

**THE RELEVANCE OF SMALL AND MEDIUM SCALE
ENTERPRISES TO NIGERIA'S ECONOMIC
DEVELOPMENT: AN INVESTIGATION**

BY

EKE ROBERT IKE

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APPROVAL PAGE

I conducted this research to contribute to knowledge and to fill the conditions for award of MSc degree in Banking & Banking.

We the undersigned, certify that we have carefully examined this research work and found it adequate in scope and quality for the partial fulfillment of the requirement for the award of Master of Science (M.Sc.) degree in the Banking and Finance Department.

.....
Robert Eke
Researcher
Date

.....
Prof. F.O Okafor
Supervisor
Date

.....
Clem Nwakoby
Head of Department
Date

.....
External Supervisor
Date

DEDICATION

This thesis is dedicated Almighty God, for his guidance and protection throughout the period of the study. It is also dedicated to my lovely Wife Chigozie Eke for her moral support throughout the duration of my programme.

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ABSTRACT

The economy of any nation is driven by the level of industrialization, while the level of industrialization is determined by a number of other factors. In a developing economy like Nigeria, Small and Medium scale enterprises play a vital role in economic development. Unfortunately, these categories of industries are bedeviled with many problems ranging from lack of infrastructural facilities, low technological know how, lack of technical skills to financing problems. This research is centered on financing small and medium scale enterprises for economic development. It explored the present pattern of financing, the alternative sources of financing SMEs as well as government effort past and present geared towards improving the financial status of such categories of industries. It also examined the problems faced by SMEs in raising the needed capital. The overall objective of the study is to seek for improved or new methods of financing SMEs for improved performance which will in turn lead to economic growth and development of the nation. To carry out the study; data were collected from both primary and secondary sources. The main data collection instruments were a structured questionnaire and personal interview. The data collected were presented in tables as frequency distribution and analyzed with percentages and frequencies. The sign test and person product moment correlation coefficient were used to test the hypothesis. The end result of the research shows that small and medium scale enterprises were underfinanced and various measures were suggested to improve the funding status including direct government intervention in financing.

CHAPTER 1

INTRODUCTION

BACKGROUND TO THE STUDY

The Nigerian Economy has been unstable. It has witnessed a lot of downturn over the years. Since the oil boom of the 80's, the state of the economy has deteriorated and Nigeria has continued to be ranked among the least developed nation. So many reasons can be adduced for the slow pace of economic growth. Such reasons include; mono-cultural economy, low industrialization, high import dependency and corruption. Various regimes in the past had come up with one initiative or the other in a bid to turnaround the economic fortunes of this country. Also some bodies or agencies have been established to oversee and solve the problem of poverty and promote economic advancement. In this regard, bodies like the National Poverty Alleviation Programme (NAPEP), Family Economic Advancement Programme (FEAP), Small and Medium Scale Enterprises Development Agency (SMEDAN) etc were established.

Past governments have been involved in different development plans all geared towards uplifting the nation's economy. The government of Gen Sanni Abacha lunched a development plan tagged vision 2010. It was a plan that was drawn to put to achieve certain level of development of Nigerian economy by the year 2010. The government of President Olusegun Obasanjo in effort to turnaround the economy, embarked on so many reforms in different sectors of the economy including; education, energy, solid minerals, works, transport etc. He also established the Due Process Office that brought a lot of positive changes in the contract award process and execution.

The present government of Alhaji Yar'adua has come up with its own agenda popularly known as the seven point agenda. Through the seven point agenda his government intends to focus on key sectors of the economy that will speed up economic development of the nation. He has also launched a development plan titled vision 2020. Through this plan he intends to speed up economic development that will put Nigeria among 20 topmost economies by the year 2020. This he has already started pursuing with greatest emphasis on the power sector.

Despite these laudable programmes and plans, the pace of economic development seems to be at a standstill. In fact with the global financial meltdown leading to world economic recession, the economy seems to be deteriorating further. One problem that has been identified as a clog in the wheel of economic advancement is the neglect of small and medium scale enterprises or what some call micro-entrepreneurs. It has been established in both advanced and emerging economies that the growth of most economies has been anchored on the growth of small and medium scale enterprises Muhammad.Y(2003)

Countries like Bangladesh, India, Indonesia etc are doing well today because they have gotten it right in developing the middle level manpower that accounts for more than half of the productive sector.

In Nigeria, despite the fact that government has in one way or the other tried to recognize the sector and accord it a sort of priority, there are still many challenges restraining the small and medium scale enterprises from realizing their objectives. Some of the challenges that are teething to small and medium scale enterprises range from lack of infrastructural facilities, low technological advancement in

terms of machinery, absence of experts and technical skills to lack of fund and inability to access credit facility from banks.

STATEMENT OF THE PROBLEM

The most critical among the challenges faced by small and medium scale enterprises is lack of adequate capital and inability to access bank credit. An economy can only grow through support from the financial sector in availing credits to different sectors. One of the agenda of banking reforms or recapitalization was to enable banks support the real sector of the economy by availing credits to firms in these critical sectors. If credit is made available to the formal sector while neglecting the informal sector where the medium and small scale enterprises fall in, there will still be gap in the growth of the economy.

While the large scale enterprises have access to bank credit, the small and medium scale enterprises find it difficult to obtain bank credit. It is in the bid to resolve this problem that the Federal Government in conjunction with Central Bank of Nigeria carried out reforms in the lower side of the finance industry. Among the reforms is liberalizing the

licensing of micro-finance banks and conversion of community banks to micro-finance banks.

Micro-finance banks are expected to provide micro-credits to small unstructured businesses, salary earners, artisans, food vendors, small farmers and traders. It is in pursuit of this objective as well as the drive to reduce unemployment that the Central Bank established skill acquisition centers located in three geopolitical zones in the country. The essence of establishing the centers is to empower the youth through relevant skills training and subsequently increase their access to fund (credits) with which to start up business.

The main issue now is whether government has realized or failed to realize its objective of enabling the informal sector of the economy to have easy access to credit and whether or not the sector has contributed meaningfully to the economic development of the nation.

This research will focus on micro-credits and its accessibility by medium and small scale enterprises and individuals entrepreneurs and other modes of financing them.

The research will be tailored to provide answers to the following questions.

1. What is the present pattern of financing of micro-enterprises in Nigeria?
2. How much of the financing has come from bank micro-credit.?
3. Apart from bank credit what other alternative sources of funding are open to small and medium scale enterprises?
4. What are the problems encountered by the small and medium scale enterprises in accessing Micro-credit?
5. What specific lessons can Nigeria learn from other economies in the area of facilitating access to micro-credit scheme?
6. Has micro credit disbursed to small and medium scale enterprises contributed to the Gross Domestic Product of the nation?

OBJECTIVES OF THE STUDY

The research is intended to achieve the following objectives;

1. To find out the present pattern of financing medium and small scale enterprises and the relative contribution of bank credit to the financing portfolio of such enterprises.
2. To identify the major problems encountered by small scale enterprises in accessing credits from banks and ascertain why banks seem to be unwilling to disburse credit to them.
3. To identify and evaluate alternative sources of capital or funds for micro entrepreneurs.
4. To evaluate the experience of other economies in the area of micro-credit delivery in order to see specific areas Nigeria can benefit from such experience.
5. To establish the relationship if any between the level of micro credit disbursed and the contribution of small and medium scale enterprises to Gross Domestic Product.

6. To make recommendation based on the findings on realistic approaches toward solving the financing problems of small and medium scale enterprises.

RESEARCH HYPOTHESIS

The following hypotheses are formulated in null form for the research study.

1. Medium and small scale enterprises are mainly financed through personal funds of the owners.
2. Medium and small scale enterprises have only one source of funding.
3. Government effort towards financing small and medium scale enterprises have not had much impact.
4. There is no relationship between the level of micro-credit disbursed and the contribution of small and medium scale enterprises to Gross Domestic Product.

SCOPE OF STUDY AND METHODOLOGY

The research will be conducted using data generated from three senatorial districts in Delta State and will rely heavily on information(data) from the following area;

1. Response to questionnaire and oral interview to be administered on a sample of small and medium scale entrepreneurs and Bank staff within the selected areas.
2. Secondary data derived from newspapers, magazines and journals both locally and internationally and from CBN statistical bulletin and quarterly bullion.
3. Internet facilities will also be explored to extract relevant data and literature required for the research.

SIGNIFICANCE OF THE STUDY

This study will assist small and medium scale enterprises in exploring other areas of financing their businesses outside their own personal fund. It will be of immense help to the Government of the day in identifying the possible areas of assistance in financing small and medium scale enterprises.

The study will also assist the government to assess the impact of microfinance banks in financing small and medium scale enterprises since their introduction and their overall impact on the economy. Finally the study will be of immense benefits to students and researchers in areas of financing SME's and serve as a reference point for further studies on the subject.

LIMITATIONS OF THE STUDY

Due to logistics and the wide scope of this research that entails studying SME's nationwide, we have restricted the study to only one state. Majority of the entrepreneurs are not literate and as such getting accurate data from them will be a problem. Again because most people are not happy about the way government has handled the plight of the entrepreneurs, they might not be willing to respond to the questionnaire.

There is also time constraint on my side since I have to combine my work with the research work.

CHAPTER TWO

LITERATURE REVIEW

This chapter will review the past work done on the subject matter by other researchers and will highlight the gap (if any) noticed in their work. It will also review the past government programmes towards financing small and medium scale enterprise and the status of such program presently.

The chapter is divided into the following sub-headings.

1. Scope and relevance of small and medium scale enterprises.
2. Funding for small and medium scale enterprises.
3. Alternative sources of funding small medium scale enterprises.
4. Accessibility to bank credit by small and medium scale enterprises.
5. Appraisal of government effort in funding micro-enterprises.
6. Microfinance policy of Nigeria.
7. Review of micro-credit scheme in other countries.

SCOPE AND RELEVANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)

Classification of Micro, Small and Medium Scale Enterprises

Available literatures on the subject matter show a common consensus on the criteria used for identifying SMEs. They include; the number of persons employed, the value of investment, annual turnover, or a combination of these. While there is a consensus regarding the available criteria, there is however no hard and fast rule for clarifying SMEs. What therefore constitutes a micro, small and medium scale enterprise in an industrialized economy may be regarded as a medium or large scale firm in a developing country. Similarly, within the same country, classification of SMEs varies with time and among agencies. Such variation overtime is attributable to such factors as movement in general price level and technological advancement etc.

According to IFC (2003), the World Bank Group's SME Department classified Micro and SMEs based on the following criteria;

- **Micro enterprise**

Employees	-	10 or less
Total Assets	-	US \$100,000 or less
Total Annual Sales	-	US \$100,000 or less

- **Small Enterprise**

Employees	-	between 10 and 50
Total Assets	-	US \$100,000 to \$3, million
Total Annual Sales	-	US \$100,000 to \$3, million

- **Medium Enterprise**

Employees	-	50 to 300
Total Assets	-	US \$3million to \$15million
Total Annual Sales	-	US \$3million to \$15million

In the same vein, the National Council on industry, in 2001 clarified SMEs as follows:

- **Micro/Cottage Industry:** An industry with total capital employed if not more than N1.5million, including working capital but excluding cost of land, and or a labour size of not more than 10 workers.
- **Small-Scale Industry:** An industry with total capital employed over N15million but not more than N50million, including working capital but excluding the cost of land/or labour size of 11-100 workers.

- **Medium Scale Industry:** An industry with total capital employed of over N50million but not more than N200million, including working capital but excluding the cost of land and or a labour size of 100-300 workers.
- **Large Scale Industry:** An industry with total capital employed of over N200million, including working capital but excluding cost of land and/ or labor size of over 300 workers.

The Contribution of Small and Medium Scale Enterprises in Socio-Economic Development of Nigeria.

It is incontrovertible that small and medium scale industries are the bedrock of development in any nation. This is sequel to the fact that many large businesses grew out of small and medium enterprises. The experience of the industrialized nations suggests that the development of SMEs is a precursor to the development of the industrial sector. For instance, available evidence shows that the industrial nations of North American and Western Europe started with the development of their small and medium scale industries. The prominence given to the SMEs in those countries is demonstrated by the deceive steps taken to stimulates and

sustain the growth of SMEs in those countries. For instance, Netherland issued a white paper on the development of SMEs in 1954. The Federal Republic of Germany followed suit with its policy framework on SMEs, which was enacted in 1959, while Japan in 1963 enacted the fundamental laws on SMEs. It is therefore not surprising that the SMEs contributed immensely to the success story of the industrialization process in these countries.

In analyzing the contributions of SMEs to the socio-economic development of an economy, Owualah (1999), identified the following functions of SMEs.

