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# FINANCING ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA THROUGH INFORMAL FINANCIAL INSTITUTIONS

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## Abstract

This paper examines the complimentary role of the Informal financial intermediaries of raising finance for the development and promotion of entrepreneurship in the Nigerian economy. Entrepreneurship development is globally recognised as a strategy for economic development and growth in both advanced and developing countries.in the areas of job and wealth creation, raw materials source, income generation , poverty reduction among others. Access to credit is seen as one of the factors hindering the growth of entrepreneurship in Nigeria as most Small and medium enterprises ( SMEs) are excluded by the mainstream banks due to collateral requirements. Informal financial institutions are significantly relevant in Nigeria because both the formal financial sector and an informal financial sector (**Financial dualism**) co- exist to providers finance or credit to the productive sector of the economy. The informal financial sub sector plays a complementary function to its formal counterpart by providing credits to small businesses. The research methodology employed secondary data sourced from the Central Bank of Nigeria (CBN), Small and Medium Enterprises Development of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS). The data analysis reveals that the informal financial institutions serves as alternative financial sources for the development entrepreneurship in the country.

## Introduction

### Background

Entrepreneurship is globally acknowledged as a vehicle for economic transformation and growth in both developed and developing nations due to their significant contributions to economies of the world. The Small and Medium Enterprises Development Agency of Nigerian (SMEDAN) Survey 2005 revealed that there are over 17million small and medium enterprises employing over 32 million people. While the 2017 SMEDAN Report further showed that rise in the contribution of . It is reported that over 80% of the industrial labour in Nigeria was employed in the small and medium scale industries. Entrepreneurship and Small and Medium Enterprises ( SMEs) are inseparably connected as there cannot be small business firms without entrepreneurship or the motivation to start up an enterprise. Entrepreneurship can be refer to as early stage business formation or development Jeffy and Stephen (2009) argues that the heart of the entrepreneurial process is the founder, the opportunity seeker, the creator, and the initiator, the leader, the problem solver and motivator, the strategizer and guardian of the mission, values and culture of the venture.

All over the world there are empirical evidence that Small and Medium enterprises (SMEs) or Small Business firms serve as catalyst for entrepreneurship and economic development through employment creation , capital formation and income redistribution. Most of the World's largest enterprises today were once either micro or small enterprises. SMEs also provide strong buffers against economic crisis , as they are notable job creators, employing more than half of the working population and wealth creators, contributing significantly to Gross Domestic Product (GDP). Through their wide dispersal , they provide an effective means of mitigating against rural – urban migration and resource utilization. Also they enjoy a competitive advantage over large enterprises in serving dispersed local markets and production of various goods with low scale economies for niche market ,as well as serving as veritable means of mobilisation and utilization of domestic savings Owualah( 1999). The relevance of SMEs to the economic development is the reason for Entrepreneurship Development, however the promotion and development of small business is constrained by a number of factors particularly finance in develop[ping countries and more specifically Nigeria.

Access to finance has been identified as one of the challenges facing the development of small and medium enterprises. Unfortunately, financing from the mainstream banking institutions has been a very difficult task for the small business firms due primarily of their ownership or legal status of sole proprietorship, partnership or

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cooperative that inherently limits their access to loans or credits. Another issue relating to SME financing is age status as this would determine the type of capital requirement and possibility of attracting funding from financial institutions. A business firm can fall into Early stage firm, Expansion Stage, Maturity stage or Decline stage. Each stage of growth has particular funding need and associated risks elements. The capital problem also originates from within the SMEs due to poor financial management and managerial competency. Dalberg (2011) mentioned that SMEs are a fundamental part of the economic fabric in developing countries and they play a crucial role in furthering growth , innovation and prosperity. Unfortunately they are strongly restricted in accessing the capital that they require to grow and expand with nearly half of SMEs in developing countries rate access to finance as a major constraint. They might not be able to access finance from local banks at all or face strongly unfavorable lending conditions. Due to these factors and others, Governments of USA, India, Malaysia and other places where SMEs have been successfully developed , have created specific financing and funding institutions , credit /guarantees schemes to promote and finance the activities of Small and medium enterprises. There is the need to seek for alternative sources for Entrepreneurship development by exploring the informal financial sector to advance this all important economic segment of the economy in order to create more employment opportunities and maximize the full benefits of small business firms.

