of the business organisation in question. Therefore, various firms raise their capital from various sources.

Small Firms

The main sources from which small firms, such as the sole proprietor and the partnership, obtain capital or funds for financing their business are as follows.

- a. Small firms can raise initial capital from the savings which the proprietor or partners have accumulated over a period of time. Such savings may be targeted saving specifically earmarked for the launching of the business in question.
- b. The owners of small business can also raise capital by borrowing money from private sources such as individuals, relatives and friends. A common feature in West Africa is to start business with funds contributed by the members of family, a group of friends or an age group from the same village who have decided to go into partnerships or cooperatives.
- c. Another source of capital open to small firms is self-financing through ploughing back or re-investing of profits into the business to an optimum size to enable it enjoy the economies of scale.
- d. **In** West Africa, the government has on some occasions, given loans to small business which they are satisfied are likely to be viable through such organisations as the Nigeria Industrial Development Bank (N.I.D.B.), the Fund for Agricultural and Industrial Development (F.A.I.D.), the rehabilitation commission, the poultry subsidy and oil palm rehabilitation schemes of the ministry of agriculture, the bank for commerce and industry and the agricultural bank.

Large Firms

Unlike the firms, capital is usually not a serious problem for the large business organisation, such as joint stock companies and co-operative societies because they have by far richer and multifarious sources of raising capital for their business operations.

- a. **Selling of Shares:** this is particularly true of the joint stock companies. The chief source of capital for public limited liability company is from the sale of shares to the public. Once a company has received its certificate of incorporation, it can then proceed to publish its prospectus inviting the public to apply for shares and thus subscribe to the capital of allotment or stock certificate which designate them as shareholders of the company by virtue of their having contributed funds to the running of the business. Shares need not always be paid for in full, but when the company is in difficulty or needs more capital for expansion, it calls on shareholders to pay for any balance outstanding on their shares.

- b. Debenture:** apart from selling shares, a public company obtains loans from the public in the form of debentures or loan certificate to those from whom it has borrowed money. Such creditors or debenture holders receive a stipulated amount as interest on the capital they have invested in the business.
- c. Internal Self-Finance:** occasionally, rather than issue fresh shares or take more loans, a company may decide to set aside a proportion of its profits for purposes of expansion and research. Instead of distributing all profits among shareholders, some of it is ploughed back into business and this constitutes another source of capital for many firms.
- d. Bank Loans:** commercial banks can more readily give loans to large firms than small ones because these are more firmly established in business and besides, they have got the necessary collateral security which banks demand in case of default.
- e. Investment Trusts:** some companies specialise in giving loans for business or credit facilities to firms and other establishments. These are investment trusts, hire purchase and insurance company. Such companies usually have on their staff, a panel of economists who are charged with responsibility for undertaking feasibility studies of projects for which loans are being sought before recommending the approval of such loans on basis of the financial viability of the applicants firms.
- f. Finance Corporations:** these are set up by the government to finance project which are vital for a country's economic development e.g. agricultural credit corporation and industrial development corporation. The latter capital for the establishment of basic industries, food processing factories and pioneer industries. Government can also provide capital for resuscitation of businesses that have fallen on evil days. The rehabilitation commission and the cooperation for American relief everywhere (C.A.R.E) were actively engaged in such ventures in the immediate post-war Nigeria.

The public statutory corporations are in a distinct class of their own in terms of capital procurement for business because these are fully financed by the government although, they are expected to pay their way, and they were not established solely with the profit motive as a predominant objective. Thus, the government will usually come to their rescue anytime they are genuinely in financial difficulties.

Survival of Small Firms

From the foregoing analysis, we see that large firms have more sources of capital and so can afford to grow. The small firms, on the other hand, are not so lavishly financed and so most of them remain small. Nevertheless, these small units of business organisations are able to hold their own and remain in business in the face of several odds, such as, paucity of finance, and fierce competition with the giant oligopolies, i.e. the large firms.

There are a number of reasons why the small firms survive side by side with the large business and commercial establishments.

- a. First of all, it must be realised that the growth of firms is a dynamic phenomenon which is a continuing process with several interacting factors. New firms are born continually and most of them start on a small scale. There is a considerable amount of prestige attached to being in business on one's own and entry into some businesses is fairly easy. Besides, there seems to be an unending supply of potential entrepreneurs who are ready to venture into the exploitation of some new ideas or favourable market opportunities. Some of the small firms of today will grow into the large firms of tomorrow. Many will die in the wake of competitions, but other new small firms quickly emerge to take their places.
- b. Some aspects of our economy are associated with small scale production e.g. weavers, tailors, and tinkers operate quite economically in their small firms with very little overhead costs and so remain in business in spite of the large factors engaged in similar production. Such small firms are more flexible than the large firms and also less vulnerable during periods of depression.
- c. Another advantage which contributes to their survival is that they are able to add variety to their products as well as pay attention to details according to the speculations of their individual customers. These small firms open at odd hours, give personal attention to their clients, are not subject to bureaucratic control like the large firms, and so can afford to remain in business.
- d. Furthermore, the existence of the small firms does not jeopardise the interest of the large firms nor threaten the quasi-monopoly of certain trades. They only fill the vacuum created by the giant oligopolies and so both of them can exist side by side.
- e. In addition, there are obvious obstacles to growth, chief among which are lack of capital for expansion and security of high-level

managerial personnel. Where long distance transportation is expensive, as in West Africa and many of the underdeveloped countries, operating on a small scale production at a few points, particularly if the necessary raw materials are located at different places and the finished product is bulky and expensive to transport.

- f. There is a limit to the growth of any firm. As a business concern grows in size, there is increased risk of borrowed capital, and higher magnitude of losses in the event of failure. In terms of personnel, there is a tendency for management to deteriorate in efficiency as a business organisation expands because there are far too many departments and branches to be coordinated, more people are involved in decision making, and formidable difficulties of communication emerge. As the organisation becomes more bureaucratic, there is considerable loss of interest and decline of morale. These risks and defects associated with increase size and scale of production tends to keep firm smaller in size.
- g. Security and logistics reasons, the fear of war and possibilities of economic blockade could influence a country to adopt the policy of establishing several small industries in various parts of the country rather than supplying the whole country from one giant firm. If such industry is captured or destroyed by the enemy during a war, the nation would have no alternative source of internal supply.
- h. A common feature of West African entrepreneurs is their unwillingness to combine resources resulting from the fact that they are mutually suspicious of one another. There is the unusual love of freedom coupled with a desire for quick returns on investments; and many of the businessmen are reluctant to take risk on a large scale. There is a limit to what a single person can do and so, as a result of lack of capital, managerial expertise and other constraints, many business units in West Africa remain small. On the other hand, SME's collapse mainly because of mismanagement of funds and mal-administration.