- **Transformation of traditional/indigenous industry.**
Evidence from both developed and developing countries show that the traditional sector always precedes the modern sector. To a large extent, the modern sector evolved through a structural transformation and modernization of the traditional sector. The critical driver of this change has always been the small firms, such as household and artisan industries which metamorphose into medium and large scale firms as the operators acquire new skills and their scale of operation expands.

- **Stimulation of Indigenous Entrepreneurship.** Through the seedbed or nursery role, SMEs provide opportunities for the realization of the innate entrepreneurial endowment aside from serving as vehicles for the propagation and diffusion of innovative ideas. Furthermore SMEs provide opportunities for important technology to be tried before they are adopted to suit the local condition.
- **Employment Creation:** A very important role of SMEs is their potential to create jobs due to their labour-intensive and capital-saving mode of operation. A study by Birch (1979) on manufacturing and private sector service establishment in the United States of America shows that two-third of new jobs were created in firms employing less than 20 workers. 66% of these new jobs were created by new, young, small independent firms. In the case of the developing countries, the labour intensive nature of SMEs coupled with the dearth of capital and abundance of labour presents the SMEs as a veritable source of employment.
- **Wealth Redistribution:** By providing employment and remunerative economic activities to a great number of

rural and urban people, and also supplementing their income from their regular jobs, SMEs contribute greatly to the reduction of income disparities.

- **Utilization of Local Resources:** SMEs use a lot of local raw materials and discarded by products of large firms as primary input in their production process. This will reduce import dependence save foreign exchange earnings and increase the overall Gross Domestic Product.
- **Dispersal of Economic Activities:** Since SMEs are not capital intensive, they spring up anywhere in response to the demand for their products. Furthermore, they have tendency of being located outside major metropolitan centres thereby contributing to industrial dispersal.
- **Mobilization of Savings:** SMEs are useful in mobilizing small saving for productive investments and enhancement of the industrial capital formation. By channeling personal savings of the promotion and those of his or her friends into the production process, SMEs are able to transform the savings into the production of physical goods and services thereby bringing about the expansion of the funds due to the multiplier effect.

David(2003) in his paper entitled "**Small & Medium Scale Enterprises and Funding in Nigeria**" summarized the importance and benefits of SME as follows;

Importance of SMEs

Many economies, developed and developing have come to realize the value of small businesses. They are seen to be characterized by dynamism, witty innovations, efficiency, and their small size allows for faster decision-making process. Governments all over the world have realized the importance of this category of companies and have formulated comprehensive public policies to encourage, support and fund the establishment of SME's. Developments in small and medium enterprise are a *sin quo non* for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology.

Giving insight into the SME phenomenon, a paper delivered at a forum by Mallam Mohammed Hayatu Deen, titled "Stakeholders Roles and the Development Benefits in a Virile Small Enterprise Sector", pointed out that small business operations are propelled by the dynamic theory, which

makes them efficient and prone to constant change. He gave a comparative statistic using 9 developed countries on how SMEs create employment, increase job growth; induce change, innovation and competition.

Benefits of the SME

The benefits of SME's to any economy are easily noticeable, they include: contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost, especially in the fast growing service sector; provide a vehicle for reducing income disparities; develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy; provide opportunities for developing and adapting appropriate technological approaches; offer an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development, among others.

Despite the above benefits highlighted by the writers, they failed to highlight other benefits which include;

Output expansion: SMEs contribute substantially to national output in middle income economies. In Nigeria they account for only 10-15% of manufacturing output despite providing 70% of industrialist output.

Production of Intermediate Goods: Produce intermediate goods for large corporations. There is a symbiotic relationship between small and large firms and in Japan they account for 70% of value of exports of large firms.

FINANCING MICRO, SMALL AND MEDIUM SCALE ENTERPRISES

The take-off and efficient performance of any enterprise, be it small or large, requires the provision of funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments. The entrepreneur needs funds to facilitate the coordination of other factors of production such as land, labour and capital.

Effort by SMEs to provide the needed fund by themselves has not been a success as only very few are able. Even the very few that are running presently still needs more capital for expansion and growth. One of the sources of funding still

under-harnessed in Nigerian Economy is **Micro-credit Scheme**.

This scheme has assisted some countries in the past and their economies today are ranked among industrialized countries. The study being carried out will try to find out why the scheme is not vibrant in Nigeria yet and why funding still remains the most prominent problem of SMEs.

Definition of Related Terms

- **Micro-enterprise:** It is a business that requires micro credits/loans to operate. The operation and management of a micro-enterprise revolve round the sole owner the micro entrepreneur, who, most times, works alone or provides employment for a few people, typically family members. A micro enterprise also does not require formal registration to start.
- **Micro-finance:** This involves the provision of financial services to low-income client, including self employed.
- **Micro finance service:** These are services that micro finance institutions (in Nigeria, Microfinance Banks) can render. These services include savings mobilization, loan creation and payment facilities. Microfinance banks in

Nigeria are also allowed to engage in some non-banking activities that are geared towards alleviation of poverty like buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to poor persons on credit and acting as agent for any association for the sale of such goods or livestock. Other non-banking activities that MFBS in Nigeria engage in are; co-operation and group formation, rural industrialization and other support services.

FUNDING SMEs

Ojo (1990) in his paper entitled "The relative importance of Banks and other institutions in financing small scale business" presented at a seminar identified two major sources of financing small scale enterprises. The two major sources he categorized into formal and informal sources.

1. Formal Sources

The formal sources include banks, other financial institution, government loan agencies and co-operative credit societies. Ojo pointed out that these sources constituted a small portion of finance for small scale enterprises. This he attributed to partly the banks

unwillingness to lend to this sector due to their inability to meet certain requirements including collateral. He also observed the lukewarm attitude of the small businessmen to approach banks for loans.

2. Informal Sources

Ojo (1990) noted that informal rather than formal capital markets provide the bulk of small enterprises financing, especially in the lesser developed countries and in their rural areas. He is of the opinion that the continued importance of informal markets despite the growth of monetization and commercialization in the subsistence sectors of developing countries is due to restrictive and repressive financial policies, lack of innovative measures and instruments to integrate informal and formal markets and often the lower transaction costs of certain informal market credit intermediaries. He identified informal financial intermediaries to include friends, relatives, and traditional mutual aid groups like 'esusu', middlemen, landlords and professional money lenders.

The essential characteristic of informal markets is that they are far more loosely monitored and regulated than formal

finance markets. In Africa, informal markets consist mainly of circles of friends and relatives and sometimes traders and middlemen. In many countries, ROSCA (rotating savings and credit associations) play a prominent role in rural economy. The ROSCA is a group in which participants make a regular periodic contribution, the proceeds being helped to members turn by turn. Personal relationships are dominant factor in settling up and functioning of these groups often based on village or ethnic origins.

Informal Credit Markets (ICMs) are generally complementary to formal markets. Since they are able to both mobilize and allocate savings, they are characterized by a smaller scale of operation and they enable direct contact between borrower and lender. ICMs need to be closely integrated in the capital market structure in order to solve the needs of the rural market and of smaller enterprises, in an effective and efficient manner. ICMs have met a large part of the requirement of small enterprises in both urban and rural areas because of their ability to assess risk and ensure repayment and their lower loan transaction costs.

Nevertheless, there is still a large unmet demand for credit by rural and small borrowers. Besides improving the efficiency of institutional finance through higher deposit rates and subsidies for small borrowers (targeted at the rural poor), refinancing of ICMs by formal financing institutions would help to fill the unmet demand.

In summary, Ojo having identified that the major source of funds for small and medium scale enterprises comes from informal sector, could not explore all other sources that most SMEs uses presently.

OBOH (2005) in his paper titled Contemporary approaches for financing micro, small and medium scale enterprises published in a book on contemporary issues in the Nigeria Banking System, identified sources of finance for small and medium scale enterprises to come from two major sources; internal and external sources.

Internal Sources: These include personal savings of the promotion and ploughed back profit. Due to the fact that the income level in the developing countries is usually small,

personal savings constitute an inadequate source of funds for the SMEs. Similarly, quantum of profit to be ploughed back into the business is also small. Thus, internal sources of funds are usually inadequate to meet the funding needs of SMEs.

External Sources: This is further divided into informal credit market and formal credit market. The informal credit market includes funds from friends, relatives, local money lenders, credit and savings associations. Credit from these sources is more suitable for SMEs because there is little or no collateral requirement. However, the associated interest rate is usually high.

On the other hand, the formal or organized credit market is made up of conventional banks, development finance institutions and other specialized government agencies such as NERFUND, SME II and capital market. These sources of funds are more important for the growth and development of SMEs due to relatively low interest rates and the fact that the volume of loan is larger.

Furthermore, they are in position to give long term loans for projects with long gestation period which is ideal for the financing of SMEs.

Iman (1998) in her paper entitled "Micro-credit/finance scheme: A gender sensitive approach to poverty alleviation" also towed the line of previous authors and identified the following sources of financing small and medium scale enterprises.

- 1. Personal Funds (Equity):** This is that part of fund invested in the Business by the owner(s) which the business is under no obligation to refund or pay interest(s) on.
- 2. Loans from Relations and Friends:** Borrowing money from friends and relative to start an income generating business is also a veritable source of fund.
- 3. Trade Credit:** This is also an important source of short-term financing of a business. A micro-entrepreneur enjoys trade credit from her supplies when she is allowed to pay in arrears for goods and services she receives.

4. Borrowed Capital/Loans: This is that portion of capital obtained to supplement the owners' equity. Loan to businesses are under legal obligations to be repaid in accordance with terms of the loan and in most instance with interest. For the type of income generating activities that we are discussing the loans may come from ESUSU group, micro-credit organizations, donor agencies and banks.

ESUSU, Ajo or Adashe, is a traditional financed system whereby individuals source for funds through mutual agreements, covering amounts to be contributed, sequence of drawing from the pool and unwritten codes governing administration of funds. This system is as old as our various societies in Nigeria. It is both savings and loan scheme.

She is of the opinion that while the other sources still dominates the funding of small and medium scale enterprises, the utilization of bank micro-credit is still very low.

Elumilade et al(2001)in survey conducted are of the opinion that in spite of the relevance of the small-scale industry to Nigeria's economic and industrial development, the sector faces a lot of problems. These problems include those of management, appropriate technological skill acquisition, a harsh policy environment, gender bias and finance (Olowu, 1993, Oresotu, 1995, Lewis, 1996 and Oguntoye, 1987). Of all these problems, inadequate financing is the most limiting. This is because finance is strategic to any industrial setup. Finance is the hub around which a business flourishes. Lack of it, through mismanagement or misappropriation, could hinder any business venture. Ideally, before any business is set up, there must minimally be working capital and fixed capital, based on feasibility reports (Asaolu, 2001). The two main channels that have been used to increase credit for small and medium enterprises are the formal and informal sources. The formal sources include banks, other financial institutions, government loan agencies and cooperative credit societies. While the informal sources include owners' savings/retained earnings, friends and relations, clubs, "esusu" and money-lenders, among others.

The informal rather than formal capital markets provide the bulk of financing, especially in the less developed countries, for small enterprises in the rural areas (Jinadu, 1995). The continued importance of informal markets, despite the growth of monetisation and commercialization in the subsistence sectors of these countries, is due to restrictive and repressive financial policies, a lack of innovative measures and instruments to integrate informal and formal markets, and the typically lower transaction costs of certain informal market credit intermediaries. The peculiar characteristic of informal markets is that they are far more loosely monitored and regulated than formal finance markets (Onyenwaku and Fabiyi, 1991).

Most importantly, loan disbursements from the informal sources are usually timely; notwithstanding, this informal source of financing to small-scale entrepreneurs has serious shortcomings. For example, the amount of capital that can be raised from the informal sources is usually very small and inadequate when compared to the needs of the small-scale entrepreneurs. In most cases, the terms and conditions attached to their funds were found to be exploitative most especially with the money lenders (Ogundipe, 1997).

Upon taking account of the shortcomings associated with the various informal sources, the governments of most developing countries have initiated various industrial credit programs. Such programs have the objectives of assisting small-scale entrepreneurs to increase their income and to improve their living standards. It is believed that these programs are veritable tools for redistributing resources which would lead to the wealth maximization of the small-scale entrepreneurs. The above considerations have led to the establishment and recognition of many institutional credit markets in Nigeria, including commercial banks, community banks, cooperative societies, Industrial Development Centers (IDCs), and the Nigerian Industrial Development Bank (NIDB). However, corruption and other related vices which became endemic in Nigerian policy would not allow the benefits to be realized (Oguntoye, 1997).

According to Pinches (1990), finance refers to money and productive resources available to governments, business and individuals. The term also covers the management of all money resources. As a resource type, finance is usually physical in the forms of cash, shares, stocks, accounts receivable, equipment and other facilities applied in

mobilizing business. Briefly put, finance is the term that covers all monetary resources (money and money's worth) for the establishment and sustenance of any productive activity. Finance is the 'sine-qua-non' of enterprises--that without which there cannot be business.