**Statement of the Problem**

The provision of appropriate credits is a major constraint to the expanding the capacity of the informal sector of the economy, basically due to the failure of the formal financial institutions to satisfy the credit demand for entrepreneurship development. The inability to access finance by small business firms from the formal financial sector especially the Deposits Money Banks ( DMBs) have continued to hinder the development and promotion of entrepreneurship initiative and development in Nigeria thereby increasing the level of unemployment , with a high population growth rate.

**Objectives of the Study**

The objective of this paper is the possibility of exploring informal financial institutions as alternative source for financing entrepreneurship development. Specifically the study examines the accessibility of credits( finance) by micro, small and medium enterprises .

**Research Methodology**

The research data were obtained through secondary sources such as Central Bank of Nigeria ( CBN) publications and Bulletins, National Bureau of Statistics, Small and Medium Enterprises Development Agency of Nigeria Reports which were reviewed and analysed.

**Hypothesis**

The lending methodology of informal financial institutions offer significant access to credits, to micro, small and medium enterprises.

## Theoretical framework

**Introduction**

***Concept of Entrepreneurship***

The term Entrepreneurship has attracted divergent defintions among scholars all over the decades. The word entrepreneur means between- taker or go- between.The earliest use of the word entrepreneurship has been attributed to a French economist Richard Cantillion ( 1725) who linked the risk bearing activities in an economy with that of the entrepreneur. Richard Cantillion describes the entrepreneur as a person bearing risks and different from on supplying capital. The entrepreneur is a risk taker who attempts to maximizes every opportunity.

To Brain Tracy, entrepreneurs continually try new things. They fail fast, learn quickly, and keep moving forward. They don't analyze things to death.

- Entrepreneurship can be seen as a process which involves the effort of an individual or individuals in identifying viable business opportunities in an environment and obtaining and managing the resources needed to exploit those opportunities.
- Entrepreneurship as innovative process of converting an idea into market place reality by exploiting opportunities
- Entrepreneurship as the dynamic process of creating incremental wealth

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There have been scholarly definitions of entrepreneurship which try to give meanings in terms of roles and objectives of an entrepreneur. Modern use of the term entrepreneur is usually credited to Joseph A Schumpeter emphasized the role of innovation in transformation of economic systems and viewed the entrepreneur as an innovator (Mainoma and Aruwa 2014). Joseph Schumpeter (1934) defined the entrepreneur as an innovator and develops untried technology. To Albert Shapero (!975) entrepreneurship involves initiative taking , organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical accounts and accepts risks of failure. Peter Drucker ( 1964) sees the entrepreneur maximizes opportunities.

For Robert Hisrich (1985) viewed entrepreneurship as a process of creating incremental wealth. The wealth is created is by individuals who assume the major risks in terms of equity , time and or career commitments or provide value for some product or service. Stevenson et al (1991) view entrepreneurship as a behavioural concept or approach to management with pursuit of opportunity without regard to resources currently controlled. To them there are six critical dimensions namely, strategic orientation , the commitment to opportunity , the resource commitment process, the concept of control over resources, the concept of management and compensation policy. Despite the different opinions being expressed by various scholars on the concept of entrepreneurship , there are grounds of harmony such as risk taking, creativity, independence and rewards.

The role of entrepreneurship in economic development is stimulant or catalyst for growth through innovations, creativity and new ventures that results in increase in output.

The controversies of entrepreneurship has attracted numerous definitions which are usually expressed as; new venture creation, innovative growth or creativity , micro, small and medium sized enterprises and creative development in larger firms, development of new products , services and creative ways of managing organisations, social and community initiatives generating value change, creative and enhanced employability ,mindset change for value creation' and creation of an innovative economic activity.

Oshorun (2009) asserts that Entrepreneurship is simply defined as the establishment and management of small businesses.

