EXTERNAL FINANCING OF ENTREPRENEURSHIP: IMPLICATIONS FOR FUTURE GROWTH OF ENTREPRENEURSHIP IN SUB-SAHARAN AFRICA

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Abstract
This paper discusses the conceptual foundation of external financing of entrepreneurship in Nigeria. It dwells on identifying the meaning of entrepreneurship, types of entrepreneurship, sources of external financing for entrepreneurship and types of external financing. Recently, the encouraging role of the Central Bank of Nigeria (CBN), federal ministry of commerce and local thrift and loan organization have not only introduced a new paradigm of seed capital generation but, has awaken the youth engagement in entrepreneurship dynamics in Sub-Saharan Africa. Access to isusu, grants, loans and other forms of external financing among young entrepreneurs in Nigeria is the beginning of industrialization of Nigeria. There is no gainsaying that finance is the brain behind every successful entrepreneur when well sourced and articulated in a resource-poor country.
Keywords: Entrepreneurship, External financing, Entrepreneurship growth, Sub-Saharan Africa

Introduction

The Sub-Saharan Africa is in dire need of entrepreneurship growth. This growth does not come by ideas and innovations alone but, with the availability of finance from the external sources which will eventually help both the existing and upcoming entrepreneurs to break new frontiers in the world of business (Babafemi & Adesheye, 2015). Nigeria is one of the numerous countries the make up the Sub-Saharan Africa region but, the reality still exists that in comparing with their western counterparts, there are still more grounds to cover in the area of entrepreneurial growth (Ayodele, 2016). But suffice to say that this shall continue to remain a mirage in the absence of adequate financing mainly from the external sources for purpose of this noble course (Cincera & Santos, 2015).

Entrepreneurship

Entrepreneurship as a concept has been in existence over many centuries. It is interesting to note that many who write about its origin were more of economists and historians. The word entrepreneurship came from the French word entrepreneur which is conceptualized in English to mean to undertake (Nwachukwu, 2012). But, from the angle of business, it means to start-up or set-up a business enterprise (Agarwal & Shah, 2014). Many authors like Schumpeter, Richard Cantillon, Jean-Baptiste among others have written and said several things about entrepreneurship (Ayodele, 2016). Owing to the unquantifiable benefits and positive roles of entrepreneurship in economic growth & development, many scholars has given various definitions and conceptualization of this very term. In the 16th century, Cantillon stated that entrepreneurship could be to be seen from the point of view of a sort or self-employment. Schumpeter stated that is this concept of innovation as connected to business siting but with emphasis on the combination and harness of resources (Legas, 2015). It is a source of economic diversification and a catalyst for global competiveness, and it is the basis for the attainment of various socioeconomic objectives including; self-employment, increase in national output, foundation for industrialization and economic development (Inang & Ukpong, 1992).

Penrose (1960) described entrepreneurship as the expedition that concerns the identification of existing opportunities embedded in a given economic setting. It was seen by Gartner (1985) as the process of giving birth to new business organization. Nwachuwku (1988), stated that entrepreneurship is the process of observing, and assessing a given business opportunity as well as harnessing the needful resources in order to exploit and kick-start a necessary move to achieve and guarantee success.

It is the determination and ability of a person to search out an opportunity for investment within a given setting and being able to start up an organization as well as successfully running it in the context of identified opportunities (Srinivas, 2010). From the critical analysis and synthesis of the above definitions, it is important to state that entrepreneurship is an active process of identifying lucrative opportunities within a particular environment and the willingness to harness and drive these opportunities into a profitable venture (Naudé, 2013).

According to Onwuka and Ile (2006), there are four main types of entrepreneurship. They are:

a. **Mining and Agriculture:** This type of entrepreneurship involves those that engage in the extraction of raw materials from the land and other natural means and those that deal on the agricultural domains and produce.
b. **Manufacturing/Construction Occupation:** This type of entrepreneurship explains those who put together or assemble natural or/and artificial components mainly through the process of transformation in order to produce finished or semi-finished goods.
c. **Distribution Industry**: This type of entrepreneurship is concerned with the transportation or movement of goods and services from one point to another within the production chain.

d. **Service Occupation**: This type of entrepreneurship involves those who delve into the aspects of delivering of non-tangible goods as their line of business establishment and activity.