Small and Medium Scale Equity Fund Scheme

In view of the fact that the theme of this workshop, which is congruent with the Theme of the 14th Enugu International Trade Fair, is on Empowering Small and Medium Scale Enterprise for Sustainable Economic Development. The fact that managers and staff of small and medium scale enterprises have been invited as participants at the

workshop made it mandatory to examine the new government policy aimed at encouraging the growth of small and medium scale equity fund scheme.

Under the federal government policy on small and medium scale equity fund scheme which is administered by registered banks with the supervision of the Central Bank of Nigeria (CBN), banks were required to set aside 10% of their pre-tax profits for small and medium scale enterprises funding. Equity participation is between the beneficiary enterprises and the funding banks. Owners of such businesses are allowed to use the land on which the business is situated as collateral; while the banks provide funds for direct purchase of equipment from manufacturers as their own equity participation in business. A special account is opened for each SME benefiting, from which disbursements are made in gradual liquidation of the investment capital.

It is a matter for regret that many small and medium scale enterprises promoters, proprietors and managers are ignorant of the existence of this very important laudable scheme, due mainly to lack of public enlightenment about the scheme and to the lethargy on the part of the banks to enthusiastically participate in the scheme.

Something drastic must be done to create awareness and ensure proper utilisation of funds, including establishment of a special bank as a receptacle for the 10% equity fund scheme and a special department in CBN charged with the monitoring of the fund.

4.0 CONCLUSION

ECCIMA and Manmark would have achieved our objective in organising this workshop, if awareness is created in the minds of participants on the theme of the 14th Enugu International Trade Fair, and if Small and Medium Scale Enterprises (SMEs) are conscious of how best they can obtain funds for their businesses and manage same more efficiently.

On the part of government, the organised private sector and funding agencies, it is strongly recommended that more seminars of this nature should be organised for SMEs. Besides, a specialised bank should be established for administration of the small and medium scale Equity Fund Scheme, just like its forerunners, and Education Tax Fund Banks which had functioned with comparative success, to the advantage of specialised sectors of the economy, respectively.

It should be reiterated that profits, the reward for entrepreneurship, do not fall like manna from heaven. You need capital and efficient

management to generate profits. Participants have been exposed to various sources of capital in this brief paper which should be explored to their advantage. Finally, it is pertinent to add that with modest capital, prudent management and ingenious entrepreneurship, small and medium scale enterprises will grow by leaps and bounds into large scale businesses and with it, their multifarious services to our society in particular and to humanity in general.

5.0 SUMMARY

There are various sources of finance available for small and medium scale enterprises.

6.0 TUTOR-MARKED ASSIGNMENT

List the various sources of finance you know.

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UNIT 2 THE NATURE OF ENTREPRENEURSHIP

CONTENTS

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- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Entrepreneur
 - 3.2 Entrepreneurship and Small Business
 - 3.3 Entrepreneurship and Large Enterprise
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Today's dynamic environment demands that organisations and their managers adapt and review themselves continually to succeed over time. People and organisations not only must change—they must change frequently and at a rapidly accelerating pace. Success in the highly competitive business environments, in particular, depends on **entrepreneurship**, a term used to describe strategic thinking and risk-taking behaviour that results in the creation of new opportunities for individuals and/or organisations. These opportunities frequently appear in the form of new business ventures—such as the now familiar Domino's Pizza and Federal Express's overnight package delivery.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concept of entrepreneur
- analyse entrepreneurship and small business
- state entrepreneurship and large enterprise.

3.0 MAIN CONTENT

3.1 Entrepreneurs

An **entrepreneur** is a risk-taking individual who takes action to pursue opportunities in situations others may fail to recognise as such, or may even view as problems or threats. Characteristics typically associated with entrepreneurs include:

- **Internal locus of control:** entrepreneurs believe that they are in control of their own destiny.
- **High energy level:** entrepreneurs are persistent, hard-working, and working, and willing to exert extraordinary efforts to succeed.
- **High need of achievement:** entrepreneurs are motivated to act individually to accomplish challenging goals.
- **Tolerance for ambiguity:** entrepreneurs are able to tolerate situations with high degrees of uncertainty.
- **Self-confidence:** entrepreneurs feel competent, believe in themselves, and are willing to make decisions.
- *Action oriented:* entrepreneurs want to get things done quickly and do not want to waste valuable time.

A common image of an entrepreneur is as the founder of a new business enterprise that achieves large scale success. Anita Roddick's Body Shop, Bill Gates' Microsoft, and Sam Walton's Wal-Mart are but a few dramatic examples of this type of entrepreneurship. But entrepreneurs also operate on a smaller scale. Those who take the risk of buying a local McDonald's or Subway Sandwich franchise, opening a small retail shop, or going into self-employed service business are also entrepreneurs. Similarly, anyone who assumes responsibility for introducing a new product or operations change within an organisation is also demonstrating the qualities of entrepreneurship.

3.2 Entrepreneurship and Small Business

Entrepreneurship plays an important role in the formation of smaller enterprises. A small business is commonly defined as one with 500 or fewer employees. The United States Small Business Administration, or SBA, also states that a small business is one that is independently owned and operated and that does not dominate its industry. Almost 99 percent of American businesses meet this definition, and the small business sector is very important in most nations of the world. Among other things, small businesses offer two major economic advantages:

- (1) They create many job opportunities, and
- (2) They are the source of many new goods and services. Three of the most common ways to get involved in a small business are to start one, buy an existing one, or buy and run a franchise.

Small businesses have a high failure rate-as many as 60-80 percent fall in their first 5 years of operation. Although many factors affect such outcomes, an important foundation for such success is the **business plan**—a written document that describes the nature of the business as well as exactly how an entrepreneur intends to start and operate it. Writing such

a business plan helps the entrepreneur 'think' through the various details of setting up a business. Typically, this plan will be shared with banks, venture capitalists, and other potential investors in order to attract any additional funds that may be needed to make the startup possible. Small business success will always be based also on the entrepreneur's ability to implement the management process-planning, organising, leading, and controlling.

3.3 Entrepreneurship and Large Enterprises

In today's dynamic and competitive environment, larger organisations also depend on entrepreneurial managers willing to assume risk and encourage the creativity and innovation so important to continued success. Yet, this task is especially challenging in very large and complex organisations which natural tendencies may be toward stability, rigidity, and avoidance of risk. Because of this, the concept of **intrapreneurial**-entrepreneurial behaviour on the part of people and subunits operating within the confines of large organisation to act like small ones. To do this, some large organisations create small subunits, often called **skunkworks**, in which groups of people are allowed to work together in a small group of enthusiastic employees which was once sent off to separate facility in Cupertino, California. Their mandate was straight forward- to create a state-of-the-arts, user-friendly personal computer. The group operated free from the firm's normal product development bureaucracy, set their own norms, and worked together without outside interference. The 'jolly roger' was raised over their building as symbol of independence. It worked: this is the team that brought the now famous MacIntosh Computer into being. The success of the MacIntosh and its offspring at Apple is a fitting reminder of the importance of this chapter's focus on strategic management and entrepreneurship in organisations.