Entrepreneurship is generally linked with the setting up of micro, small and medium enterprises as the engine of economic prospewrity. There are emprical evidences of small scale businesses which have grown into large scale enterprises , like multinational organisatiuons all over the world. The impact of Entrepreneurship on Economic development have variously be proven empirically especially with early works of Scholars such as Schumpter (1911) who affirmed a positive nexus between Economic development and Entrepreneurship. According to Scarborough (2013) of the 30.23 million businesses in the United States , approximately 30.14 million or 99.7 persent are considered "small" . Although there is no universal definitions of a small business ( the US Small Business Administration has more than 800 definitions of a small business based on industry categories).
Globally the definition of SMEs has been a contentious issue among Nations as there is no common or uniform definition for small and medium enterprises or small business firms or small scale industries , even within a Country there are varied meanings to SMEs used by Government agencies, and this is partly responsible for inability to formulate appropriate policies for the development of SME sector. Owualah ( 1999) argues that small firms are difficult to count and measure individually and the parameters used in defining SMEs are number of employees, assets employed , and sales turnover. Mensah (2001) , Small scale industry has been defined variously by authors , organisations and coutriies and most definitions are based on either the number of workers per establishment and /or the value of fixed asset even with such definitions , there are differences in the cut off points.

The presentation below confirms the problem of SME definition among various Nations of the world, tthough the nomenclature SME stands for small and medium enterprises, or MSME for micro, small and medium enterprises.

***Table 2. 1: Small and Medium Enterprises Defintion by Nations***

| **Country** | **Definitional features** |
|---|---|
| Australia | There are two defintions ,one for statistical purposes and one for labour registration purposes. Small |

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| | |
|---|---|
| | businesses must have indepedent ownership and operations.<br>Defintion includes non-employing businesses |
| Canada | Definition by different agencies eg Canadian Bankers Association, Export Development Corporation and Industry. Canada have different turnover limits |
| China | Definition distinguishes between small and medium enterprises only |
| Egypt | Definition distinguishes between small and medium enterprises |
| Korea ,Republic | Definition distinguishes between micro and small enterprises only |
| South Africa | Definition distinguishes between micro very small , small or medium enterprises.<br>Some reports also distinguish the Survivalist business that is generally defined as providing income only below the poverty line.<br>Survivalist enterprises involve activities by people unable to find a paid job or get into an economic sector of their choice, that is people whose activities cannot be viewed as sustainable micro enterprises even though many of them may eventually achieve such a position. |
| United Kingdom | Definition distinguishes between general small companies and parent small companies |
| United States of America | To be considered an MSME an enterprise must be independently owned and operated and not be dominant in its field of operation. |

Mainnoma (2012) argues that MSMEs are variously defined in Nigeria as in other economies on the basis of one or all of the followings ; size or amount of investment in assets excluding real estate, total annual turnover and the number of employees. Similarly, Darren (2009) concludes that generally small or small to medium sized SME firms are used as a proxy for entrepreneurial activity with many definitions because of their global diversity and characteristics.

According to the Small and Medium Entreprises Development Agency of Nigeria (SMEDAN ) reports ( 2010, 2013 and 2017) reveal the dsignificant contribution of SMEs to the Nigeria economy.

| | **2017** | **2013** | **2010** |
|---|---|---|---|
| Number of MSMEs | 41,543.023 | 37,067.416 | 17,284.678 |
| Job creation | 59, 647,954 | 59,741,211 | 32,414,884 |

**Source: SMEDAN Report**

***Table 2. 2 : Categorisation of Micro, Small and Medium Enterprises by SMEDAN***

| **SN** | **Size Category** | **Employment** | **Assets N million Excluding; land & building** |
|---|---|---|---|
| 1 | Micro Enterprise | Less than 10 | Less than N5m |
| 2 | Small Enterprise | 10 to 49 | 5 to less than N50m |
| 3 | Medium Enterprise | 50 to 199 | 50 to less than N500m |