One area in which SME's differ greatly from LSEs is that of sourcing for finance. As noted earlier, there are three kinds of finance and these are distinguished according to their tenure as short-term, medium term and long term (Pandey 2000). For the short term finance, the major sources are creditors, bank overdrafts and loans, bills of exchange and other suitable negotiable instruments and factoring. The main sources of medium-term finance are the high-premium loans, plant/machinery/factory/furniture leasing, and hire purchase. In the case of the long-term finance, the sources are long term loans, debentures stock, share capital, sale of assets and lease-backs. It must be added, however, that businesses of any magnitude and for any range of financial need can be financed with personal as well as corporate savings.

It needs to be emphasized, however, that most of the sources of finance mentioned above are not available to

VSE's, in as much as they are not available to SMEs. As noted by Weston and Brigham (1991), small enterprises cannot avail themselves of capital market funds. In the view of Umar (1997), many small enterprises are incapable of meeting borrowing requirements of the merchant and commercial banks. In the light of the foregoing, SSEs, especially VSE's, have had to seek their finance from alternative, informal sources. Overall, sources of funds for all enterprises can be grouped into two categories: personal (informal) sources and the public (formal) sources. Of these, VSE's and to some extent, SSEs, largely obtain their financing from personal sources.

Amao (1987) grouped the sources of funding SMEs into "formal" and "informal" sources, and notes that SMEs have traditionally relied on informal sources which were usually more often than not insufficient for entrepreneurial growth and development. These are sources of funds, which are in a way personal to the entrepreneur and without recourse to the public capital markets as such. Such sources are often incapable of generating large volumes of funds for investment because of inherent limitations. The low capital generating capacity of such sources accounts to a great

extent for the low growth rate of micro-enterprises, which in turn accounts for their continued lack of access to big funds. The claim that the capital shortage is the worst problem militating against the growth of VSE's has not gone unchallenged. It has been argued by Omopariola (1978) that there have been times when banks and other lending institutions had more money to lend than entrepreneurs were willing to borrow. Omopariola further states that while subscribing to the view that "insufficient funds stifle growth of individual firms and consequently slow industrial growth in Nigeria" (1978, p. 15), a radical explanation of the idea of capital shortage is offered. In his view, the phenomenon of capital shortage does not apply to all aspects of the Nigeria economy. Rather, it is only peculiar to individual firms, and perhaps to particular sectors or industries. He argued that whereas there is always money to invest in the economy as a whole, firm which were otherwise unsuccessful in their bids to raise needed funds to finance their operations or which were ignorant of existing sources of funding, necessarily experienced a capital shortage. He goes on to

explain that this “necessarily reflects adversely upon lending institutions in Nigeria” (ibid, p. 16).

In a survey conducted by Elumilade et al (2001) in Osun State, Table 6 below indicates the sources of finance that are available to entrepreneurs are very personal because there is no opportunity for recourse to the capital market/money market. The entrepreneurs cannot source financing from the banks because they cannot afford the conditions of such sources. These conditions include collateral securities, business registration certificate and certified statement of affairs.

From Table 6 it can be seen that some enterprises obtained their initial capital from two or more sources. Using the category of very small (or micro – enterprises) in Osun State, majority (83.33%) depend on their proprietors’ personal savings for their initial capital or wholly on this source of finance at start – up of all the enterprises, only 0.83% obtained their initial capital from commercial bank loans. None of the 240 respondents claimed to have obtained their initial capital from the People’s Bank or any of the relevant government agencies. The conclusion to be drawn from this

is that micro-enterprises in Osun State largely obtained their initial capital from informal sources.

Table 6: Sources of Initial Capital

Sources (of all or part of Initial Capital)	Frequency scores	%
Commercial Bank Loan	2	0.83
Community Bank Loan	10	4.17
GOVERNMENT AGENCIES		
NIDB	-	-
NDE	-	-
OSSADEP	-	-
Cooperative Society Loan	102	42.50
Personal Savings	200	83.33
Friends and Relatives	25	10.42
Other Sources	23	8.58
Total	362**	-

*** The total of 362 (instead of 240) is accounted for by the multiple sourcing of initial capital by some of the enterprises. Source: Field Survey, 2001.*

On the topic of adequacy of initial capital obtained, Table 7 indicates that almost all micro-enterprises in Osun State

were inadequately financed at the initial stage of their establishment. Only about 17% of all the surveyed enterprises had up to 71% of their required initial capital. This is considered fairly adequate. On the other hand, as much as 66.25% of the enterprises started business with inadequate capital. About 17%, having from 61% to 70% of their required capital, had marginally adequate startup capital. There was no enterprise that had up to 91% of its required initial capital.

Looking at the foregoing, analytically it is right to deduce that micro-enterprises in Osun State were inadequately financed at inception. Table 7 further confirms that this acute inadequate financing may not be unconnected with micro-enterprise founders' preference for informal sources of finance because no other feasible option is open to them. Unlike the banks, the informal sources of business finance cannot generate large sums of funds to meet the required initial capital that most enterprises usually require at the time of their establishment. This initial handicap cannot but stall the growth and performance of the micro-enterprises.

Table 7: Adequacy of Initial Capital Obtained

% obtained of initial capital required	Average maximum percentage shortfall on required initial capital	Number of Enterprises	% of total sample	Degree of adequacy
91-100	9%	-	0	Very Adequate
81-90	19%	13	5.42	Adequate
71-80	29%	28	11.67	Almost Adequate
61-80	39%	40	16.66	Barely Adequate
51-60	49%	66	27.50	Inadequate
41-50	59%	81	33.75	Very Inadequate
40 & Below	60% and below	12	5.00	Grossly Inadequate
Total		240	100	

Source: Field Survey, 2001

Elumilade et al concluded from the study, that the micro-enterprises were generally inadequately financed at their establishment. A large proportion of the surveyed entrepreneurs (83.33%) attributed their inability to raise adequate initial capital to the following factors: unfavorable government policies, scarcity of money in the country, money lenders' high interest rates, low personal savings and the unwillingness of formal capital market to supply the required funds (Table 9). In the area of performance, the micro-enterprises surveyed were revealed to be performing very poorly.

In the survey the researcher concluded that SMEs are grossly under funded but they however failed to explore other alternative sources through which SMEs can source fund for business.

ALTERNATIVE SOURCE OF FINANCING SMES

Mbachu (1996) in his book on corporate finance identified four main sources of finance which small and medium scale enterprises have not fully harnessed. They include

1. Trade credit
2. Mortgages
3. Leasing
4. Hire purchase

Trade Credit

This is a major short-term financing method used by small firms which do not have access to capital markets. It exists when buyers are not required to pay for goods upon purchase immediately but are allowed a short deferment period after which payment becomes due. During the deferment period which is the time between delivery and payment, the purchaser of goods has a debt outstanding to the supplier. The debt is recorded on the purchaser's balance sheet as a liability-account payable, while it is recorded as asset in the book of the supplier.

Mortgages

This is an arrangement in which a company obtains loans from a finance firm while pledging its fixed asset as a security. The assets usually pledged as collateral are title to land/or building, equipment, inventories etc. This type of short term financing exists when the borrower's credit worthiness is too low to justify a loan or if the lender quotes lower interest rates for a secured loan. The institutions which are prepared to lend on such a basis are insurance firms, investment companies and pension funds. Repayment of principal and interest may be spread over a long period of time.

Leasing

This arrangement involves the acquisition of the economic use of an asset through a contractual commitment to make periodic lease payment to the owner of the asset. Because of this contractual obligation between (the lessor) and another party (the lessee) who makes periodic payments to the owner for the right to use the asset, leasing is regarded as a method of financing, similar to borrowing. There are two types of lease; the operating lease and finance lease.

Operating lease is a contractual arrangement that permits the lease to require the economic use of an asset for an indefinite period of time and cancelled by the lessor upon due notice to the lessee. Financial lease is a contractual arrangement that requires the lessee to make fixed lease payments periodically over a specified time period for the use of an asset. It does not provide for maintenance services. It is fully amortized, in which case, the lessor receives rental payments equal to the full price of leased asset.

Hire Purchase

Hire purchase is similar to leasing. It is an arrangement under which the hirer, in return for use of an asset, undertaken to make periodic payments to the owner of the asset. He is expected to assume ownership of the asset often payment of last installment. Assets usually acquired through hire purchase include motor vehicle, computers, copiers and furniture, office equipment and machinery.

He maintained that small and medium scale enterprises can leverage on this to finance their fixed assets while using the little capital they have for their working capital.

Olla (1990) identified other sources of finance for small and medium scale enterprises apart from depending on the use to which the fund will be utilized. He summarized it as follows;

- a) Equity and venture capital provided through the capital market ie Nigerian stock exchange.
- b) Long term loan/finance obtained from banks including leasing and hire purchase.
- c) Short-term finance/Bank overdraft obtained from banks.
- d) Trade Credit
- e) Government Finance /Credit guarantee scheme provided through NIDB, NACB etc.

Sourcing fund from Capital Market.

The second tier securities market was established in 1985 to assist SMEs access funds from the capital market mainly for the purpose of business expansion and modernization. This

initiative was necessary to counter the bias of the capital market in favour of large scale industries. Available records show that SMEs has not been utilizing this medium to raise funds. OBOH (2005) noticed that as at 2005 only 20 SMEs are listed in the market.

ACCESSIBILITY TO BANK CREDITS BY SMALL AND MEDIUM SCALE ENTERPRISES.

OBOH (2005) identified some of the factors militating access to credit by most SMEs to include;

I. Lack of depth of the financial system

Until recently SMEs enjoyed little support from the financial system. According to Nnanna (2001), recent studies by the United Nations Development Programme (UNDP) and the Federal Ministry of Industry (FMI) showed that 1036 (or 69%) of the 1498 SMEs surveyed relied on personal savings for the funding of their enterprises. The study also reveled that only 3.6 percent of the respondents obtained credit facilities from the banks.

It is well documented in the literature that banks are unwilling to do business with SMEs due to the fact that they are considered as a high-risk group, in addition conventional banks source their fund from short term source wherever most of the SMEs need long-term credit facilities. In the same vein, SME have not been able to benefit much from the capital market inspite of the fact that the SSM has been established for close to two decades now.

II. Poor Management Practices

Many SMEs do not keep proper record and accounts of transactions. For instance, some of them do not keep proper record of labour input and they do not cost self and family labour. Similarly, most of them do not place value on products consumed at home or given out as gift. All these shortcomings will not enable them to provide accurate accounting records which will be required by the banks to access their strength in credit analysis.

III. Low Equity Base

It is essential that any viable enterprise should have an adequate equity base which should be in the right

proportion with the firm's credit requirement from banks. Lenders often use the debt/equity (gearing) ratio criterion to ensure that they are not over exposed. Generally the equity base of most SMEs is low; therefore they are not able to pass the debt/equity ratio test in loan application.

From the above, it is obvious that inadequate access to funds is one of the major problems confronting SMEs but it is certainly not the only problem.

According to little et al (1987), lack of access to credit is the shortcoming most frequently cited by micro and SME promotions as one of their major constraint.

However in the work carried out by OBOH he failed to identify some other reasons preventing SMEs from easily accessing credit.

Comparative Analysis of the Problems of Finance Facing the Small and Medium Scale Enterprises

Ojo (1992) in study carried out in respect of the financing problem of SMEs summarized his findings in the table below;

Problems	No of Firms	Percentage
(a) Inability to provide collateral securities	24	30

(b) Disseminating lending attitude	19	23.8
(c) Cumbersome loan granting process of the small-scale industries loan scheme	15	18.7
(d) Short-term nature of commercial bank loans	9	11.3
(e) The strength conditions and high cost of raising fund through stock exchange	13	16.2
Total	80	100%

From the above table, the inability to provide collateral securities demanded by bank is the most serious problem facing small and medium scale enterprises in obtaining bank loan. This problem account for 30% of all the problem facing these firms.

In order of seriousness, discriminatory lending attitude of banks is 23.8%, cumbersome loan granting process of small scale industries loan scheme 18.7% and the stringent conditions and high cost of raising funds through stock exchange is 16.2%.

The resultant effect of this comparative analysis is that if commercial banks and other allied financial institutions make their demand for collateral securities less tedious to meet and stop discriminating against rural and small business firms, financing problem would to a large extent be solved. This is because collateral security problem and the problem of bank discrimination together account for 53.8 % of the total.

The major problem reported by commercial banks as inhibiting them in granting loans to the rural and small firms, apart from the collateral security problems are default in loan repayment, non-viability of projects and inadequate accounting records/false statement presented by small firms. In fact it is evident that commercial banks in Nigeria are risk averse in nature.