4.0 CONCLUSION

In conclusion, it can be stated that the entrepreneur is not motivated by money itself but rather by his high motivational needs, especially his need to achieve. Money is a by-product for accomplishing some nobler goal. The entrepreneur has an idea and a dream. His awareness of people and their needs, and his technical training, enable him to perceive profitable marketing opportunities that others have neglected. We know from past studies that in the more advanced countries, entrepreneurial characteristics are related to certain sociological factors in the entrepreneur's childhood and to personal experiences in later adult's life. Further research should reveal additional parameters that will help to explain the complex individual we call an entrepreneur.

Governments have always sought to find and develop entrepreneurs. In underdeveloped nations, these individuals often hold the key to economic growth for a whole society.

5.0 SUMMARY

In summary, an entrepreneur is a dynamic, result driven person who always believes in himself or herself.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the nature of an entrepreneur.

7.0 REFERENCES/FURTHER READING

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UNIT 3 HOW TO START AND RUN SMALL AND MEDIUM SCALE BUSINESS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 What is Small and Medium Scale Enterprise?
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

The socio-economic imperatives of the Nigeria economy of today are systematically shifting in favour of the growth of small and medium scale business. Among the reasons for this trend is the sudden realisation of the economy.

For a long time government had taken a centre stage hoping to carefully and centrally plan the economy. At the core of this approach is the presumption that it is better to centrally manage the scarce resources than to manage in fragments. In so doing, government hopes to redistribute income, reduce unemployment, provide infrastructure and facilitate the growth of Gross National Product (GNP).

Unfortunately, after a period of four decades, they are several miles behind the initial expectations. At the last count, our public corporations have turned out to be a conduit pipe to entrench mediocrity, inefficiency and enrichment of few at the expense of the struggling masses.

Riding on the strength of monopoly coupled with its legal immunity, they have given and continue to give sub-optimal and epileptic services at high rate. In some cases of petroleum products, the products are not even readily available.

It is against this backdrop that successive governments have taken a major rethink to this public sector domination of the economy. Consequently, it has embarked on systematic deregulation of the economy. The first step was to carefully privatise some of the corporations, while others were commercialised. The ultimate goal is to make the sector amenable for others to come and compete. This is what is called liberalisation or deregulation.

The bottom line is that deregulation in its wake will see the shift in emphasis from public to private sector domination of the economy. Expectedly, many small and medium scale businesses will come on stream.

This scenario is captured in this unit. The unit also seeks to acquaint entrepreneurs and would-be entrepreneurs with the basic ingredients on how to set up and run small and medium scale businesses.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- express the concept of small and medium scale enterprise
- explain strategic business planning.

3.0 MAIN CONTENT

3.1 What is Small and Medium Scale Enterprise (SME)?

The concept of SME has enjoyed some measure of controversy in the attempts at defining it. Consequently, there are as many definitions of SME as there are scholars and institutions defining it. Scholars are to use parameters such as number of employees, sales volume or turnover, capital, small, medium and big scale.

At one point, some people rightly contended that these parameters do not provide uniform benchmark for all industries and for all time. For instance, what could pass for a big capital in food and beverage industry will certainly be small when compared to that in steel or aviation industry. Furthermore, what is a big capital today may become small in five years to come. (Ezeife 1998).

The above discrepancies notwithstanding, we are constrained to use these measures, mainly for want of any other parameter to define SME. For the purpose of this study, we shall adopt the definition by the National Council on Industry (NCI). The reason for this is its currency and simplicity. NCI, at its thirteen meeting in July 2001, adopted the following as the reclassification of industrial enterprises in Nigeria.

- (a) Micro/cottage industry: an industry with a total capital employed of not more than N1.50 million, including working capital but excluding cost of land, and a workforce of not more than 10 workers.
- (b) Small-scale industry: an industry with a total capital employed of over N1.50 million, but not more than N50 million including

working capital but excluding cost of land and a workforce of 11-100 workers.

- (c) **Medium-scale industry:** An industry with a total capital employed of over N50 million, but not more than N200 million, including cost of land, and a workforce of 101-300 workers.

Following the above classification, SME consists of all business organisations whose total capital employed is above N1.5 million, but not more than N200 million including the cost of land and workforce capacity of between 11-300.

Available statistics show that 95% of establishments in the organised manufacturing sector fall into SME category. More disheartening is the fact that at least three out of every four SME fail every year (Nzelibe 1996, Tinubu 2002). What is more, over 90% of those who wished to go into business do not eventually get to start. (Ezeh, 1999).

Preliminary consideration before venturing into SME

Most SMEs fail as soon as they are started because those who start them do not properly appraise themselves and their business idea before embarking on the venture. The Holy writ even counseled that one need to appraise themselves and their business so that one does not stop midway. (Luke 14: 28-30). Consequently, the following should be done before starting a small or medium scale business.

Self Analysis

Those who break the frontiers of business to start new ventures, even at the risk of failure, are called entrepreneurs. It is pertinent to note that not all prospective SME owners have the requisite personality trait and skills to succeed as entrepreneur. Consequently, one must objectively appraise himself and ascertain whether one has all it takes to set up small or medium scale enterprise. David Maclelland, discovered through research findings that successful business owners must have high “Need for Power and Achievement” (Onodugo, 2000). They are generally aggressive, confident, upwardly mobile, positive towards risk, hardworking and dogged.

A checklist of the characteristics of would-be entrepreneurs provided by small business management Honolulu (1977) has the following traits.

Characteristics	Traits
Self confidence	- Independence, individuality, optimism
Task/result-oriented	- Need for achievement, profit-oriented, persistence, perseverance, determination, hard work, drive, energy, initiative
Risk-taker	- Risk-taking ability, likes challenges.
Leadership	- Leadership behaviour, gets along well with others, responsive to suggestions and criticism
Originality	- Innovative, creative, flexible (openness of mind), resourceful, versatile, knowledgeable
Future-oriented	- Foresight, perceptive

It is unrealistic to expect one to have all these traits to qualify to own a business; it is equally true to note that the more you have these traits the higher the chances of success. Again, even the ones you do not presently have, you need to have the in-built flexibility to acquire them overtime.

In assessing yourself, you need to take cognizance of your resources, assess your aptitudes, the things you have done in the past, opinion of close and yet objective friends and confidants, spouses and professional business consultants.

If in the end, you discover that you are bereft of most of these traits, you should think twice before starting a business venture. If you must, then you can partner with another person who scores high on these traits.