**Source : SMEDAN SURVEY 2010**

**Ownership Status of Business firms**

| | **2017** | |
|---|---|---|
| **Sole Proprietorship** | **65.7** | |
| **Partnership** | **5.0** | |
| **Private Liability Company** | **20.8** | |

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| | | |
|---|---|---|
| **Cooperative Societies** | **0.9** | |
| **Faith Based Enterprises** | **5.7** | |
| **Others** | **1.8** | |

**Source : SMEDAN 201 m7 Report**

**Identity of Micro, Small and Medium Enterprises**

The basic characteristics or attributes of small and medium enterprise., independent ownership, personalized management, small scale operations, small capital, small market share and lack Structured administration. In most small business firms ownership and management are inseparable which invariably limit their access to finance from the formal financial institutions.

***Sources of Capital for Entrepreneurship***

Basically there are two sources of capital for the entrepreneur namely; Internal and External funds. Internally sourced funds include ; personal savings , profits , sale proceeds of assets , reduction in working capital, credit from suppliers and accounts receivables. While sources are equity and debt finance external sources. Bhide and Grousbeck ( 1999) classified alternative sources of financing for entrepreneurship into; (i) Start up financing , (ii) Outside/External equity capital – private investors, venture capital and public equity markets, (iii) Debt capital - cash flow financing and asset –based financing and (iv) internally generated financing – credit from suppliers, accounts receivables , reducing working capital and sale of assets. Generally entrepreneurs have difficulties in sourcing funds through conventional or formal financial institutions because of lending conditionality and the unwillingness of commercial banks to advance funds to start up firms. Alternative financing sources include ; self – financing, family and friends, suppliers and trade credits, commercial banks, other commercial lenders, assets-based lenders/lessors, specialized finance companies, Institutions and Insurance companies, Pension funds, Venture capital , Private equity placements, Public equity offerings, Government agencies and other government programmes.

**Contrast between Small and Medium enterprises and Large Scale Enterprises**

SMEs – Small and Medium enterprises, LSEs - Large scale enterprises

| | **Small and Medium enterprises** | **Large Scale enterprises** |
|---|---|---|
| Ownership | Individual/Independent | Diluted /Diversed ownership |
| Management structure | Personalised/Owner managed | Structured , ownership separated from management |
| Funding source | Owner's funding | Equity /Debt funding |
| Operational Scope | Very small | Wide/Broad |
| Focus | Efficiency | Effectiveness |
| Management Preference | Retain autonomy | Involvement skilled personnel |
| Human Resources Management | Personalised | Professionalized |
| Delegation of Authority | Not effectively practised | Practised and Essential |
| Access to Finance | Not accessible | Accesible |
| Growth Potentials | Restrictive | Possible |
| Business Strategy | Imitation | Innovation through Research and Development |
| Market | Very limited | Wide market outreach |
| Effects of Competition | Adverse | Compete effectively |
| International Market | Difficult | Possible |
| External Control Preference | Control firm | Control market |
| Accounting Systems | Poor/Not visible | Practised/Visible |
| Internal Control Systems | Poor /Not Visible | Practised/Visible |

**Impediments to Entrepreneurship**

Entrepreneurship growth can be attributed to drive by the small business owner or entrepreneur to take charge or control, make impact in world, self – Fulfilment, make and reap profits and eventually contribute to the society. The failure rate of small business firms is relatively higher when compared to large scale enterprises. According to Scarborough(2013) small businesses fail because of their limited resources, inexperienced management and lack of financial stability

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Small business firms , unlike the large scale business firms ( transnational companies, multinational corporations, public owned companies or quoted companies) small business enterprises are constrained not only by their nature of business but by their legal status. As most of these small and medium enterprises fall within either as sole proprietorship or partnership business firms that lack access to finance or capacity to approach the capital market to raise funds for their business activities. According to SMEDAN (2010) ,Survey reports 57.5% of business firms are sole proprietorship type , Partnership business firms account for 8.3%. It further reveals that business firms with total capital less than N10 million accounted for 68.9 percent and 54.4 percent of business firms source their capital from personal savings.