On the other hand, response from small firms interviewed revealed that the nature of financial assistance given to them by bank is mainly in form of short-term loans. This form of loan does not permit the small firms to invest in

long-term project that would have enhanced their growth; (Ojo) concluded.

IMAN (1989) in her paper entitled "Establishment, funding and sustaining small and medium scale enterprises present at a seminar organized by Lagos chamber of commerce identified two fundamental weakness of small scale enterprises in accessing funds for promotion and expansion to include:

1. **Finance**-Small enterprises frequently lack knowledge of the appropriate sources of development finance and working capital and are unaware of the advantages of different methods of raising capital also unskilled in presenting a financial case to potential investors and lenders.
2. **Costing and control information**-Cost control and costing data are often so, poor that management cries out only with appearance of the annual accounts or following an urgent call from the bank manager. In less serious cases, lack of costing data may make it impossible to gauge the effects on pupils of different level of activity or course of action.

Osayameh(1990) in analyzing the financing problem of SMEs is of the view that Finance is the bloodstream of any business and like blood, undersupply is hazardous to any business. He states that overtime the following problem indicators have been associated with financing small scale enterprises.

1. Chronic undersupply of funds is the bane of small scale enterprises in Nigeria. This derives among others, from lack of properly prepared borrowing proposals and inadequate security to support the exposure sought.
2. Over the years, banks as lenders have lost confidence in the integrity of small scale enterprises.
3. The relative scarcity of loanable funds in the financial system compounds, the problem of funding small scale enterprises as banks would prefer to channel such funds into profitable and less risky proposals.
4. Following increased inflationary trends, cost of borrowing has meant high interest rate which most small scale enterprises could hardly cope with unlike

the large scale ones that could easily benefit from economies of scale.

5. Closely linked to this is the usually high import dependency of this class of business, coupled with the problems associated with sourcing adequate foreign exchange to meet their needs.

He concluded that high rate of loan repayment default among the small scale enterprises is not motivating bank towards financing them. He suggested the introduction of a special small scale insurance loan scheme similar to Agricultural credit guarantee scheme by Central Bank of Nigeria to encourage the banks.

Duke (2003) identified major impediments to SME financing in Nigeria to include;

A. Lack of focus of financial institutions.

This is mainly due to:

1. Relatively thin capitalization, which makes them conservative about their lending practices;
2. Exorbitant interest rates by the local banks that SMEs are unable to afford, where these banks condescend to lend to the SMEs;

3. Preference for financing large enterprises at the expenses of SMEs owing to difficulties in accessing the risk of SME and the higher administrative costs of lending to them;
4. The repayment period tends to be too short for medium-term projects, which require two to five years on average for payback;
5. The money market is notoriously short term in nature as medium- to long-term capital markets are still underdeveloped. The savings culture is minimal while the bulk of the funds derive from the government's capital and recurrent expenditures that are notoriously irregular in disbursements and very short term in nature. The volatility in interest rates that is endemic in such unstable money market exposes the SMEs to great rate risk that they are often unable to absorb in the pricing of their goods and services;
6. The banks' loan officers often lack the experience necessary to evaluate loans for SME projects; and
7. The weak credit histories of prospective customers often make them poor candidates for loans.

B. Poor basic Infrastructure

The country's poor power and water supply, the limited telecom services and poor roads make it difficult for the SMEs to operate. Where they do, additional costs are incurred in the provision of these basic infrastructures that cannot be recouped given their relatively low economies of scale.

C. Inconsistent government monetary and fiscal policies

Inconsistent policies are mainly due to:

1. Lack of political will due to pressure by strong interest groups to ban certain goods that are imported into the country and compete with items that would have been produced, or are being produced by SMEs. Nigeria e.g. imported US\$ 500 million rice in 2001, a basic grain that can easily be grown in the country and whose ban would stimulate the financing and development of many industries in the important agricultural sector;
2. Frequent changes in fiscal policies that do not engender confidence for local or foreign investment, as investors

regard these inconsistencies as a major risk for any medium to long term planning; and

3. Monetary policies that have consistently depreciated the local currencies while keeping interest rates high. Inadequate enforcement of the local tariffs that facilitate smuggling of goods that compete with locally produced equivalents that consequently become uncompetitive. SMEs are most vulnerable here as Nigeria is often a dumping ground for most primary manufactured goods that would have been produced by these SMEs - candles, clothing, creams, OTC drugs, plastic goods and packaging, etc.

D. Products that is yet unable to compete in world markets

Products are not able to compete in world markets because of:

1. Low economies of scale, high production costs;
2. Relative poor quality of products.

SME financing from ten per cent pre-tax banking allocation

The myriad of financing options available to SMEs in most developing countries is largely undermined by some or all of the constraints noted above for Nigeria. This was a major factor for the government's decision to look inward and mandate the allocation of the banking sector's 10 per cent pre-tax earnings exclusively for the financing of SMEs. While this decision has been highly applauded and the fund has grown to well over Naira 12 billion (about US\$ 90 million) by June 2002, SMEs have yet to begin to reap the rewards of this captive finance.

The reasons for this are not farfetched. Banks do not consider SMEs a priority and do not have the capacity to devote to this sort of lending that they still perceive as risky. Most banks have also been lulled into a false sense of security in that the ten per cent pre-tax allocation is treated as a reserve in their balance sheet - that will be recovered someday! The mentality is that it is preferred to make this mandatory allocation, than to lend to an SME where the chances of a loss are very high. So long as earnings are artificially high (as is the case for the Nigerian banking

sector) growth and share price are unlikely to be compromised by this government edict.

Various writers above narrowed the problem of financing SME to the operational limitations of the financial institutions and the problems of the enterprises themselves. They failed to however point out the limitations of the institutions as to the capacity to finance ie limited funds available and other ways that can resolve the issue of loan loss due to the risky nature of SME loan.

APPRAISAL OF GOVERNMENT EFFORTS TOWARDS FINANCING SMEs

Successive government in Nigeria have at different times put in place programs/schemes designed to facilitate the growth and development of micro, small and medium scale enterprises. These programmes were in the form of monetary fiscal and industrial policy measures at the macro level and financing arrangements at the micro level. OBOH (2005) grouped these schemes into three namely:

- Provision of local finance through government agencies- Federal Ministry of Industry, Central Bank of Nigeria, Nigeria Industrial Development Bank (NIDB) Nigerian Bank for Commerce and Industry (NBCI), Nigeria Export-Input Bank (NEXIM) etc.
- Facilitating and guaranteeing external finance through the World Bank, African Development Bank (ADB) and other multilateral institution set up to support SMEs.
- The establishment of the National Economic Reconstruction Fund (NERFUND) and FEAP which was a source of medium and long-term loans to SMEs.

1. Family Economic Advancement Programme (FEAP)

This programme was announced by former Head of State and Commander-in-chief of Armed forces – General Sanni Abacha in 1985 and was initiated by the first lady of the Federal Republic of Nigeria Mrs Maryann Abacha as a panacea to poverty eradication and peace in the nation. The programme was particularly targeted at enhancing the development of rural areas of our country and is designed to:

- Provide loans directly to people at ward level with the capital needed to set up and run cottage enterprises.
- Encourage the design and manufacture of appropriate plants, machinery and equipment.
- Create employment opportunities at ward level.
- Improve standard of living of people
- Promote production and development consciousness
- Utilize available local resources for the benefit of Nigeria through improved production, storage, preservation, processing, recycling, packaging and marketing.

Loans from FEAP must be tied to specific projects. The credit ceiling is N550,000 per project. Beneficiaries of loan shall pay an interest of 10% annually on outstanding balance. Loans are to be recommended by the end of a 3years period

while repayment will commence three months from commencement of production.

To be eligible for the loan the group or association must register with family Economic Advancement Programme (FEAP) and must satisfy the following condition.

- Have an operational account with the participating bank branch nearest to the group or association.
- Commit or show evidence of the commitment of own funds/resources to the project to the tune of at least 10% of the required capital.
- Where the beneficiaries are from a ward or a village. The ward head or village head must identify or certify each member of the group as an indigene identified with the trade for which the loan is required.
- The plant, machinery and equipment purchased by the beneficiaries will be used as the security for the loan required.

Failures of the association to meet the criteria of the credit purveying institution usually pose as a major constraint in extending the loan. However this programme as laudable as it is could not last long as it came to extinction on the exit of Sanni Abacha government.

Central Bank of Nigeria (CBN)-Directed SME funding

As a primary organ for projecting and implementing government's policy of funding small business, the Central Bank of Nigeria since 1970 has been instrumental in promoting the development of wholly Nigeria enterprises through its credit guideline, which required commercial and merchant banks to allocate a minimum of stipulated credit to the preferred sectors. For instance in 1979/80 fiscal year, the CBN directed that at least 10% of total loans and advances to indigenous borrowers be allocated to SMEs. This was subsequently raised to 16 and 20 percent in 1980 and 1990 respectively. However due to the high default rate coupled with the cumbersome loan administration, banks preferred to pay the prescribed penalties for non-compliance, rather than channel credit to SMEs.

The imposition of sanctions by the CBN, including mandatory transfer of shortfalls by defaulting banks to the development banks compelled most commercial banks to comply with the CBN directives, resulting in credit expansion to the SMEs and micro enterprises. Unfortunately, the sectoral credit

allocation policy was jettisoned in October 1996, following the full liberalization of the financial sector.

Nigerian Bank for Commerce and Industry (NBCI)

In pursuance of goal of ensuring effective financial intermediation for small and medium scale businesses the Federal Government through Decree 22 of 1973 set up the NBCI to provide among other things, financial services to indigenous business community, pertinent only SMEs. Government commitment was further demonstrated when it accepted the recommendation of the financial system review committee 1976 that NBCI operate as the apex financial institutional body for SMEs. The bank approved a total of 797 projects valued at N965.5million between 1973 and 1989. However the bank suffered major operational problems which crippled its operation since 1989.

Nigerian Industrial Development Bank (NIDB)

The NIDB was set up in 1964 to provide credit and other facilities to industrial enterprises especially medium and large scale ones. The bank had initial mandate of providing credit facilities for the large-scale industries, however, the

bank accommodated SMEs with total assets and working capital of up to N750,000. A remarkable aspect of the NIDB financing of SMEs was its policy of equity investment of 11-26% in the paid up share capital of some of the projects it financed. It is on record that the bank disbursed a total of N174.6million to SMEs between 1980 and 1988. However due to a number of constraints, the bank's involvement in the financing of SMEs dwindled in the late 90's. Presently the bank metamorphosed into Bank of Industry with greater focus on large scale enterprises.

National Economic Reconstruction Fund (NERFUND)

This scheme which was introduced in 1989 during the structural adjustment programme to assist SMEs cope with the attendant high production costs arising from high cost of imported inputs and high rates of interest. In addition NERFUND was established to bridge the long-term financing gap in banks lending to SMEs. The fund was expected to provide long-term fund for wholly Nigerian owned SMEs operating in area of manufacturing, agro-allied enterprises,

mining, quarrying, industrial support and other ancillary services. The resources of NERFUND were mainly contributions from the Federal Government, the CBN, and foreign services. Available record show that from inception in 1989 to 1998, NERFUND disbursed about US\$144.9million and N681.5million to the approved projects.

In spite of the success recorded by the fund, it faced a number of problem, such as poor loan recovery dwindling demand for loan due to foreign exchange risks, under funding and unco-operative attitude on part of some participating banks. On part of SME operators, the collateral requirements stipulated by the participating banks were considered to be very stringent, as they limited SMEs ability to access the loan facilities.

Small and Medium Industry Equity Investment Scheme (SMEIS)

Previous approaches to financing SMEs have emphasized loan finance and worse still, short term loans whereas the SMEs needed relatively cheap medium to long term funds. This maturity mismatch has been a major obstacle to

meaningful access for SMEs to the type of credit needed by them. There is therefore need for an alternative approach.

The new approach is focused on equity investment of the participating financial institutions in promoting the development of SMEs in Nigeria. SMEIS, which is an initiative of the Bankers' committee, a forum for the meeting of chief executives' of bank and the regulatory authorities was conceived primarily to address the dearth of long-term finance for the SMEs and other related problem. The scheme was expected to stimulate economic growth and diversify the nation's production base for sustainable economic development.

Under the scheme, all banks in Nigeria are required to set aside 10% of their profit before tax annually for equity investment in small and medium scale enterprises, as the banking industry contribution to government effort towards stimulating economic growth, developing local technologies and generating employment. The scheme is expected to engender a new form of partnership between banks and promoters of industry, and to eradicate mutual suspicion

among other. Under the scheme, banks are expected to identify genuine industrialists and provide financial, technical and managerial support for identified enterprises in the areas of; Agro-allied, information technology, manufacturing, solid mineral, construction, tourism, educational establishment and other approved activities.