Proper examination of the business idea (feasibility study)

Next to self-diagnosis, is a careful and yet systematic examination of the business idea. This is what is generally called feasibility study. Several people start business because their friends are doing the same business. Others are advised by their folks to join and yet some get into business on the presumption that it will succeed. It is some of these tendencies that account for the preponderance of the failure of most SMEs. To avoid this, it is important to carry out feasibility studies before going

into business. The detail of feasibility studies will be discussed in the next unit.

Strategic Business Planning

Once the preliminary considerations are done with, the next most important activity in starting up SME is planning. It is often said that when one fails to plan such a one has planned to fail by default. Nzalibe (1996) rightly observed that one of the most serious operational problems of SME is lack of effective and formal planning.

Planning is the process of determining what to do in the future and how it is going to be done. It takes discipline and hard mental work to plan. At the end of the planning process the following outcomes would be arrived at:

Ends-in-view: The first major outcome of planning is a clear statement of objectives. They reveal what the owners of the business entity want to achieve. The difference amongst vision, mission statement and objectives is a matter of scope and specification. Vision and mission are broader; cover a longer time span and less specific. Objectives are specific, measurable, and realistic and time bounded. They are stepwise means of attaining visions and missions.

Strategy: this is the means of realising these objectives. It also encompasses how one would move in realising the stated objectives. This strategy even starts with what legal forms of business ownership that one chooses. Is it going to be a sole proprietorship kind of business or a partnership? Again, one may consider starting a new business entirely, buy an existing one and/or merge with another organisation.

Under strategy, one needs to consider the particular market to go for and what special offer to give them. Depending on the organisation's strengths and weaknesses, one may offer unique, high value products or penetrate the market with low prices.

Another important consideration under strategy is on how to grow. A forecast of the business environment needs to be made and careful decisions of how to enable the business to grow taken.

Growth can be undertaken by expanding the current business operations. In this case, what is required is to operate at full capacity or integrate either forward by taking on the activities of distributors or backward by doing what your supplier used to do. Growth can be undertaken by outright diversification into entirely new field. This happens when growth prospects in the current business are limited or not very

rewarding. Growth can be attained by either merger or amalgamation. Both forms entail fusing two existing organisations into one. It is called merger when the identity of one of the old firms is retained. It is amalgamation if a new identity is entirely given.

Financing options: It is during planning that one determines how to finance a business. Major determinants of the choice of financing option are the willingness or otherwise to dilute ownership, the size of the business and its profitability. Meanwhile, the spectrum of financing options available to a prospective SME owner is personal savings and contributions from family members, equity financing from partners and other stakeholders and debt financing. The latter, which is debt financing entails seeking credit in commercial banks, finance houses and government financial institutions. All of them require some processes and technicalities, which for the most part and for a long time, have not been met by SMEs leading to poor flow of fund from such sources.

A new scheme however has been invented by the Bankers' committee supervised by CBN to help the funding problem of SMEs. It is called Small and Medium Industries Equity Investment Scheme (SMIEIS). This scheme came to fill the gaps which debt financing created.

Personnel requirements: The wheel that moves organisations forward are the human resources therein. During planning, a careful design of how to attract and retain requisite personnel to run the firm will be undertaken. An organisation may shop for one or two experienced hands and use them to train other personnel. Another may go for experienced people immediately and get trainees later. The approach used is a reflection of the nature of the organisation and the strategies with which they want to invade the market with. Personnel policies are designed to guide the implementation of personnel decisions.

Running of small and medium enterprises

To effectively run SME after inception entails these three related activities:

- design and implement actions of systems and structures
- motivation and
- controlling

Design and Implementation of Systems

Hindsight in consulting for SMEs has shown that most business concerns that fail do not have systematic procedures of doing things. Those who through rigorous effort, were able to systematise the way

they recruit, dissolve authority and responsibility, manage inventory, train, discipline, record and disburse funds, etc, hardly ever do badly. Essentially, there is need to have the following systems for effective running of SMEs. They are:

Administrative system: this comprises organogram and job description manual. It shows at a glance who occupies what positions, who reports to whom, and their authority relationships. With this, vacancies can be declared and training of new entrants proceeds systematically.

Accounting system: this shows in a nutshell how money comes and moves within and outside the organisation. It entails the design of requisition forms and payment vouchers. This system defines authority limits in terms of finances. Imprest for various offices and its retirement procedures are identified.

Inventory system: This simply details what happens to raw materials from the point of purchase till it is turned into a finished product. It says something about the required quantities of both finished product and raw materials that should be held at any point in time. Issues as to when to order for more and discard the ones held and the like will be handled by it.

Personnel policies record: it is important for every staff on entry to be acquainted with the code of conduct expected of him/her. It defines what the dos and donts are. This is important. Most SMEs carry out these things retroactively. Sometimes, punishment is determined only when the offence is committed. This does not augur well for the smooth running of the organisation.

There are other systems such as MIS or record keeping systems, internal control systems, etc. the ones discussed are the most basic ones. It is pertinent to submit that success in running a small or medium scale business cannot proceed effectively without designing and implementing these systems.

Motivation

Motivation constitutes those things which when out in place propels a worker to behave in desired manner in the work environment. (Onodugo, 2000). It is what explains why people behave in certain ways in an organisation.

This is very important, as the bane of most SMEs is their inability to retain staff. High staff turnover makes succession and continuity difficult and throws overboard the benefits of training. To overcome

this, one needs to motivate staff to make them put in their best. Below are the basic guidelines that underlie effective motivation.

Adequate reward for labour: workers respond to their work the same way they are treated. Often time, entrepreneurs and business managers think that they are doing themselves a favour by paying pittance to their workers. Once a worker is not well paid, not only will he not put in his best but he will be looking for job elsewhere.

Participation in decision making: there is nothing as motivating as a feeling of sense of belonging. When workers are allowed to know what is happening in an organisation to the point of being allowed to make an input, they will naturally own the outcome of such decisions. Feeling of sense of belonging and camaraderie will pervade the environment leading to increase in productivity.

Reinforcement: staff members can be prodded to put in their best by acknowledging their efforts in the work place. It is not always money that motivates. Acknowledgements such as praise, certificate of merit and/or promotion can equally serve as positive reinforcements to such workers to do more.

Job environment and growth path: one thing that makes inward drive to excel to dampen is a job schedule that is monotonous. Once a worker can readily predict what he/she is required to do most of the time, boredom starts to set in. if on the other hand, the job is challenging presenting varying phases and fronts, it draws out the best from the worker. This is more so, if such a staff member knows the clear growth path such a hard work will earn him.

Training: training performs two functions. It empowers the staff to do work better. It also meets the intrinsic desires of staff members who crave for improvement. This is motivation.

Controlling

This is the managerial function which ensures that the goals and objectives of any organisation are realised. It is not enough to plan and start up businesses, it is equally important that close monitoring of the activities are embarked upon to ensure that it conforms to the initial plan. This is where controlling comes in.