Theoretical Framework

The study is anchored on Banny's Resource Based Theory of Entrepreneurship. According to Banny (1991), Entrepreneurship thrives when resources are available and these resources enable a firm that does similar business with another in the same environment to produce different and better output (results) than the counterpart. The theory opined that the resources available to an Entrepreneur is very vital and determines how successful an entrepreneur can be. It further explains that when a firm is endowed or has enough resources it can thrive better in the business environment and in competitive advantage.

In consonance with this study's objective, it is clear that when an entrepreneur is provided with enough or adequate funding and resources both from local and international sources (external financing), the entrepreneur will be able to have the formidable platform to build firms and organisations that can stand the test of time in terms of competition, innovation and advancement in Sub-Saharan Africa. It is critical and important to note that the availability of resources and funding are primary and needful in the survival of an entrepreneurship. Finally, the theory is of the advocates that once resources are available, it becomes easier for a firm to achieve its aims and objectives and makes the tasks of entrepreneurial activities easier (Barney, 2018).

Sources of External Financing for Entrepreneurship

The sources of external financing for entrepreneurship growth in Sub-Saharan Africa include the following;

1. Loans
2. Grants
3. Isusu

Loan is a type of external financing module for entrepreneurship which allows an entrepreneur to obtain a certain amount of money with the obligation of repaying same with the accruable interest over a particular period of time and at an agreed date (Carree & Thurik, 2002). It can be received from private individuals or financial institutions. Its pit-falls lie on the fact that most of the times, the repayment usually amounts undue pressure on the entrepreneur.

There are three main forms of loans. They are:

a. Short-term loan (repayable within less than six months)
b. Medium-term loan (repayable within less than twelve months)
c. Long-term loan (repayable in more than two years)

Grant is a monetary aid or support. It is an external financing source for entrepreneurship in sub-Saharan Africa with is normally given to entrepreneurs either from governments or non-governmental organizations(Fal, 2013). In certain situations, this form of finance enables an entrepreneur to startup his or her business by serving as an initial capital(Gobbi, 2014). It is usually a form of financial support and mainly non-repayable fund from institution(s) in order to facilitate the establishment of successful entrepreneurship growth.

Isusu is a form of contribution by a group of people who pool their resources together for the sole purpose of saving for the rainy day. This form of savings enables the saver to borrow other people's money to solve the saver problem such as family problems, business establishment or any other pressing need (Ovat, 2013). Isusu or Ajo as the Yoruba's will call it is a veritable form of business external financing mechanism by a determined entrepreneur.

The procedures of Isusu involve the followings:

(a) Definite amount of contribution and number of members
(b) Right to borrow
(c) Interest matters
(d) Repayment

Definite Amount of Contributions and Numbers of Members

As stated above, a group of isusu/Ajo involves the coming together of "a group of persons" –members. These members comprise particular number of persons and these persons should agree on an individual basis what he/she will be contributing on a daily, weekly or monthly basis. There is never a fixed amount for each member to pay, but there is always a ceiling for the minimum amount which any member can contribute (Nwachukwu, 2012).

Right to Borrow

Each member of the group possesses the right to borrow or collect the possible sum of the amount contributable even before he/she had fully contributed the entire sum. This right to borrow enables an entrepreneur to start up a business, having collected the total sum contributable for a year, even before completing the normal contribution. This is done by using the fund contributed by other members of the group(Adesua-lincoln, 2011). To ensure that members all benefit, they (members) end up borrowing based on certain number or position accredited to each member. As stated earlier, this opportunity to borrow enables the members to meet pressing challenges/needs whenever the situation arises. It is needed a veritable tool in the hand of an entrepreneur with respect to business financing.