**Financial System**

The role of a financial system in economic growth cannot be over emphasized , its importance as a catalyst of economic development has long been recognized in finance and development literatures. It provides the catalyst for productive activities to ensure economic growth and development through financial intermediaries ( Onasanya B, { ed} , 2014 ). Ojo (2012) argues that an economy can be broadly grouped into two systems of financial and economic , the financial sector facilitates borrowing by the deficit economic units and saving by the surplus economic units through the intermediation of financial intermediaries. “These various types of financial transactions engaged in have major implications for consumption , investments, production, macroeconomic stability and achievement of other economic objectives. The financial systems in no doubts shapes own domestic economy and in turn , economies shape financial systems , since economic growth usually leads to further developments of a financial system” The financial system of any country provides the catalyst for Economic growth and development. The state of any economy is a reflection of the state of the financial system. Ezike (2003) define the financial system as a network of financial Institutions, Instruments, and financial markets that facilitate the transfer of financial resources from the Surplus sector to the deficit of the Economy. The most basic function of any financial system is to facilitate the flow of payments in an economy and the quality of these services affects the performance of the economy as a whole. According Olowe (2011) the financial system of any country provides the catalyst through financial intermediaries for productive activities to ensure economic growth and development, that is the state of any economy is a true reflection of the state of its financial system. Therefore economic development of a country is a function of the development of its financial system. This correlation seems to be true of both developed and developing countries globally. The financial system consists of financial Institutions, Financial Instruments, financial markets and financial regulatory bodies . Generally the financial system promotes financial intermediation of moving financial resources from the surplus segment to the deficit sector of any economy.

**List of Lending Institutions in Nigeria as at December, 2019**

| SN | Type of Regulated Formal financial Institution | Number of licensed Institution |
|---|---|---|
| 1 | Commercial Banks | 24 |
| 2 | Development Finance Institution | 6 |
| 3 | Merchant Banks | 5 |
| 4 | Microfinance Banks | 911 |
| 5 | Non- Interest Banks | 2 |
| 6 | Finance Houses/Companies | 79 |
| 7 | Primary Mortgage Institutions | 34 |
| 8 | Bureaux de Change | 5,156 |

Source : Central Bank of Nigeria Data (2019)

**Informal Financial Institutions**

It is instructive to note that the formal financial institutions have not be able to cater needs of the informal economic sector as these operators are usually financially excluded due to the lending terms and conditions. The parallel existence of both the formal and informal financial institutions is known as financial dualism.

According to Philip Consulting 2014 Report ,” the informal sector is a vital part of any country’s economy and contributes to overall economic growth by creating employment opportunities and contributions to GDP however it is unregulated and workers are often subjected to the whims of their employers”. Globally the contributions of the informal sector has been acknowledged in terms of income generation, raw materials supplies, production of goods and services, wealth creation , employment creation among the low income groups. This informal sector consists of Agriculture ( small scale farmers), Financial services ( Thrift cooperatives societies, Esusu , Ajo), Money lenders, ), Service Providers ( make- up artists, Photographers, fashion designers, Event planners, Artisans, Technicians), Retail businesses ( Street vendors, road side sellers, hawkers, caterers), Education providers ( private schools and tutors) and transport ( private hire taxi drivers, tricycle operators, motorcycle operators).

It is estimated that the informal economy is worth $10 Billion and accounts for about 80% of the global workforce. According to the 2010 Report of Shadow Economies All over the World , the informal economies in 162 countries between 1999 and 2007 it was estimated that the informal economy represents at least 30% of Gross National Product (GNP) in 107 countries, the figure for Nigeria was 57%. The contributions of the informal economy in Nigeria shows it accounts for 57.9 % of rebased GDP according to the United Nations Development Programme (UNDP). The National Bureau of statistics states that the informal sector consists of over 17 million micro and small business firms. Between July 2012 and June 2014, over 2.48 million jobs were created and the informal sector contributing 1.48million employments.

Oloyede (2008) states that the informal sector in Nigeria comprises all economic activities existing in all sectors of the economy that are functioning outside the framework of governments' regulatory and supervisory activities. The informal sectors involve all economic and productive activities of goods and provision of services.