SMEs, by their very nature, are prone to fraud and waste. In order to ensure proper running of the firm, adequate control measures must be deployed to guard the conduct of organisation members. The following are the techniques that will help business organisations facilitate control.

Careful adherence to plan and policies: the results of planning are enshrined in a document called plan. It is important that the targets contained in the plan and policies initiated to facilitate it are closely adhered to. In other words, a sine-qua-non for good control starts with good planning.

Periodic evaluation of the finances: one way of controlling the financial activities of SMEs is by looking at their financial statements (Fs). Fs consist mainly of income statement and balance sheet. The former reveals the difference between operating income and expenses, the balance is either profit or loss. While the latter shows the net worth of the organisation. It shows in sum, the profile of organisation's assets and liabilities. With this information, managers of SME would make the necessary adjustments to ensure that the organisation is financially healthy.

Budgetary control technique: budgets are action plans expressed in quantitative terms. It is a statement of future expected income and expenditure. Budgeting is the process of preparing a budget, while budgetary control is the process of controlling organisation's activities through the instrumentality of a budget. As a medium of control, budgets are very effective. Once a budget is prepared, every operative will align its activities to conform to the budget items. Deviations from the budget estimate must be done with prior knowledge of the appropriate authorities. With this, financial recklessness is reduced to the barest minimum.

Inspection and quality control: this is mostly used in manufacturing concerns. It proposes periodic check of the manufacturing process to ensure that the output conforms to initial design specification and level of performance. In the process sub-standard and defective products are isolated for rework or discard. This helps to ensure that the products that reach the consumers are top value products that are intended for them.

Benchmarking: this is one way by which SMEs can ensure control and attain improvement. This is the process by which organisation's products and processes are matched with prevailing standard of the "best practice". The closer a firm's activities are to the best practice the better the chances of it realising corporate goals.

Designing accounting system and having qualified personnel to run it had been mentioned earlier. It is good for every organisation that is control conscious to design accounting manuals and ensures compliance by staff members. Central to the effective implementation of accounting manuals are qualified personnel. A well paid chartered accountant would not easily commit fraud since he knows that he will not only

lose the job, but his license may be withdrawn. People who are not so qualified may not exercise such restraint. This also presupposes that staff members should be paid comparatively competitive salaries. Anything short of this could make them not to value the job as to wanting to retain it.

4.0 CONCLUSION

The central thrust of this unit is that in the wake of the deregulation of the Nigerian economy, we shall witness the birth of many SMEs. These firms, well managed, will bring about the required turn-around of our economy.

This unit had deliberated on how to set up and run small or medium scale business concerns. While one cannot claim that it is exhaustive, it certainly has the basic ingredients that will help those who genuinely want to start and run one.

5.0 SUMMARY

To be an entrepreneur, you must be able to control, motivate, direct and take risk.

6.0 TUTOR-MARKED ASSIGNMENT

Explain some of the attributes of an entrepreneur.

7.0 REFERENCES/FURTHER READING

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UNIT 4 HOW TO PREPARE A BUSINESS PLAN

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Writing a Business Plan
 - 3.1.1 Clarity
 - 3.1.2 Brevity
 - 3.1.3 Logic
 - 3.1.4 Truth
 - 3.1.5 Figures
 - 3.2 Designing the Business Plan
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 - 3.5 How do I Set About it
 - 3.6 Tackling each Section
- 4.0 Conclusion
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1.0 INTRODUCTION

Starting a new business venture is like going into a tropical forest on a treasure hunt. There are rewards to be won, both in material wealth and personal satisfaction, but there are dangers lurking and you can easily lose your way.

Before taking the crucial decision to go into business you have to weigh your personal circumstances as to your ability, training, experience, motivation and financial capability. After weighing these factors and you think you can go into business of your own, by all means, go ahead. In reaching this important decision, however, there are other very important factors you have to consider. In particular, you will need to ask yourself the following questions.

1. Have I discovered a business opportunity? That is, have I discovered a product or service for which there is enough market?
2. Do I have the ability and experience to exploit the opportunity? Or can I acquire the ability and experience? Never get discouraged if you think you do not have enough experience. If you have enough motivation, you will win as long as you are

prepared to start on a small scale and acquire experience through practice.

3. Do I have the necessary capital? Or can I raise the necessary capital?
4. What form of business organisation do I want to have?
5. How will I manage the business?
6. Where shall I locate the business?
7. Have I done a feasibility study to satisfy myself that there is enough market for the business and to examine more deeply the requirements of the business? Does the feasibility report indicate the business will be profitable?
8. Have I considered the legal requirements, if any, to be met before the commencement of the business?
9. When will the business begin operation?

Your efforts at answering the above questions will force you to plan. Can you imagine any business that has been undertaken successfully without proper planning? There is this dictum that 'when you fail to plan you plan to fail'. It is a must that you plan; but it is left for you if to plan for failure or success in your dream business? To be successful in your business you must learn one important task, **PLANNING**. Without proper planning, the business is bound to run into serious trouble and may fail if corrective steps are not taken in time.

Before beginning work on your business plan, you will do well to ask yourself two vital questions.

- What do you really want out of the business?
- What feature of your product or service will give you the all important edge over your competitors?

Is your product or service:

1. an entirely new idea?
2. an improved version of something that already exists?
3. cheaper than the others?
4. more reliable as to delivery or after-sales service?
5. more readily available to local customers?

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the basic concept of business plan
- write a business plan –or run a business
- state how to maintain business plan.

3.0 MAIN CONTENT

3.1 Writing a Business Plan

Business plans are required whenever money is to be raised, whether from a bank, a finance house, or a provider of equity capital. To you your business is of supreme interest and importance; to the bank or fund manager, your plan is but one of many that is received. So you must win this person's approval and keep his or her interest. To do this:

- be clear;
- be brief;
- be logical;
- be truthful;
- back up words with figures wherever possible.

3.1.1 Clarity

The person reading your business plan is busy, often has other issues to deal with and is consciously or unconsciously judging you by the way in which you express yourself. Therefore:

- keep your language simple;
- avoid trying to get too many ideas into one sentence;
- let one sentence follow on logically from the last;
- go easy on the adjectives;
- tabulate wherever appropriate.

3.1.2 Brevity

If the banker or manager gets bored while reading your stuff, you are unlikely to get the sympathetic hearing you deserve. So, try to summarise as much as possible, leaving only the essentials of what your reader ought to be told. In-depth descriptions are out.

3.1.3 Logic

The facts and ideas you present will be easier to take in and make more impact if they follow one another in a logical sequence. Avoid a series of inconsequential paragraphs, however well phrased. Also, make sure that what you say under one heading agrees with all you have said elsewhere.

3.1.4 Truth

Do not overstate your case.

3.1.5 Figures

The banker or investor reading your plan is numerate, thinking in terms of numbers. Words will not impress a banker unless they are backed by figures that you have made as precise as possible. So try to quantify wherever you can.