Interest Matters

Normally, interest rate is another factor in this issue. A good number of times, each sum of amount of money borrowed is returned with a particular rate of interest. Here, the members owe it a duty to include interest or not. If indeed, interest becomes a part of a particular group which sets up "an isusu group", it would be agreed on whether a particular amount can be repaid with interest when borrowed the members will agree on the interest rate, minimum/maximum amount borrowable, the deadline of repayment when need be, and the procedures for repayment. The interest can be on annual or quarterly basis. E.g., the basis may attract 3% of the lump sum borrowed, but increases if the debtor could not pay within the quarter (Aterido & Iacovone, 2011).

Repayment

The repayment of an amount borrowed is always dependent on the agreement /led-down rules of the group. To some groups, it can be within the accounting year, while to some, it can be divided into the four (4) quarters of the year, which implies that, each quarter attracts a definite amount of interest such as 3% of the total amount, while, paying in the second quarter attracts 4% of the total amount borrowed, the 3rd quarter may attract 5% of the total amount borrowed, etc. Sometimes, none repayment after the deadline may attract the confiscation of the number's property.

Types of External Financing for Entrepreneurship

With respect to the purview of this paper and according to Torteska, (2012), the types of external financing will be limited to two, which are:

I. Local external financing
II. International external financing

Local Type of External Financing for Entrepreneurship

The term local is used to conceptualize all sources of external financing for entrepreneurship which are obtainable within a given country. States and federal governments of Nigeria (a country within sub-Saharan Africa) have played positive and significant roles in the area of providing external source of financing for entrepreneurship in the country. A case study of different states that have provided finance through various media for entrepreneurship was exemplified by Anambra and Gombe states. These states have set up different bodies for the sole aim of ensuring entrepreneurial growth (Torteska, 2012).

Also, the federal government has set different bodies/organizations with the main purpose of encouraging participation in entrepreneurship via their provision of finance for the existing and potential entrepreneurs (Fal, 2013). In 2003, the federal government established the National Enterprise Development Programme (NEDEP) to provide loans, skill acquisition and entrepreneurship development and it is mainly patterned to support entrepreneurship in the remote area (Okonwko etal, 2019). Other bodies established by the federal government to funds for entrepreneurship include;

a. **The Nigerian Agricultural and Co-operative Bank (NACB).** This was established in the year 1972 with the main arm of providing fund for viable project within the agricultural sector.
b. **The Nigerian Bank for Commerce and industry (NBCT).** This came into being in the month of May, 1973 by decree 22 of the country and was saddled with the responsibility of providing equity capital loans for entrepreneurship.
c. **The National Economic Reconstruction Fund (NERFUND).** This body came in the year 1988 by Decree 25 by then military leader. It was established to bridge the lacuna in the accessibility of both local and foreign/fund, and the loan they provide is normally within the long term range such as 5 to 10 years for entrepreneurial growth.
d. **The Bank of industry (BOI).** This was set up in the year 2000 basically to serve as a source of finance for the industrial sector in order to encourage the thriving and success of entrepreneurship in the country.
e. **Small and Medium Enterprises Equity Investment Scheme (SMEEIS).** This was initiated by the proactive roles of Bankers Committees in the year 1999 in

order to ameliorate the industrial sector & revive the manufacturing sector of the economy. This was aimed to achieve these through the process of providing financial assistance to the entrepreneurs in these sectors. When established in 1999, it was known as "SMIEIS" (Small and Medium Industry Equity Investment Scheme) but, was charged to SMEEIS in the year 2005 in order to broaden the scope of the categories of entrepreneurs that can benefit from it.

f. **Central Bank of Nigeria (CBN).** This body being the apex bank of Nigeria initiated many actions towards the encouragement of entrepreneurship in this part of the world(Ahmad & Dori, 2016). In April, 2008, the CBN kicked of an action towards ensuring the speedy growth of Entrepreneurship Development Centre's (EDCs). Three aimed at providing appropriate interventions for entrepreneurship growth. This intervention covered 3 main areas knows as (TCF):

a. Training
b. Consultancy
c. Financing.

This tripod intervention was channeled to the secondary schools and tertiary institutions. Within the first year of its inception, 375 graduates were assisted with ₦107.9millon, 40, 435 trained and 358 enterprises were created. Also, CBN has empowered the micro finance banks and equipped them to serve as sources of financing to entrepreneurs for the purpose of entrepreneurship growth (Afolabi, 2016).