Types of Informal Finance Institutions
- Communal clubs
- Mutual Aid Associations
- ROSCAs

Money lenders
Money keepers/Mobile Bankers
Input suppliers
Store owners/ Merchants
Trade lenders
Farmer- Lenders
Friends
Neighbours
Relatives/Family

**Description of Informal financial Institutions**
The informal financial system has been variously defined in literature. The Central Bank of Nigeria 2014 Report defines the informal financial systems as the whole arrangement of non- market financial institutions such as money lenders , cooperatives societies among others that are not governed by formal contractual requirements. The reports further says the informal financial sub sector plays a complementary function to its formal counterpart by servicing the lower end of the market including community based organisations such as cooperatives, microfinance institutions , rotating savings and credit associations (ROSCAs), self- help groups and other similar institutions. Ojo (2010) , the informal financial sector consists of individuals, groups and associations that mobilize local savings and grant credit. A common feature of informal financial sector operators is the self-regulation and discipline. These informal financial intermediaries include friends, relatives, traditional mutual aid groups like esusu , daily funds, collectors , middlemen , landlords and professional moneylenders. Sambe et al( 2013) describes the IFIs as institutions that are not controlled directly through major monetary and financial sector policy instruments but are created by individuals and groups with no legal status. According to Aryeetey (1995) the informal financial institutions could be conceptualized as those institutions that embrace all financial transactions that takes place beyond the functional scope of various countries and other financial sector regulations. The World Bank report of 1997 defines informal financial transactions as financial activities that are not regulated by the Central Bank supervisory authorities, unlike the formal institutions such transactions rarely use legal documentation or legal system to enforce contracts. Atieno ( 2001) defines the informal finance as all transactions, loans and deposits occurring outside the regulation of a Central Monetary authority while the semi-formal sector has the characteristics of both formal and informal sectors. Informal financial institutions involve the operations of savings and credits associations, rotating savings and credit associations ( ROSCAs) , professional money lenders, part time money lenders. The Overseas Development Institute (1992) makes a difference between the formal financial institutions and informal financial institutions that "theoretically the

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formal financial sector would refer to an organized urban oriented institutional system catering to the financial needs of the modernized modern sector, while the informal financial sector itself unorganized and non - institutional would deal with the traditional , rural subsistence ( non monetized ) spheres of the Economy"

Types of Informal Finance Institutions
- Communal clubs
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Farmer- Lenders
Friends
Neighbours
Relatives/Family

The financial exclusion of the informal market or lack of access to credit through the conventional banking institutions is basically responsible for the patronage and growth of the IFLs in the country especially with the rising unemployment.

***Attributes of Informal finance institutions***

Meyer, R L and Nagaarajour G ( 1991) in their contributions of the activities of Informal finance institutions identified the major characteristics as ; heterogeneity /wide spread, services ( loans and savings) , specialization, accessibility, collateral substitution, interest rates and transactions costs, and contributions to development. The growth of informal financial institutions is their accessibility and the services that tailored to the specific needs of the small business owners.

**Lending Methodology of Informal financial Institutions**

According to Schmidt and Kropp (19987) the access problem especially among formal financial institutions is one created by the Institutions mainly through their lending policies – this is in the form of prescribed minimum loan amount , complicated application procedures and restrictions on credit for specific purposes. Provision of credits by formal financial institutions are regulated by the licensing and supervising Authorities unlike the informal financial institutions that are unregulated. Lending terms and conditions of formal financial institutions such as loan amount, loan tenor, repayments , collateral security , credit history , financial statements and analysis , credit analysis are anti- small business borrowers

The demand for credits in informal financial sector has continue to increase due to a number of factors such as flexibility and creativity of the loan process, simple credit application, sound loan screening procedure rather on loan monitoring, less emphasis on collaterisation of the loan , tailoring of financial services on the specific needs of the borrowers, application of group joint liability, failure of Government intervention funds and lower transactions cost especially under group lending