3.2 Designing the Business Plan

The layout of your business plan can help greatly in keeping the reader interested. Above all, the information you give must follow a logical pattern. You could present your material in the sequence shown here, using headings, so that the reader can survey your plan and navigate without difficulty.

1. A brief statement of your objectives.
2. Your assessment of the market you plan to enter.
3. The skill, experience and finance you will bring to it.
4. The particular benefits of the product or service to your customers.
5. How you will set up the business.
6. Your financial targets.
7. The money you are asking for and how it will be used.
8. The longer-term view.
9. Appendices to back up previous statements, including especially the cash flow and other financial projections.
10. History of the business (where applicable).

The above list can be added to, of course, if the people who will read your business plan have a special interest to which you should address yourself. For instance, public authorities are concerned to know the effect on local unemployment: write a special and prominent section to tell them about it.

3.3 Deciding How Much to Write

In all business plans something, however brief, should be noted on each of the items listed above. How much you put into each section should be in proportion to the size and scope of your project as the reader of your plan will see it. A busy bank official will not want to read through pages of material if he is being asked for no more than a few hundred pounds. On the other hand, he will not be impressed if, when asked to lend

£100,000, he is given only a sentence or two on the aspect that is of interest most.

3.4 Getting Down to It

Careful writing of your business plan will give you a better insight into your own business.

You have a marvelous project; you have a shrewd idea that there is a market for it; you have obtained a good deal of advice from experts and have done sums to calculate your hoped-for profits, your cash flow and the money you need to raise. So, when you get the finance, you will be ready to go. Or so you believe! But you still have home work to do. Now is the time to do it.

‘Writing’, said Sir Francis Bacon, ‘makes an exact man’. There is nothing so effective in testing the logic and coherence of your ideas as writing them out –in full. As the future of your business depends in large part on your ideas working in a logical and coherent way, now is the time to subject them to test

3.5 How Do I Set About It?

Taking the sections numbered opposite one by one, make notes under each heading of all you have done or expect to do. For example, regarding Section 2, what do you really know about the market you want to enter? Have you done enough market research? Who will be your customers? How many will there be? How will you contact them? How will you get your goods to them?

Or, when it comes to Section 5, have you a clear, concrete picture of what you will actually do to ‘get the show on the road’?

Write it all out! Perhaps you would like to adopt the following method: taking a large sheet of paper for each of the above sections, note down the facts relevant to each of them; then sort them, test for truth and coherence and arrange into a logical pattern.

You will prune down hard when you come to write the document itself. In the meantime, you will have to organise your ideas. You will have to notice the gaps and the weaknesses and the business is bound to be better for it.

3.6 Tackling Each Section

1. The Brief Statement

This should be to the point. Just something to show the reader what your plan is all about. Say what you do in one sentence. In a second sentence, state how much money you want and what you want it for.

2. The Market

When you come to the main body of your document, start with the section that is most likely to impress your reader. The majority of people lending money believe that what makes for success in business is finding and exploiting a large enough market. So, as a rule, the 'market section' should be the one with which you lead off.

Though your product may be the best since the invention of the motor car and you may have the talents of a Henry Ford, you will get nowhere if there is no call for your brainchild or you lack the means of projecting your product into the market. The person reading your plan will know this only too well, and will want to find out whether you are aware of these facts and how well you have done your home work. Your market research is crucial.

Note that where figures are given, and they should be given freely, the authority for the figures should be quoted. If your figures can be checked, this will promote confidence.

3. The Skills, Experience and Resources of the Persons Involved

A lender or investor will want to know the track record of the person to whom his or her own or clients' money is to be entrusted. Therefore, you must give a fairly full account of your own business career and those of your coordinators or partners. School and academic histories are hardly relevant. Past achievements and technical qualifications, on the other hand, are.

Of almost equal importance is the degree of your financial investment. You cannot expect others to risk money in an enterprise to which the founders themselves are not financially committed in a big way.

4. The Benefits of your Product

This is the most difficult part about which to comment because it is the section in which you are likely to wax most enthusiastically. Human progress depends on new ideas, and people with good ones need all the

support they can get. You must face the fact that only a minority of innovations can be made commercially viable. Your banker or financier has probably seen hundreds of absolutely brilliant ideas come to naught, and for all kinds of reasons. So, this is the section you will have to write most soberly.

A famous American writer – a writer, not a businessman – once said that if you made a better mousetrap, the entire world would beat a path to your door. This is just not true. Any successful business person could have told him that simply making a better product is only one step on the way to success, and not even the first or the most important step.

Do not get too disheartened. You have, you believe, a first-class product and, as you demonstrated (under number 2, above), the market for it is there. What you must do now is to persuade your reader that the product is a good one and that it will have the edge to help you exploit the opportunities set out under number 2.

Stick firmly to hard fact! ‘Puff’ sentences, such as ‘This is the best widget-grinder on the market and will be the cheapest too’, cut very little ice. Show, with figures, why it is the best and why it is not the most expensive. If you have some independent test results, say so, and give at least a summary of them in an appendix. A few genuine figures are worth a page of adjectives, on which, as was stated earlier, you must go easy.

Information that could be included in this section:

- a brief description of the product or idea;
- how it works;
- why it is better than the rivals;
- any independent appraisal (with details in an appendix).

5. The Method

By this time, your reader will have clear idea of your market, your skills and the customer benefits of your product. What he or she wants to know is whether you are going to set about things in a sensible and workmanlike manner. Tell your reader what he or she should know in terms that are as concrete as possible.

- a) First of all, how do you propose to market the product or service? Will you have your own sales force? What will you do about publicity and advertisement? How will you ‘target’ your sales drive? Under what terms will you sell? When will you be starting on all this? Give a firm time schedule, if possible.

- b) It will promote confidence if you outline your 'management structure'. If you have partners or colleagues, who will be responsible for what? How do you intend to keep the various sections in touch with one another? Will you have management meeting once in a week? Once a month? Or only when there is a desperate crisis? What about keeping employees abreast of what is going on and what is expected of them?
- c) Outline the production methods you will adopt at the start of the project. Write something, briefly, about the premises you will use. A sentence, or possibly two, will tell of the plant and machinery. You may need a workforce. State how many people you will need at the beginning and later, as sales increase. What will be the capacity of the initial set up?
- d) The office is your next concern. As a skill engineer or a keen sales person, you may be impatient of all the paper work. However, to convince your reader that your business will not descend into chaos or grind to a halt, tell him or her who will see to it that it does not. Who will make sure that the letters are answered in your absence? Who will look after the books? Answer the phone? Process orders? Invoices? Who will chase up debtors? Have you assessed the amount of work which will need to be done in this department?
- e) Your reader will also want to know how you will control and monitor the business financially. The smallest business needs to know at all times what its cash position is. As soon as there are those who owe you money, or to whom you owe money, it will be necessary to keep regular check. Your banker or your investor will know that many an otherwise good business has come to grief through lack of elementary financial controls. Ensure not only that you have made the necessary arrangements, but that your investor knows you have given this aspect proper regard. Any good accountant should be happy to advise you.