The modality for banks' involvement in either direct equity participation by acquiring shares in new or existing businesses with right of representation on the enterprise's learnt or indirectly through a venture capital company. Such equity cannot be directed until after three years.

As at September 2004, a total of N28.8billion has been pooled and made available by 82 banks for investment under the SMIEIS while N9.3billion (or 32.3%) had been disbursed by 56 banks to 173 projects across the country.

So far the scheme has witnessed poor utilization of funds set aside for the equity participation of banks in SMEs as only 32% of the amount set aside has been invested in SMEs. As sanction after a period of time, the Central Bank of Nigeria

deducts the amount set aside but which is not utilized and give it to Bank of Industry for the financing of SME projects in the country.

The reasons for poor utilization of funds set aside are quite numerous. On the part of the Bank, the complaint is that they do not have well packaged SMEs to invest in, while some SME promotion claim that what they need is working capital not necessarily equity participation. Again the operators have argued that the projects covered by the scheme should be expanded to include agricultural production.

Peoples Bank of Nigeria (PBN)

Peoples Bank was established in 1989 in another Government's intervention in the economic policies of the nation. The need for the Bank was informed by the desire of Federal Government of Nigeria to improve access to banking and financial services by a large segment of the society hitherto excluded from and inadequately provided with such services.

The principal objectives for establishment of people's Bank of Nigeria were:

- The extension of credit facilities to the less privileged members of the society who cannot normally benefit from services of the conventional banks.
- The acceptance of savings from customers and repayment together with any interest thereon.
- Provision of opportunities for self employment for the vast unutilized and underutilized manpower resources.
- Complement government efforts in improving the productive base of the economy.

Armed with the above objectives the bank worked assiduously to empower the poor Nigerians and encouraging rural development. In doing this, the Bank designed products and services aimed at improving the living standards of the rural people.

The achievement of peoples Bank of Nigeria is enormous. The Bank gradually and steadily empowered many Nigeria and brought them out of somewhere below poverty level to become employers of labour. Over 80,400 businesses were

created as at the last quarter of 1996. The Bank worked in collaboration with other agencies involvement in poverty eradication like National Directorate of Employment (NDE), Family Support Programme (FSP) and Ministry of Women Development to empower the poor.

Despite the achievements recorded by the bank, it suffered management problems and could not stand the test of time like other government agencies.

MICROFINANCE POLICY OF NIGERIA

In 2005 CBN in its effort to engineer the economic growth of the country and also to lay emphasis in small and medium scale enterprises as a vehicle for economic advancement, formulated the microfinance policy that acted as the background to the formation of microfinance banks.

1.0 INTRODUCTION

1.1 Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

1.2 Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected, (ii)

the absence of asset-based collateral, and (iii) simplicity of operations.

1.3 In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

1.4 A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such a policy would create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and

development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable microfinance sub-sector.

1.5 The purpose of this policy paper, therefore, is to present a National Microfinance Policy Framework for Nigeria that would enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The policy would create a platform for the establishment of microfinance banks; improve the CBN's regulatory/supervisory performance in ensuring monetary stability and liquidity management; and provide an appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria.

1.6 This policy has been prepared in exercise of the powers conferred on the Central Bank of Nigeria by the provisions of Section 28, sub-section (1) (b) of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections

56-60(a) of the Banks and Other Financial Institutions Act [BOFIA] 25 of 1991 [as amended].

1.7 The policy paper has benefited from wide consultations, through the conduct of a baseline survey on the activities of microfinance institutions (MFIs) in Nigeria, national and international consultative stakeholders' fora, as well as study tours to India, Pakistan, Indonesia, Philippines and Uganda.

3.0 JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE BANKS

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

3.1 Weak Institutional Capacity: The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

3.2 Weak Capital Base: The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to N20 million shareholders' funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of N50.0 billion, has N10.0 billion paid up capital and only N1.3 billion shareholders' funds unimpaired by losses, as at December, 2004.

3.3 The Existence of a Huge Un-Served Market: The size of the unserved market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000, that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit, with an average

loan size of N8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This, reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy. The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

3.4 Economic Empowerment of the Poor, Employment Generation and Poverty Reduction: The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the

employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sectors, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

3.5 The Need for Increased Savings Opportunity: The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at N34.2 billion. Similarly, their total loans and advances amounted to N11.4 billion while their aggregate deposit liabilities stood at N21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at N545.8billion, out of which N458.6billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to

general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

3.6 The Interest of Local and International Communities in

Microfinancing: Many international investors have expressed interest in investing in the microfinance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor.

3.7 Utilization of SMEEIS Fund: As at December, 2004, only N8.5 billion (29.5%) of the N28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10% of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

4.0 THE MICROFINANCE POLICY

4.1 Policy Objectives

The specific objectives of this microfinance policy are the following:

- i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;
- ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;
- iv. Contribute to rural transformation; and

v. Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

4.2 Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

- i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.
- ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.
- iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.
- iv. To eliminate gender disparity by improving women's access to financial services by 5% annually; and

v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

4.3 Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

- i. License and regulate the establishment of microfinance Banks (MFBs)
- ii. Promote the establishment of NGO-based microfinance institutions.
- iii. Promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.
- iv. Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;
 - i. Strengthen the regulatory and supervisory framework for MFBs;

- ii. Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
- iii. Mobilize domestic savings and promote the banking culture among low-income groups;
- iv. Strengthen the capital base of the existing microfinance institutions;
- v. Broaden the scope of activities of microfinance institutions;
- vi. Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;
- vii. Clearly define stakeholders' roles in the development of the microfinance sub-sector; and
- viii. Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

5.0 MICROFINANCE BANKS

THE GOALS OF MICROFINANCE BANKS

The establishment of microfinance banks has become imperative to serve the following purposes:

- (i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive

manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

(vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government.

6.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

6.1 Universal Banks: Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guidelines.

6.2 Community Banks: All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks licenced to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank licenced to operate in a State if it meets the specified capital and other conversion requirements.

6.3 Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs): This policy recognizes the existence of credit-only, membership-based microfinance

institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and not to mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN. NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

6.4 Transformation of the Existing NGO-MFIs: Existing NGO-MFIs which intend to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB. NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating licence and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

As a result of this policy framework, the country has witnessed increased growth in micro credits extended to small and medium scale industries. There has also been increased banking activities among the un-banked prior to this policy. However there is still a lot to be done for small

and medium scale entrepreneurs including the rural poor to realize their full potentials and contribute meaningfully to the economic development of the nation. For instance the percentage of bank loans to SME to total bank credit is 1.8 and 0.19 for 2006 and 2007 respectively.

APPRAISAL OF MICRO-CREDIT PROGRAM IN OTHER ECONOMIES

BANGLADESH

Micro-enterprises offer an alternative strategy for socio-economic uplift of the poor. Large project-oriented development has come under growing criticism from the grassroot people who claim that the projects often benefit large contractors more than they help local people. The critics argue that more investments in small or local enterprises could bring socio-economic benefits more equitably and efficiently. This view is reflected in the old Chinese saying, "many little things done in many little places by many little people will change the face of the earth."

Micro-credit programs extend small loans to the poor for self-employment projects that generate income, which allows them to care for themselves and their families. In most cases, micro-credit programs offer a combination of services and resources to their clients in addition to credit. These often are in the shape of savings, training, networking and peer support. Micro-credit is a powerful anti-poverty tool that has demonstrated relevance for the people of six continents and nearly every country. It is estimated that micro-credit programs now reach around 50 million people in developing countries alone.

The success of the micro-credit programs in Bangladesh is largely due to the resilience of the hardworking women of Bangladesh. They can do wonders if provided with training, motivation, organization and marketing outlets along with micro-credit facilities. The assured availability of credit can radically transform the life of a poor person from one of misery and despair to one of hope and creativity.

The people of Bangladesh are proud of the outstanding work done in the field of micro-credit by Professor Muhammad Yunus and the Grameen Bank, which he founded. Started as

an action-research project in 1976 and given formal shape in 1983, the bank has been able to offer to the world a distinct micro-lending approach in the field of rural development, more specifically poverty alleviation through micro-enterprises.

The Grameen Bank inherited a rich heritage of rural development experiments in Bangladesh. The first significant experiment on rural development was initiated by Dr. Akhter Hamid Khan in the sixties, which was popularly known as the 'Cornilla Model'. Grameen Bank has skillfully avoided many pitfalls of that experiment. The member-clients of Grameen Bank obtain small loans to fund self-employment in primarily home-based small businesses, which generate enough income to repay the loans and improve the economic condition of their families.

In addition to the loans, Grameen Bank provides a package of services for social empowerment of its clients, 96 percent of whom are women. Credit is extended without collateral, but remarkably, a steady loan-recovery rate of 98.9 percent is maintained. Targeting the poor and credit discipline in all phases of lending operation are given maximum emphasis,

which partly account for the success of the Grameen program. Other praiseworthy attributes are: Flexible management, transparency in operations and stringent and hard-hitting measures against corrupt and dishonest officials. As of April 2005, an estimated 22 million men, women and children (4.35 million families) in over 51,000 villages (of 433 upazilas under 63 districts) all over Bangladesh derived benefit from Grameen's credit and other socio-promotional programs through its 1,456 branches.

The bank promotes a practice of micro-capitalism that serves the poor and thrives on their entrepreneurial potentials. As of March 2005, 225.17 billion taka had been disbursed as loans and 203.81 billion taka were recovered. The amount of cumulative savings by the Grameen Bank members stood at 13.79 billion taka. Around 55 percent members of Grameen Bank have already graduated from poverty.

The Grameen model has inspired numerous national and international organizations to assist the subaltern poor to help themselves by organizing micro-enterprises. Grameen inspired credit-based micro-enterprises have now spread to

over 70 countries in Asia, Africa and the Americas. Currently, there are over 500 programs directly or indirectly modeled on the Grameen Bank in the US alone. As of Dec. 31, 2003, a total of 2,931 micro-credit institutions all over the world reported reaching 80.86 million clients, over 54 million of whom were among the poorest when they took their first loan.

Around 15 million poor families in Bangladesh have already been brought under the micro-credit network through NGOs like Bangladesh Rural Advancement Committee (BRAC), PROSHIKA Manobik Unnayan Kendra and Association for Social Advancement (ASA) alongside the Grameen Bank (GB). Grameen Trust, a sister organization of Grameen Bank, caters to the worldwide replication of the Grameen model through funding and technical assistance.

In fact, the worldwide adoption of the Grameen Model represents a rare case of technology transfer from the South to the North -- a case of reversing the more prevalent diffusion process in which the Western industrialized world has always been the innovator and the subaltern third world the adopter.

The government of Bangladesh established a micro-finance institution called Palli Karmashayak Foundation (PKSF) in 1990 as an apex not-for-profit organization to meet the market demand and institutional development needs of NGOs involved micro-credit programs. With the establishment of PKSF, the involvement of NGOs in micro-credit programs in Bangladesh marked a sharp rise. According to Credit and Development Forum (CDF), around 1,000 NGOs were implementing micro-credit programs in Bangladesh during the year 2005.

The government of Bangladesh also distributes micro-credit through various ministries, departments and agencies. These include: Prime Minister's Office, Finance Division, Cabinet Division, the Ministries of Social Welfare, Women and Children Affairs, Labor and Employment, Fisheries and Livestock, Industries, Textile, Agriculture, Land, Youth and Sports, and Local Government, Rural Development and Cooperatives. Up to December 2004, cumulative credit disbursement by government agencies stood at 60.67 billion taka while loans worth 50.04 billion taka were recovered. The amount of cumulative loans disbursed by state-owned

banks as micro-credit stood at 114.51 billion taka in March 2005.

The United Nations had declared 2005 as the International Year of Micro-Credit to give impetus to micro-credit programs throughout the world and invited governments, the UN system, relevant non-government organizations, the civil society, private sector and the media to highlight and accord enhanced recognition to the role of micro-credit in eradicating poverty. The year was observed across the globe including Bangladesh in a befitting manner. It is expected that micro-credit programs would make a significant contribution in the realization of Millennium Development Goals, as declared by the United Nations, by the year 2015.

The Wizard of Grameen, Professor Muhammad Yunus, has other exciting and innovative ideas for emancipation of the poor. For example, he is an advocate of Social Consciousness-Driven (SCD) organizations -- where enterprises are run on a commercial basis keeping in mind the social priorities such as equity and empowerment of the marginalized. Examples include Grameen Telecom (major shareholder of Grameen Phone), Grameen Shakti (working

in the field of renewable energy) and Grameen Shamogree (produces products like the famous Grameen Check fabrics). In his Utopian world-view, Professor Yunus even calls for rewriting economics text books in order to reorient our mind-set in favor of the poor and the disadvantaged.