International Type of External Financing for Entrepreneurship

This involves the various financing mechanisms which the entrepreneur receives or sources from outside the country. They come from international or multi-national organizations such as world bank they come in form of grants but, the fact still remains that most of the time they are seldom made available to the entrepreneurs in this part of the globe the case study is normally seen the areas of research (Aterido etal, 2013). The quantum of grants made available for researching entrepreneurs sure as different NGOs (Non- governmental organizations) that are specialized in researchers as very high in the west (SMEDAN, 2014). Owing to limited fund allocated for this purpose (grant) by the government and other relevant bodies, the provision and accessibility of this are almost elusive.

Problems of External Financing for Entrepreneurship

There are various problems to obtaining external financing. They include;

Inadequate loans for entrepreneurship

According to the report on entrepreneurship in Sub-Saharan African countries get access to loans to the term of amount less than 5% of the other population. In terms of overdraft loans, up to 60% of the entrepreneurs do not have access to finance and this has further reduced due economic recession. These constraints will always be a cog on the wheel of entrepreneurial success on this part of the world (Carree& Thurik, 2002).

The under Developed Nature of Banks in Sub-Sahara Africa

The immature nature of the banks in this part of the world, there are huge difficulties for them to respond to the financial needs of entrepreneurship. Also the inability of these banks to take "risk" of lending to the entrepreneurs because of their fear of loss has further made financial provision for entrepreneurship a herculean task (Okonwko etal, 2019).

High Interest Rate

These banks which will try to lend to these entrepreneurs have further hampered this move due to then high rate of interest to some sourcing finance, extremely, from these banks amounts to "entrepreneurial suicide" that instead of entrepreneurial promotion and success. They end up collecting the finance; they will eventually not be able to pay leading to the death or premature death of the entrepreneurship expedition (Nwachukwu, 2012).

Short-term Reliance

Banks in sub-Sahara Africa rely often on short-term liabilities and as a result, it is always difficult for them to lend any form of finance to entrepreneur mainly on long term basis. This therefore has hampered access to external finance by fund-needed entrepreneurs. The absence of the provision of the long term finance for entrepreneurship has caused the success of this move to be limited causing many useful ideas and innovation to die a natural death (Nwachukwu, 2012).

Stiff Measures for Obtaining Finance

Though, there are mechanisms put in place by different bodies both locally and internationally, the conditions do not always allow easy accessibility of these funds for entrepreneurial growth. To some, before they could have access to the said finance, several months would have passed and most time they may end not gain access the said finance due to bureaucratic bottle necks imposed by these bodies that are saddled with the responsibility of making these finances available for this noble purpose(Carree& Thurik, 2002).

Implications for Future Growth of Entrepreneurship

There is no doubt that there are many implications with respect to the future growth of entrepreneurship in the Sub-Sahara Africa. There will be discussed below.
Firstly, the availability of external financing for entrepreneurship is limited when compared to our western counterparts.

Secondly, most of the times, the interest becomes a scary masquerade that cause entrepreneurs to refuse external source of financing.
Thirdly, there is need to provide a level playing ground for all the entrepreneurs thereby encouraging competition which will eventually lead to entrepreneurship growth and in turn bring economic development.

Fourthly, grant should be made more available both from local and international arenas because it will serve as a boost to the entrepreneurial pursuit in this part of the world.
Fifthly, the Angel investment, crowd funding and Hedge funds which are dominant in the west should be encouraged in this part of the globe in order to speed up entrepreneurial growth as it is seen in that part of the world.

Conclusion

Though, entrepreneurship needs focus, determination and innovation, one can still be unsuccessful with all these available when finance is unavailable. This means that finance is the fuel with which an individual's (entrepreneur's) innate abilities such as ideas can thrive. But, finance can be provided through external sources which include; loans and grants among others; some for repayment while others are not. Therefore, the proper sourcing and articulation of finance by an entrepreneur via an external source will eventually amount to great success for self, society and the Sub-Saharan Africa at large.

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