6. The Long-Term View

So far, so good, you have explained how you will get your project off the ground and how it will run during the start up period. Now the banker or investor will want to know how he or she stands for the future.

Some enterprises are essentially short term. Some should continue to be very profitable over a longer period. Some will be slow-growing, and their financial needs can be met out of profits. Others will have to accelerate fast, and they will need further injections of capital on a pre-

planned basis. Your financial banker will want to know your thoughts on all these points.

If yours is a project to exploit some 'trendy' idea, the banker will expect some assurance that, if the fashion were to change, he or she could be paid out of ready money and not be locked into unamortized fixed assets, i.e., fixed assets whose cost has not yet been recovered out of profits and which would be difficult to sell. In general, the banker should be told how you see the market over five years, and in the long term. Also, what you propose to do about potential competition.

7. Use of the Funds

Now that your reader knows that you have a good product, that there is a market for it, and that you know how to run the business in an efficient way, you should explain, in fair detail, why you need his or her money and how you will spend it.

Emphasise how much money you and your colleagues are investing. No one is going to risk money on your project if you are not substantially committed.

Having added up the sums you are putting in and all that you are hoping to raise, list the items you will be spending the money on, such as:

- patents;
- land and buildings (give some details);
- plant and equipment (specify major items);
- cost of publicity for the initial launch;
- working capital (reference to cash flow forecasts);
- reserve for contingencies.

8. Financial targets

Although your hopes and plans for financing your business will be set out in all the cash flow forecast, etc, which you will attach as appendices, it will be helpful if you give a brief summary now of the important points. No matter how small the business, you will be expected to show:

- the expected turnover for the first year;
- the expected net profit for the first year;
- how much of the loan will be paid off in one year;
- when you expect to pay off the loan entirely;
- what you hope for in the second year (when payments from the business Start-up Allowance, if any, will no longer be coming in).

You do not have to show that the business will make a profit in the first year. Your banker knows that many businesses make a loss initially and still go on to succeed. If you show that you can expect to achieve profit in the long term, your banker should be prepared to go along with this.

However, if you are raising equity capital, there are other considerations. Most equity investors expect to be with you a long time. They are interested in capital gain and, if available, dividends. The additional information they will want is:

- the rate at which you expect profit to grow;
- what your dividend policy will be;
- what you and the other directors will be taking out of the business before the equity holders' share in the profits;
- what plan or ambition you have (if any) to sell out, to buy them out, or to go on the AIM (Alternative Investment Market), a junior branch of the Stock Exchange.

9. The Appendices

What you have said so far should have told reader all about you project. You have now to add documentation to convince him or her that you have done your homework properly and that you can show good evidence for what you have said. Last and most important will be the detailed financial forecast. This will vary from the relatively simple cash flow forecast on a form supplied by your bank to an elaborate 'business model' prepared by a professional accountant.

The financial projections are the real meat of the whole business plan. A great deal of information should be given, especially in the cash flow forecast.

Other appendices could be copies of documents that will support what you have said previously. They might include:

- accurate summaries of any market research, either your own or research that has been professionally carried out;
- photocopies of local newspaper articles describing a need for a service you propose to provide;
- picture of your product or products;
- copies of your leaflets or other promotional literature;
- results of the tests carried out on your product, especially if it has been done by an independent organisation.

The general outline so far given is intended to guide you, for those seeking funds for a new enterprise. If you want finance to expand an existing business or to take over an existing shop, the principles will

remain the same, but you will need to write an additional paragraph or pages, preferably at the beginning of your business plan, to do with:

10. The History of the Business

This section should be brief, factual, and based on the audited trading results. At least three years' results should be shown, if possible, as well as the last balance sheet. Reference may be made to such fuller comment, explanation and plans for change as may be given in later pages, e.g. under 'Marketing' or 'Management'.

The history should also tell of any major changes in ownership or management of significant market alterations trends –in other words, it should mention any important happening that has affected the business over the past few years.

4.0 CONCLUSION

In conclusion, the unit has succeeded in given detail of what you need to prepare your business; it is left for you to put it into use. But, do not forget the adage that says “when you fail to plan, you’ve succeeded in planning to fail”.

5.0 SUMMARY

To write a convincing business plan, you must put the following in mind:

- be clear;
- be brief;
- be logical;
- be truthful;
- back up words with figures wherever possible.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the ingredients of a convincing business plan.

7.0 REFERENCES/FURTHER READING

Edward, Blackwell (2002). *How to Prepare a Business Plan*.

www.acas.org.uk

www.adas.co.uk

www.businesslink.org

www.dti.gov.uk

UNIT 5 GUIDE TO FEASIBILITY STUDIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 What is a Feasibility Report?
 - 3.2 How to Collect Information for Writing your Feasibility Report
 - 3.3 Collecting the Information you need
- 4.0 Conclusion
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1.0 INTRODUCTION

The fundamental aspect of any investment decision is profitability. Before embarking on any major business project, a study should be undertaken to determine the feasibility of such a project and the degree of risk associated with such an investment.

The main concern of feasibility study is a detailed estimate of the cost and the technical, commercial, management and financial aspects of the project. It is an aid to an investment decision-making.

Uses of Feasibility Studies:

- a. it helps to ascertain whether or not a project is worth undertaking
- b. it is normally required to support an application for financial assistance
- c. it serves as an implementation guide to the project to which it relates.

The Contents of a Feasibility Report:

- a. a brief description of the project
- b. the project objective
- c. the economic and social justification for the project
- d. organisation and management
- e. technical and production considerations
- f. demand and supply outlook
- g. marketing strategies
- h. financial projections and profitability
- i. cost of project

- j. financing plan
- k. risk analysis.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain what feasibility studies is all about and will
- describe a good feasibility study for the success of a business.

3.0 MAIN CONTENT

3.1 What is a Feasibility Report?

Put in a very simple language, a feasibility report tells you whether a business plan will succeed or fail. In other words, the report concerns itself with determining whether the business you plan to do will be profitable. If the report indicates that the business cannot succeed then you must think of another business plan.

Such a report, no matter how elementary, is very important and should be prepared by anybody who wants to start a new business or expand an existing one. If you happen to go to any bank or any institution giving loans to businessmen, you will probably hear the loan officer telling you to go and bring a feasibility report or business plan which will show him whether there is a market for your product, whether you can manage the business and the financial implications of the proposal and whether or not the business proposal will be profitable.

A feasibility report helps you not only to make a decision whether to invest or not but also it helps you to raise much capital for your business.

A feasibility report also serves as a basis for measuring the performance of your new business.