He also calls for removing the road-blocks which stand in the way of human creativity and fulfillment. For the long-term success of initiatives like Dr. Yunus, removal of these road-blocks coupled with the reduction of all-pervasive social vices like corruption appear to be the greatest challenge.

GUINEA

C3 Reaching the Rural Poor with Micro-credit: A sustainable village-based program offers micro-credit to those most in need.

Experience has shown that properly designed income-generating activities support rational natural resource management. However, development of these activities in the rural areas in Guinea has been constrained by the lack of access to credit by resource-poor villagers. To address the problem, the Expanded Natural Resource Management

(ENRM) activity has developed a network of mutual Community Savings and Loans Associations called "C3.."

Each C3 represents a savings and loan association established in targeted rural areas by members of the villages themselves, with the initial technical assistance provided by the ENRM activity. The objective of this approach is to increase the ability and motivation of rural people to mobilize their own resources for their own economic well being. The credit provided by the C3 is primarily for individuals and village-based groups involved in agricultural production, transformation and commercialization, and off-farm micro-enterprise activities.

The C3 approach develops a sense of ownership among participating villagers and enhances long-term sustainability. It starts with a group of villagers who pool their savings to create a loan fund that members of the group can borrow to finance their income-generating activities.

The local community is responsible for providing an existing building structure to house the C3. Representatives of the community then work together with the project agents on the renovation the building to ensure adequate security

(metal doors and iron bars on windows), and to convey the right image. Given the level of poverty in most project intervention zones, the project has to underwrite 25-45% of the renovation costs.

The C3 is managed by a committee, which is democratically elected by the members of the group. Each C3 has two cashiers who are selected by the General Assembly. The by-laws and statutes for the C3, which have been developed with the assistance of the project, give detailed descriptions of the roles and responsibilities of not only the committee members and the cashier but also of the general assembly and individual members of the C3. The project agents train the management committee and the cashiers in financial management, bookkeeping, literacy, and numeracy to develop and strengthen their capacity in managing the savings and loan accounts.

In order to ensure the participation of women in C3 activities, the project has encouraged the local communities to include women as members of the management committees. Female members make up 38% of all memberships of the C3 network as of September 30, 2001.

The C3 program has been well received by the rural population-after one year of operation, 28 community savings and loans associations have been created and are operational. As of September 30, 2001, the C3 network had 2,565 members who had mobilized a total of \$110,534. The program has disbursed 1,154 group and individual loans with a total value of \$44,912. With a reimbursement rate of 98%, the program is proving the credit-worthiness of its poor rural clients while at the same time helping them to buy improved seeds, to market and commercialize their produce and to establish micro-enterprises such as soap making, cloth dyeing, beekeeping, improved wood burning stove construction and petty commerce. By helping resource-poor villagers increase their family income through access to credit and the development of productive activities, the C3 network contributes to improved food security and poverty alleviation, helping reduce pressure on the natural resource base in the rural areas.

Mrs. Damayé Camara, from Manikaya, has become a member of the C3 in her neighborhood and received a loan of \$70 in the spring of 2001. The loan allowed Damayé Camara to purchase inputs necessary to product peanuts on

a small piece of land (about .5 ha.) near her home. Sales from her peanut harvest generated over \$500 in profits, permitting her to repay her loan to the C3 and providing her with \$100 additional working capital from the C3 that she needed to initiate a new off-farm business activity-selling metal kitchen utensils to other women in her neighborhood at the weekly market. Through the success of the on-farm and off-farm income generating activities, Mrs. Camara has been able to increase her working capital to \$300. She has also been able to save \$175 in less than six months, which has allowed her to make a larger contribution to her family income.

Mr. Issiaga Dramé, from Kolente Center received a loan with the C3 to buy inputs such as improved seeds to produce groundnuts and rice. After successfully repaying his loan, he was also able to double the amount in his savings account while at the same time undertake certain activities he'd always wanted to do for his household-suddenly he had enough income.

Madame Thierno Djiba Sysavane, a restaurant owner in the village of Linsan II, had been completely discouraged about

undertaking micro-enterprise activities when she lost her money due to the closing of a French government-sponsored micro-finance institution called Mutual Credit. When a C3 opened in her village she was hesitant at first but finally decided to become a member, opening a passbook savings account. With her restaurant business, Madame Sysavane has been able to save a total of \$2,300 in less than 5 months and she has been able to make substantially larger contributions to her household income. Her membership at the C3 also allowed her to double her revolving funds to a total of \$1,500, which in turn enabled her to expand her activities and hire three new employees for her restaurant.

CHAPTER THREE

RESEARCH METHODOLOGY

In this chapter, the researcher describes the various methods and approaches adopted in carrying out the study.

3.1 RESEARCH DESIGN

The study adopted the descriptive survey research design. In the survey, a sample was selected from an identified relevant population indicated in section 3.3 for the purpose of questioning and interview. The response to the questionnaire and interview process provided the primary data used in the study. Questionnaire and interview was used due to the nature of the class of the respondents some of whom are illiterates. Use of secondary data is ruled out as most SMEs do not keep proper accounting records.

3.2 SOURCES OF DATA

Data used for the study were collected through two main sources; the primary and secondary sources.

While the primary data were collected through questionnaire administered on the respondents and oral interview, the secondary sources were mainly data obtained from journals, CBN statistical bulletin and National Bureau of Statistics.

3.3 POPULATION

The population of the study was derived from the Industry Directory of Delta State Ministry of Commerce and Industry and from the Central Bank Asaba Office. The population consists of all small and medium scale entrepreneurs, deposit money banks and microfinance banks located in Delta State. Delta State was chosen because that is where I work and I am more familiar with the terrain than other states.

The Summary of the population of study is as follows;

Table 3.1. Small and medium Scale Enterprises In Delta State.

S/No	SENATORIAL ZONE	NO OF SME'S
1	DELTA CENTRAL	1372
2	DELTA NORTH	431
3	DELTA SOUTH	437
	TOTAL	2240

Source: *Industry Directory of Delta State Ministry of Commerce & Industry-2006.*

Table 3.2. Dep. Money Banks and Microfinance Bank Branches in Delta State.

S/NO	SENATORIAL ZONE	DEP. MONEY BANKS	MICROFINANCE BANKS
1	DELTA CENTRAL	108	15
2	DELTA NORTH	34	6
3	DELTA SOUTH	29	9
	TOTAL	171	30

Source: *Central Bank Asaba Branch.*

SAMPLING PROCEEDURE

1. **Small and Medium Scale Enterprises:** Ten percent (10%) of the entire population was sampled giving a sample size of 224. The sample was selected in proportion to the population distribution in the senatorial districts as summarized below;

Table 3.3 Sample size of SME selected.

S/No	SENATORIAL ZONE	NO OF SME'S	SAMPLE SELECTED
1	DELTA CENTRAL	1372	137
2	DELTA NORTH	431	43
3	DELTA SOUTH	437	44
	TOTAL	2240	224

Justification:

10 percent was chosen because it is reasonable and a true representation of the entire population.

The questionnaire was distributed to the entrepreneurs based on the stratified sampling technique using the senatorial districts as the strata.

2. **Deposit money Banks and Micro-finance Banks:**

Ten percent of the population was chosen for the sample survey ie $10\%(171+30)=20$. 20 Bank

branches (16 Dep. Money banks and 4 Microfinance banks) were sampled in proportion to the population in each senatorial district. 10 % was chosen because it provides a true representation of the total banking population.

Table 3.4 Sample size of Banks Selected.

S/NO	Senatorial zone	Dep. Money Banks	Microfinance banks	Sample selected (DMBs)	Sample Selected (Micro)
1	Delta Central	108	15	10	2
2	Delta North	34	6	3	1
3	Delta South	29	9	3	1
	TOTAL	171	30	16	4

162 Questionnaire was distributed to at least 8 staff of each sampled bank drawn especially from among those in the credit and marketing Department of the respective bank branches.

3.4 INSTRUMENT FOR DATA COLLECTION

The main instrument used in data collection was a structured questionnaire. This instrument contains questions specifically designed to generate data concerning the pattern of financing of the SME's and their accessibility to micro-credit. It also sought to ascertain the opinion of the entrepreneurs as to the level government programmes had impacted on the performance of SMEs.

The questions are of two types; structured and unstructured. The structured ones were either dichotomous or of the multiple choice type.

The dichotomous type questions required the respondent to say either 'Yes' or 'No' in response. The multiple choice type offered the respondents a range of options from which they were required to select an answer.

The unstructured questions required the respondents to make comment or remark expressing their opinion about the issue.

An interview schedule was also used which contained questions similar to those in the questionnaire.

3.5 DATA COLLECTION PROCEEDURE

The questionnaires were taken to the Micro-finance and Deposit Money banks selected in the state and permission was obtained from the authorities of the banks to administer the questions. The assistance of the Dep. money and Microfinance Banks was solicited to help locate their customers that were owners of medium and small scale entrepreneurs especially those that had benefited from their loan products. Two weeks was given for them to complete and return the questionnaires.

Due to time constraint, the researcher engaged an assistant that had just completed National Youth Service Corps scheme to assist in distributing and collecting the questionnaires. Colleagues of the researcher in location outside Asaba also assisted in distributing the questionnaires.

At the end of the two weeks, the questionnaires were retrieved. Out of the 224 questionnaires administered on small and medium scale entrepreneurs, 200 were returned while 24 were not. Also 126 respondents out of the 162 staff of either Microfinance or Dep. money bank staff returned completed questionnaires. There was therefore overall mortality rate of 15.5% on the total distributed questionnaire.

3.6 METHOD OF DATA ANALYSIS

In analyzing the data, a brief explanation of specific issues investigated was made under each sub-heading. This was followed by the presentation of tables and then the analysis of frequencies and percentages.

The details will be shown in chapter 4.

TEST OF HYPOTHESIS

Two major tests were conducted to verify the hypothesis;

1. **SIGN TEST:** This test was used to test hypothesis 1, 2 & 3. It is a non parametric test that focuses on median rather than the mean as measure of central tendency and derives its name from the fact that signs, namely +'s and -'s rather than numerical values provided in the raw data were used in the calculation.

The null hypothesis tested is that the population median is equal to some specified value against the alternative hypothesis that the population median is different from the specified value.

Stated symbolically;

The null hypothesis was $H_0: P(-)=P(+)=0.5$ whereas the alternative hypothesis was, $H_1: P(-) \neq P(+)$.

Decision Rule

For a one-sided test;

Reject H_0 if $P\text{-value} \leq \alpha$ (level of significance), otherwise accept.

For two –sided test

Reject H_0 if $P\text{-value} \leq \frac{\alpha}{2}$ (level of significance),

Otherwise accept.

2. PEARSONS PRODUCT MOMENT CORRELATION

Correlation was used to test hypothesis 4. It was used to determine whether there was a relationship between the two variables of interest ie the Gross Domestic Product (dependent variable) and the level of credit disbursed to small and medium scale enterprises (the independent variable). Using the formula below the value of r is computed as;

$$r = \frac{\sum xy - n\bar{x}\bar{y}}{n \delta x \delta y}$$

Source: Oyeka C.A (1996)

r= value of correlation coefficient

x= mean of value of x

y= mean value of y

n= number of pairs of the variable

x= standard deviation of x

y= standard deviation of y

DECISION RULES

The value of r computed is interpreted as follows;

The value ranges between $+1$ and -1 ;

- a) From 0.1 to 0.4 == weak relationship
- b) From 0.5 to 0.6 == strong relationship
- c) From 0.7 to 0.9 == very strong relationship
- d) Less than -1 == Negative relationship

CHAPTER FOUR

DATA ANALYSIS

Data used for analysis was generated from collated answers to questionnaire that was distributed to both Medium and Small scale entrepreneurs and bank staff within Delta state.

CATEGORY 1: SMALL AND MEDIUM SCALE ENTERPRENEURS. PERSONAL/DEMOGRAPHIC DATA

The researcher analyzed the personal profile of small and medium scale entrepreneurs covered in the study including the sex, marital status, educational qualification and age distribution. The result of the analysis is produced in tables 4.1, 4.2, 4.3, & 4.4 respectively.

TABLE 4.1 SEX OF RESPONDENTS

Q13

SEX	Frequency	Percent	Cumulative Percent
Male	160	80.0	80.0
Female	40	20.0	100.0
Total	200	100.0	

From table 4.1, it could be seen that 160(80.0%) of the respondents were male while 40 (20.0%) were female. This shows that small and medium scale entrepreneurs in the study area are dominated by Men.

TABLE 4.2 MARRITAL STATUSES OF RESPONDENTS

Q14

MARITAL STATUS	Frequency	Percent	Cumulative Percent
Married	168	84.0	84.0
Single	28	14.0	98.0
Others	3	2.0	100.0
Total	200	100.0	

From the table 4.2, it is clear that 84% of the respondents were married while only 14.0% were single. The remaining 3% may have been divorced.