**Financing sources for Micro, Small and Medium Enterprises**

***Table 2.3 Smedan report on source of capital for enterprises***

| **Source** | **2010 report** % | **2013 Report** % | **2017 Report** % |
|---|---|---|---|
| Personal Savings | 54.4 | 65.4 | 68.3 |
| Loan | 22.0 | 17.9 | 21.6 |
| Family source | 16.7 | 12.0 | 14.4 |

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| | | | |
|---|---|---|---|
| Cooperative /Esusu | 5.1 | 3.8 | 6.6 |
| Parents | 0.9 | - | - |
| Friends | 0.9 | - | - |
| Grants | - | 1.8 | 3.3 |
| Others | - | 4.3 | 8.6 |
| **TOTAL** | **100** | **100** | **100** |

**Source : SMEDAN(2010 , 2013 and 2017 Survey Reports )**

***Table 2. 4 OECD (2004) Report on Top Priority Areas***

| Rank | All Firms | | Small firms | | Medium firms | | Large firms | |
|---|---|---|---|---|---|---|---|---|
| 1 | Financing | 36.5 | Financing | 38.9 | Financing | 38.0 | Policy Instability | 29.8 |
| 2 | Inflation | 34.6 | Inflation | 36.9 | Taxes/Regulation | 37.2 | Financing | 27.9 |
| 3 | Policy instability | 34.4 | Taxes/Regulation | 35.5 | Inflation | 36.1 | Inflation | 26.2 |
| 4 | Taxes/Regulation | 33.5 | Policy instability | 35.0 | Policy Instability | 36.0 | Street crime | 23.9 |
| 5 | Exchange Rate | 28.0 | Street Crime | 30.6 | Exchange Rate | 29.7 | Corruption | 23.4 |
| 6 | Corruption | 27.7 | Corruption | 30.1 | Corruption | 27.4 | Exchange rate | 22.4 |
| 7 | Street Crime | 27.2 | Exchange Rate | 28.9 | Street crime | 25.5 | Organized crime | 21.7 |
| 8 | Organized Crime | 24.5 | Organized crime | 26.9 | Organized crime | 23.4 | Taxes/Regulation | 21.4 |
| 9 | Anti Competitive practices | 21.9 | Anti competitive practices | 23.8 | Anti Competitive practices | 21.9 | Infrastructure | 18.2 |
| 10 | Infrastructure | 17.0 | Infrastructure | 16.3 | Infrastructure | 17.2 | Anti competitive practices | 16.9 |
| 11 | Judiciary | 13.7 | Judiciary | 13.8 | Judiciary | 14.4 | Judiciary | 11.6 |

**Source : OECD (2001) Ranking of firms on Business Obstacles**

The key problems of the SMEs globally are financing, unstable policies of government, inflation, taxation, regulation, corrupt practices, crimes , insecurity, legal system, and poor infrastructure and social amenities.

***Table 2.5 Smedan (2010) survey on smes areas of assistance***

| Item | Number | Percentage |
|---|---|---|
| Financing/Financial Assistance | 11,259,005 | 73.24 |
| Provide financial Institutions | 173,896 | 1.13 |
| Adequate transport facility | 312,514 | 2.03 |
| Adequate regular Power/Water Supply | 590,374 | 3.84 |
| Reduced rate of Taxation | 36,913 | 0.24 |
| Reduced charge of Medical treatment | 39,363 | 0.26 |
| Reduced Interest rate | 354,046 | 2.30 |
| Regular fuel supply at approved rate | 34,822 | 0.23 |
| Provide farm inputs(Seedlings, equipment, fertilizer etc) | 507,543 | 3.30 |
| Facilitate Quality Product | 17,222 | 0.11 |
| Provision of Infrastructure (Access roads, markets, work space) | 1,636,776 | 10.65 |
| Provide Security | 62,108 | 0.40 |
| Provision of Equipment spare parts/raw materials | 234,144 | 1.52 |
| Others | 114,931 | 0.75 |
| Total | 15,373,658 | 100 |

**Source: SMEDAN (2010) Survey**

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