3.2 How to Collect Information for Writing your Feasibility Report

In our country, where there is poor record keeping and poor dissemination or publication of information, collecting information can be challenging and sometimes frustrating. But you should not be intimidated by this challenge.

Without information (or data, to use a technical jargon) it will be very difficult for you to determine what kind of information you need so as to prevent you from collecting useless material.

Kinds of Information for a Feasibility Report

The following are the major kinds of information a person doing feasibility study will need:

1. Market Information

You should try to answer the following questions,

- Who are the major consumers of your product?
- Where are they? What is their purchasing power?
- What is the competition?
- How many competitive businesses are in the market?
- Where are they located? What are their practices and policies?
- What are their pricing policies?
- What is total known or estimated volume of competitive business within the geographical area in which you want to do the business?
- What are the channels of distribution?
- What kind of advertising and sales promotion do the competitors do? What are the sources of raw materials and their cost?

You should study business directories, industrial directories, telephone directories and any other relevant directories to find out who your competitors are and where they are located. You can also get information on your competitors from other public sources you can think of.

2. Logistics Information

Here you will be concerned with identifying the forms of transport available and their costs. You should also think about possible locations for your business and the comparative costs of the alternative locations. Are there any custom duties or excise duties to be paid?

It is important to note that location selection involves different factors for different kinds of businesses. For example, some of the factors you consider when trying to decide where to locate a factory are the following:

- a. nearness to the market
- b. sources of raw materials

- c. availability of shipping facilities
- d. availability of public utilities like electricity, water, telephone, etc
- e. availability of financial institutions like banks
- f. availability of labour
- g. availability of housing and so on.

You have to consider each factor in relation to your proposed location and determine to what extent it is going to affect the cost of your operation. If the raw materials are bulky and transporting them might be costly you should consider sitting your factory near the area where the raw materials are available. If the consumers of the products are concentrated in a certain geographical area or areas, you have to weigh the costs of transporting the finished goods to the market where your customers are. You should weigh the financial implications of each factor and compare the costs of alternative locations.

Then, site your project at the location which gives you maximum comparative advantage. Remember that you are in business to make profit. Therefore, site your project in a location that will enable you make the desired profit.

If you are proposing a wholesale business it will be wise to have the location near the center of your customer population. If such a business is in Lagos, for example, a location in Lagos Island will be quite satisfactory. Retailers can come to your warehouse easily to collect their supplies.

If you are proposing retail business location is critical for success. It must be near the centre of where your customers are concentrated. Alternatively, it must be located in a high-foot traffic area where so many people pass-by to be able to notice and patronise your shop. You should take into consideration the age group of the population in the area where the shop is to be located, the group's income level, and the group's buying habits. You should try to match the shop's products, image, price class, and mode of operation.

If you are proposing a service business you have to determine whether visits by customers or clients are necessary. If so, you have to make sure that facilities for customers' comfort are adequate. The location must also be consistent with the type of customers or clients you want and its habits in buying the service. You have to consider the need for efficient public utilities.

We have discussed location at length because of its importance. Location is very important for success. It can make or mar a business.

3. Information on Manpower Requirements

You should gather information on the kind and grade of employees the business may require and their pay.

4. Information on Capital Requirements

Kind of machines and equipment needed? Is any building necessary? Is any land acquisition necessary? If necessary, what is the cost?

5. Legal Requirements

You will need a lawyer if you want to operate the business as a partnership or as a limited liability company. You will have to complete registration formalities if you want to operate the business under a name other than your own.

6. Banker's or Lender's Requirements

This is the last but not the least. You must get in touch with the bank or financial institution or ministry to which you may intend to approach for a loan to finance the business. You have to find out their loan requirements so that you can present your loan request in the form acceptable to them.

3.3 Collecting the Information You Need

You can collect the information you need by a combination of the following methods:

1. Observation

Observation involves recognising and noting people, objects and events rather than asking people to give you information. For example, instead of asking consumers what kind of shoes they buy you go to the markets or shops where people are buying shoes and observe what kind of shoes are bought and by whom. If you want to know the kind of people that patronise certain types of hotels and restaurants, you need to visit the hotel and restaurants and observe things by yourself.

Visit the places where your existing or prospective competitors are doing business and collect as much information as you can by observation. You can go there as an ordinary customer and this is perfectly alright. Make as many mental notes as you can and put your observation in writing as soon as you leave the scene.

2. Questions

This you call the questionnaire method. You must learn to ask questions to get information on the market for the product, logistics, manpower requirements, and capital requirements. You can put these questions either verbally or in writing depending on the situation. You must determine who you are going to ask the questions from, customers, suppliers, competitors, government officials etc. For example, if you cannot visit the supplier of the machine you need, you can write him and ask him to give a quotation covering the cost of the machines, and their transportation to the intended site. You can go to customs and find out whether there are import duties if the machines are to be imported.

All these means you must come out and visit places and offices where you can get information on all the area where information is needed. In this area, you must demonstrate your own creativity and ingenuity, for research is, after all, a creative task.

3. Library Research

To the uninitiated, going to the library is intimidating. Library research is easy and I will show you how.

Before you go into the library make sure you know what you are looking for. There are librarians and library clerks always ready to help you in any good and well managed library. If you are looking for information on imports of certain commodity in this country, say cars, request the librarian to help you locate any publication, which will give you information on the number of cars imported into this country. The librarian can collect some copies of annual abstract of statistic and Nigeria Trade Summary. Go through them patiently and painstakingly and collect the information you need. You can do the same on any other issues about which you want to do any other research. Be humble and tell the librarian you are new to the library and you need help on how to use the library.

4. Research on the Internet

You can also do research on the internet. The internet is the world largest library. You can collect information on any subject on the internet. All you need to do is to know what you are looking for and how to browse on the internet.

Once you have collected all the information needed through observation, use of questionnaires and through reading of publications either in the library, the internet or elsewhere you are ready to begin the writing of

your report. Before you start writing, however, you must make sure that you have organised the information you have collected. Organise them in a file or two as the case may be.

4.0 CONCLUSION

In conclusion, collection of information can be so easy or complicated depending on how you handle it and your professional capability and the information gotten as a long way to affect your feasibility report. It is of importance to get the right information, in case of any complication, contact your consultant.

5.0 SUMMARY

In preparing your feasibility studies, the following are expected to be considered for a successful business.

- Nearness to the market.
- Sources of raw materials.
- Availability of shipping facilities.
- Availability of public utilities like electricity, water, telephone, etc.
- Availability of financial institutions like banks.
- Availability of labour.
- Availability of housing and so on.

6.0 TUTOR-MARKED ASSIGNMENT

State the importance of a good feasibility report?

7.0 REFERENCES/FURTHER READING

Ifechukwu, Jonathan A. O. (2006). *How to Prepare a Feasibility Report and Establish Your Own Business*.