TABLE 4.3 EDUCATIONAL QUALIFICATION OF RESPONDENTS.

QUALIFICATION	Frequency	Percent	Cumulative Percent
WASC or GCE/O'LEVEL	31	15.5	15.5
NCE/OND	74	37	52.5
HND/B.Sc./B.A	86	43	95.5
Masters degree	9	4.5	100.0
Total	200	100.0	

Table 4.3 shows that 43.0% of the respondent had First Degree, 37% had NCE/OND, 15.5% had WASC or GCE, while only 4.5% has Professional or Masters degree. This is indicative that majority of the entrepreneurs were literate and should be able to implement any government programme initiated towards enhancing that sector.

TABLE 4.4 AGE CLASSIFICATION OF RESPONDENTS

AGE GROUP	Frequency	Percent	Cumulative Percent
Under 30 yrs	7	3.5	3.5
31-40yrs	99	49.5	53
41-50yrs	53	26.5	79.5
51yrs and above	41	20.5	100.0
Total	200	100.0	

Table 4.4 indicates that 49.5% (almost half) of the respondent fall into the age bracket of 31-40 years, 26.5% was between ages 41-50, while 20.5% were aged 51 and above. Only 3.5% was under 30 years of age. This shows that majority of the entrepreneurs were youths.

ANALYSIS OF QUESTIONS TO ENTERPRENEURS

1. INDUSTRY CLASSIFICATION

The sectoral classification of the SMEs sampled and the experience of the respective entrepreneurs were analyzed. The result of the analysis is shown in tables 4.5 and 4.6 below.

TABLE 4.5 BUSINESS EXPERIENCE OF ENTERPRENEURS

The age of each business was used as proxy for the level of experience of the entrepreneurs. It was in other words assumed that the longer a particular entrepreneur had stayed in his business, the more experience he/she is presumed to have gained.

NO OF YEARS	Frequency	Percent	Cumulative Percent
1-5yrs	28	14	14
6-10yrs	69	34.5	48.5
11-15yrs	97	48.5	97
above 15yrs	6	3	100.0
	200	100	

Analysis of question 2 shows that 48.5% of the respondents have been in business for 11-15 yrs, 34.5% have been in business for 6-10 yrs, 14% 1-5 years while only 3% has been in business for above 15 years.

The implication of this is that majority of the entrepreneurs are not new entrants into the business circle though they have had varying levels of experience as expected.

TABLE 4.6 SECTORAL CLASSIFICATION OF BUSINESS

Sector of the Economy	Frequency	Percent	Cumulative Percent
Manufacturing	56	28	28
Distribution	83	41.5	69.5
Oil and Gas	42	21	90.5
Transportation	19	9.5	100.0
Total	144	100.0	

The analysis of sectoral distribution of the respondents shows that 41.5% was in Distributive trade, 28% was involved in manufacturing, 21% in oil and gas, while 9.5% into Transportation.

The implication of the above analysis is that less than one third of SME's were in manufacturing which is the choice sector needed to boost the economy and generate employment.

2. PATTERN OF FINANCING

A number of the research questions was devoted to gathering data regarding the sources of finance for SMEs and the number of sources exploited by the entrepreneurs. The questions were meant to uncover knowledge gaps on

part of the entrepreneurs as to the alternative sources of finance available for SMEs. The result of the analysis is shown on table 4.7 and 4.8 below.

TABLE 4.7 NO OF SOURCES OF FUND UTILISED

Q4

Sources of fund	Frequency	Percent	Cumulative Percent
One	14	7.0	7.0
Two	43	21.5	28.5
Three	111	55.5	84.0
Four	32	16.0	100.0
Total	200	100.0	

The above table shows that 55.5% of the respondents utilized three sources of fund for their business, 21.5% relied two, over half of the respondents utilised up to three sources of funds while 16.0% have four. Only 7% had one source. This shows that majority of SME's do not depend on only one source of fund to finance their business.

TABLE 4.8 SOURCES OF BUSINESS FINANCE

Sources of Finance	Frequency	Percent	Cumulative Percent
Personal savings	126	63	63
Help from friends and relatives	28	14	74
Local money lenders	17	8.5	82.5
Credit and savings association	29	14.5	100.0
Total	200	100.0	

Table 4.8 shows that 63% of the respondents finance their business mainly through personal savings. The other sources utilized in order of their importance are ; help from friends and relatives(14%), facilities from credit/savings association(14.5%) and loans from local money lenders(8.5%).

3. ACCESS TO MICRO-CREDIT/BANK LOAN

The key issue of accessibility of SMEs to bank credit was given due consideration. Questions were directed to generate data as to the percentage of the present capital of

each business that come from bank loan, to determine the degree of dependence on bank loan and to ascertain the nature of problems encountered in accessing such loans. Respondents were also asked to rank the problems they encountered in a scale ranging from 1-10 ie representing least encountered (1) to most frequently encountered (10). The result of the analysis is presented in tables 4.9, 4.10, 4.11, 4.12 & 4.13 below.

TABLE 4.9 PERCENTAGE of CAPITAL THAT IS BANK CREDIT

Percentage of Credit	Frequency	Percent	Cumulative Percent
1-10%	21	10.5	10.5
11-20%	104	52.0	62.5
21-30%	65	32.5	95.0
31% & above	10	5	100.0
Total	200	100.0	

Table 4.9 above shows that 52% of the respondents had bank credit constituting between 11-20% of their total financing, 32.5% had 21-30%, 10.5% had 1-10% while 5% had 31% and above of funding from that source. This shows

clearly that majority of SME's had not fully exploited the avenue of financing their businesses through bank credit.

TABLE 4.10 LEVEL OF DEPENDENCE ON BANK CREDIT

Level of Dependence	Frequency	Percent	Cumulative Percent
Not dependent	56	28.0	27.8
Marginally dependent	135	67.5	95.5
Heavily dependent	9	4.5	100.0
Total	200	100.0	

Table 4.10 shows that 67.5% of the total respondent marginally depends on bank credit, 28% do not depend on bank credit at all while only 4.5% depended heavily on bank credit.

This shows that majority of the entrepreneurs are yet to embrace the use of bank credit to meet their capital requirements.

Other sources of finance.

Majority of the respondents were of the opinion that if states and local government can set up micro-credit fund as recommended by Central bank of Nigeria and make it

accessible to SME's, it would go a long way in solving their financing problems.

Apart from this some respondents suggested that if government can attract some Foreign Bodies that are non-governmental organizations that are into poverty eradication schemes, it can be a source of cheap fund for SME's.

TABLE 4.12 PERCENTAGE OF SME THAT ENCOUNTER PROBLEM IN ACCESSING LOANS FROM BANKS.

S/No	Problem encountered	% Agreed	% Disagreed
1	Inability to provide collateral	97%	3%
2	Cumbersome loan appraisal process.	85%	15%
3	Inability to provide adequate financial records	90%	10%
4	High cost of credit.	80%	20%

The analysis of the table 4.12 shows that greater percentage of the respondents agreed that they encounter problems when trying to access loan from banks while minority responded that do not encounter problems.

TABLE 4.13 RANKING OF PROBLEM ENCOUNTERED IN ACCESSING LOANS IN ORDER OF RECCURRENCE.

	Ranks											
Problem Encountered	1	2	3	4	5	6	7	8	9	10	Total	Mean score
1	1	1	0	2	1	3	2	2	30	98	140	9.39
2	1	7	7	5	11	25	2	1	2	79	140	7.79
3	18	22	23	20	11	15	19	12	0	0	140	4.18
4	5	3	0	3	2	2	2	11	29	83	140	8.84
5	21	2	9	14	17	17	18	13	14	11	140	5.36

KEY:

1. Inability to provide collateral.
2. Cumbersome loan appraisal process.
3. Inability to provide adequate financial records.
4. High cost of credit.
5. Lack of knowledge of source of credit.

Using Friedman analysis as computed in the table 4.13, we can see that problem 1 (Inability to provide collateral) has the highest mean score of 9.39, followed by problem 4 (high cost of credit) 8.84, then Problem 2 (cumbersome loan appraisal process) 7.79, then problem 5 (lack of knowledge of source of credit) 5.36 and lastly problem 3 (inability to provide adequate financial records) 4.18.

It can be deduced that lack of collateral and high cost of credit constitute the main obstacle for easy access to credit by small and medium scale enterprises.

4. IMPACT OF GOVERNMENT PROGRAMMES IN FINANCING SMEs.

The opinions of the respondents were sought as to the extent of impact of government programmes targeted at financing SMEs on the performance of the SMEs. The result of the analysis is provided in the table 4.14 below.

TABLE 4.14 LEVEL OF IMPACT OF GOVT PROGRAMMES.

Level of Impact	Frequency	Percent	Cumulative Percent
No impact	43	21.5	21.5
Small Impact	143	71.5	93.0
Great Impact	14	7.0	100.0
Total	200	100.0	

Table 4.14 above shows that 71.5% of the respondents agreed that government programmes for financing SME's only had a small impact, 21.5% was of the opinion that it had no impact at all while only 7% stated that government efforts had great impact. Majority are of the opinion that Government ought to do more as people are yet to feel the impact of their various programmes.

CATEGORY 2: MICROFINANCE AND COMMERCIAL BANK STAFF.

This section of the analysis covers opinion expressed on questionnaire administered and interviews granted by staff of both Micro-finance and Commercial Banks in their credit and marketing department. This is predicated on the fact that such categories of staff have relationship with small and medium scale entrepreneurs in course of administering credit to them. They also render financial advisory services to them and as such have knowledge of their businesses. Data gathered from them assisted me in reaching certain decisions and drawing some conclusions.

1. PERSONAL/DEMOGRAPHIC DATA.

Under this the personal profile of the bank staff surveyed were analyzed. Such include Gender, marital status, age, qualification and banking experience.

TABLE.4.15 GENDER CLASSIFICATION OF RESPONDENTS

Gender	Frequency	Percent	Cumulative Percent
male	80	62.5	62.5
female	48	52.5	100.0
Total	128	100	

Table 4.15 shows that 62.5% of bank staff that responded to the questionnaire were male, while 52.5% were female. The outcome shows that Men dominate the banking Profession.

TABLE 4.16 MARRITAL STATUS.

Marital status	Frequency	Percent	Cumulative Percent
Married	68	53.1	53.1
Single	60	46.9	100
Others	0	0	100.0
Total	128	100	

Table 4.6 shows that 53.1% of the total respondents were married while the remaining 46.9% are singles.

TABLE 4.17 EDUCATIONAL QUALIFICATIONS OF RESPONDENTS

QUALIFICATION	Frequency	Percent	Cumulative Percent
WASC ,GCE/O'LEVEL	20	15.6	15.6
NCE/OND	62	48.4	64.0
HND/BSC/BA	30	23.4	87.4
Masters Degree	16	12.6	100.0
Total	128	100.0	

The analysis of table 4.17 shows that 48.4% of the respondents have NCE/OND as their qualifications, 23.4% has First Degree, 15.6% has WASC/GCE O'Level, while 12.6% has Masters/professional Degrees.

TABLE 4.18 AGE DISTRIBUTION OF RESPONDENTS

Age	Frequency	Percent	Cumulative Percent
Under 30 yrs	13	10.1	10.1
31-40yrs	67	52.3	62.4
41-50yrs	42	32.8	95.2
51yrs and above	6	4.8	100.0
Total	128	100.0	

Table 4.18 reveals that 52.5% of the respondents were between the ages of 31-40 years, 32.8% were aged between 41-50years, 10.1% were under 30years while only 4.8% are above 51 years of age.

TABLE 4.20 BANK EXPERIENCE OF STAFF

Years of Experience	Frequency	Percent	Cumulative Percent
1-5yrs	61	47.7	47.74
6-10yrs	54	42.1	89.8
11-20yrs	11	8.6	98.4
21yrs and above	2	1.6	100.0
Total	128	100	

Table 4.20 shows that 47.7% of the respondents have experience of 1-5 years, 42.1% have experience of 6-10 years, 8.6% have experience of 11-20 years while the remaining no representing 1.6% have experience of 21 years and above. It shows that staffs in the Banking industry now have less than 10 years experience.

2. SME FINANCING SOURCES/BANK CREDIT TO SME.

The opinion of bank staffs were sought as to sources of funding for SMEs based on their relationship with them and knowledge of their business. Also opinion was sought as to the proportion of the SME finance that is bank credit and other sources they can obtain fund for their business. Their view was also sought as to the reasons why they turn down credit request from SMEs and were asked to rank the reasons from 1-10 ie least recurring reasons to most frequently reoccurring reasons. The result of the analysis is shown in tables 4.21, 4.22, & 4.23.

TABLE 4.21 SOURCES OF FINANCE FOR SME'S

Sources of Finance	Frequency	Percent	Cumulative Percent
Personal savings/contribution	62	48.4	48.4
Help from friends/relatives	25	19.5	67.9
Local money lenders	29	22.7	90.6
Credit/savings association	8	6.3	96.9
Bank credit	4	3.1	100.0
Total	128	100.0	

Table 4.21 above shows that 48.4% of the respondents agreed that majority of SME's finance their business through personal savings, 22.7% through local money lenders, 19.5% source their finance through help from relatives and friends, 6.3% through credit/savings association while 3.1% utilize bank credit as their source of finance.

TABLE 4.22 PERCENTAGE OF CAPITAL THAT IS BANK CREDIT

Percentage of credit	Frequency	Percent	Cumulative Percent
1-10%	58	45.3	45.3
10-20%	33	25.8	71.1
20-30%	26	20.3	91.4
30-50%	11	8.6	100.0
Total	128	100.0	

Table 4.22 above shows that 45.3% of the respondents were of the opinion that most SME's had only between 1-10% of their total capital as bank credit, 25.8% agreed that some SMEs had between 11-20%, 20.3% responded that some had between 20-30% while the remaining 8.6% agreed the some SME's had up to 31-50% of its total capital as bank credit.

Other Sources of Finance.

Majority of the respondents are of the opinion that the three tiers of government can assist in financing the SME's through setting up a special fund that can be disbursed to micro- entrepreneurs through various co-operative society and village associations.

Others are of the opinion that some the medium scale enterprises that has come of age should try accessing fund through second tier securities market once they can satisfy the conditions for listing.

TABLE 4.23 RANKING OF REASON FOR LOAN DISSAPROVAL BY BANKS

	Ranks											
Reason for non-approval	1	2	3	4	5	6	7	8	9	10	Total	Mean score
1	5	3	0	2	2	2	2	8	25	76	126	9.34
2	1	1	0	3	1	3	4	2	21	91	126	7.77
3	16	20	21	18	9	13	17	12	0	0	126	4.2
4	1	7	7	5	11	18	2	1	2	72	126	8.79

Key:

1. Inability to provide collateral.
2. Inability to provide accurate financial records.
3. Non repayment of loan by some enterprise.
4. False data supplied by entrepreneur.

Using Friedman analysis as computed in the table 4.23, we can see that Reason 1 (Inability to provide collateral)has the highest mean score of 9.34, followed by Reason 4(false data supplied by entrepreneur) 8.79, then reason 2(inability to provide accurate financial records) 7.77, and lastly reason 3(non repayment of loan by some enterprise) 4.2 .

It can be deduced that lack of collateral and false data supplied by some enterprises constitute the main obstacle for easy access to credit by small and medium scale enterprises as expressed by staff of the Banking Industry.

3. IMPACT OF GOVERNMENT PROGRAMMES ON SME FINANCE.

Under this sub-heading the views of Bank staff were sought regarding the extent to which government programmes towards improving the financial status of SMEs had impacted on the performance of SMES. They were also asked to give their opinion whether Nigeria stands to gain from other countries schemes geared towards SME finance and the ways that can be adopted in Nigeria. The result of the analysis are stated below in tables 4.24 & 4.5 .

TABLE 4.24 WHETHER NIGERIA CAN BENEFIT FROM OTHER COUNTRIES' SME PROGRAMME.

Mode of response	Frequency	Percent	Cumulative Percent
Yes	114	89.1	89.1
No	14	10.9	100.0
Total	128	100.0	

114 respondents representing 89.1% agreed that Nigeria can benefit from other economies if they can adopt some of their strategy in financing SME's. 10.9% are of the opinion

that Nigeria may not benefit from methods adopted by the other countries.

Majority were of the opinion that Nigeria can benefit from India micro-credit program. The programme is pioneered by Chairman, Economic Advisory Council of India. It is called micro credit with good reason. The size of the loan is typically small. The borrower is usually battling against poverty. The repayment schedule is simple and short. And, the activity for which the loan is taken is often of a small nature. But poor women, who are in the forefront of the micro credit movement, use the small loans to jumpstart a long chain of economic activity from this small beginning. As they have enormous pride in their integrity, they repay quickly and reliably, not wanting to be seen as defaulters. Then, they begin again, this time with a bigger loan - and keep expanding their profit base until they do not need the loans any longer.

Some respondents also cited the case of Bangladesh where Professor Yunus Mohammed took micro-credit delivery to a higher height. This was achieved through the formation of co-operatives by the borrower and disbursement of loan to

them through a micro-finance institution. Each borrower is expected to repay through the co-operatives who is expected to monitor closely the utilization of the credit.

TABLE 4.25 LEVEL OF IMPACT OF GOVT PROGRAMMES ON SME FINANCE.

Level of Impact	Frequency	Percent	Cumulative Percent
No Impact	42	32.8	32.8
Small Impact	76	59.4	92.2
Great Impact	6	4.7	96.9
Very great impact	4	3.1	100.0
Total	128	100.0	

The table 4.25 above shows that 59.4% of the total respondents were of the opinion that government effort has had small impact on SME financing, 32.8% agreed that government effort has not yielded any impact, 4.7% are of the opinion that it has had great impact while 3.1% acceded to very great impact. This shows that government has not done much in the area of financing small and medium scale industries.

Suggestion to improve the financing status of medium and small scale enterprises.

Many respondents suggested that there was need for government to train Medium and small scale entrepreneurs on various businesses they can venture into. The Ministry of Commerce and Industry should live up to its responsibilities in this regard.

Some of the respondents also suggested that Federal Govt and Central Bank of Nigeria should work out a scheme to guarantee micro-credit given out by commercial and micro-finance banks in the form that they have guaranteed agricultural loans to encourage the Banks to fully support micro-credit scheme.

Others suggested that government at all levels should set up micro-credit fund from their annual budget targeted to finance medium and small scale enterprises to boost employment and combat poverty.

TEST OF HYPOTHESIS

The hypotheses were tested to prove or disprove some of the assumptions made in course of the research. The hypotheses stated in null form are as follows;

1. Medium and small scale enterprises are mainly financed through personal funds.
2. Medium and small scale enterprises have only one source of funding.
3. Government effort towards financing small and medium scale enterprises has not had much impact.
4. There is no relationship between the level of micro-credit disbursed and the contribution of small and medium scale enterprises to Gross Domestic Product.

Hypothesis 1, 2 and 3 were tested with the SIGN TEST; while hypothesis 4 was tested with the PEARSON PRODUCT MOMENT CORRELATION.

HYPOTHESIS 1-PATTERN OF FINANCING

This test sought to reconfirm or prove the fact that medium and small scale entrepreneurs are financed through the personal saving of the proprietors.

This hypothesis was tested with responses to research question 5 represented for ease of reference in table 4.26.

TABLE 4.26 SOURCES OF FUNDING

Sources of fund	No	Frequency	Percentage	Cumulative Percent
Personal savings	1.00	126	63	63
Help from friends and relatives	2.00	28	14	77
Local money lenders	3.00	17	8.5	85.5
Credit and savings association	4.00	29	14.5	100.0
Total		200	100	

From table 4.26 Personal savings constitute 63% of the sources of fund for SME's. The median value from the analysis is also personal savings. However to find out

whether personal savings differs significantly from other sources, we perform the sign test.

To determine the range of test we assign numbers 1-4 to the options (sources of finance). The result of the test at 5% level of significance **computed using minitab software** is shown below;

Sign Test for Median

Sign test of median = 1.000 versus not = 1.000

	N	Below	Equal	Above	P	Median
Q5	200	0	126	74	0.0000	1.000

The p-value is 0.000 which is less than 0.05. We therefore reject the null hypothesis that the small and medium scale enterprises are mainly financed through personal savings. This shows that though personal savings constitute the greater percentage of financing, other sources also have much impact in financing small and medium scale enterprises.

HYPOTHESIS 2- NUMBER OF SOURCES OF FINANCE.

This test seeks to prove or disprove the fact that small and medium scale industries have more than one source of funding for their business. It is a test that will prove if there are alternative sources of finance.

This hypothesis is tested with data supplied to research question 4.

TABLE 4.27 NUMBER OF SOURCES OF FUNDING

	Frequency	Nos	Valid Percent	Cumulative Percent
One	14	1.00	7.0	7.0
Two	43	2.00	21.5	28.5
Three	111	3.00	55.5	84.0
Four	32	4.00	16.0	100.0
Total	200		100.0	

From the table 4.27 55.5% of the respondents agreed that they have three sources of finance. The median value is also 111 ie under three sources. However to find out whether small and medium have only one source of finance, we

perform the sign test. The result of the test at 5% level of significance **computed using minitab software** is presented below.

Sign Test for Median

Sign test of median = 3.000 versus > 3.000

N	Below	Equal	Above	P	Median
200	57	111	32	0.9912	3.000

From the computation the value of p is 0.9912($p > 0.05$) which is greater than 0.05. This supports the hypothesis that the median is equal to 3.

Hence we reject the null hypothesis which says that SME's has only one source of income.

HYPOTHESIS 3-IMPACT OF GOVT PROGRAMME

This hypothesis seeks to prove or disprove the fact that government effort towards financing SMEs had not had much impact in turning the enterprises around.

This hypothesis is tested with data supplied to research question 12.

TABLE 4.28 DEGREE OF IMPACT

Level of Impact	No assigned	Frequency	Percentage	Cumulative Percent
No impact	1.00	43	21.5	21.5
Small Impact	2.00	143	71.5	93.0
Great Impact	3.00	14	7.0	100.0
Total		200	100.0	

The above 4.28 shows that 71.5% of the respondents agreed that Govt efforts towards financing small and medium scale enterprises have only had small impact. The median value is 2 which support the fact that government efforts had only had small impact. However to find out the

actual level of impact, we perform sign test. The result of the test at 5% level of significance **computed using minitab software** is shown below;

Sign Test for Median

Sign test of median = 2.000 versus > 2.000

	N	Below	Equal	Above	P	Median
Q12	200	43	143	14	0.9998	2.000

From the computation the value of p is 0.9998($p > 0.05$) which is greater than 0.05. This supports the hypothesis that the median is equal to 2.

Hence we accept the null hypothesis which says that government effort towards financing small and medium scale enterprises had not had much impact.

HYPOTHESIS 4-IMPACT OF MICRO CREDIT ON GDP

This test sought to determine whether there was any relationship between the level of credit disbursed to small and medium scale enterprises (independent variable) and the Nations Gross Domestic Product (dependent variable). This will enable us draw a conclusion as to the level of contributions of SMEs to the nation's GDP.

The result is determined by running a correlation analysis of total credit to the economy and the gross domestic product for some years; compared with loan disbursed to small and medium scale enterprises and gross domestic product.

The data used in running the correlation are collected from CBN's annual statistical bulletin and publications of the National Bureau of Statistics as shown in tables 4.29 and 4.30 below.

**TABLE 4.29 LEVEL OF BANK CREDIT
RATIO OF LOANS TO SME TO BANKS TOTAL CREDIT**

YEAR	DEP.MONEYBANK LOANS TO SME	DEPOSIT MONEY BANK TOTAL CREDIT	BANKING SYSTEM CREDIT TO DOMESTIC ECONOMY	DEP. MONEY BANK LOANS TO SME AS A PERCENTAGE OF TOTAL CREDIT
	N'million	N'million	N'million	
2001	52,428.40	796,164.80	848,992.80	6.60
2002	82,368.40	954,628.80	1,311,910.40	8.60
2003	90,176.50	1,210,033.10	1,833,694.80	7.50
2004	54,981.20	1,519,242.70	1,993,610.70	3.60
2005	287,586.00	7,391,290.30	2,256,411.70	3.90
2006	84,806.70	9,542,573.30	24,739,480.50	0.90
2007	105,925.10	15,285,128.80	6,857,571.70	0.70

Source: CBN Statistical Bulletin Vol 18., DEC 2007.

TABLE 4.30 GROSS DOMESTIC PRODUCT

**GROSS DOMESTIC PRODUCT AT 1990 CONSTANT BASIC
PRICES(N'MILLION)**

YEAR	TOTAL GDP
2001	431,783.10
2002	451,785.60
2003	495,007.10
2004	527,576.00
2005	561,931.40
2006	595,821.60
2007	634,656.60

Source: National Bureau of Statistics, 2007.

The first test is to ascertain the relationship between banking system credit to the domestic economy and the gross domestic product. The result of the test **computed using SPSS software** is shown below;

TABLE 4.31 CORRLATION OF TOTAL BANK CREDIT & GDP

Correlations

		GDP	Bank Credit to Economy
GDP	Pearson	1	0.578
	Correlation		
	Sig. (2-tailed)		0.174
	N	7	7
Bank Credit to Economy	Pearson	0.578	1
	Correlation		
	Sig. (2-tailed)	0.174	
	N	7	7

The second test is to ascertain the relationship between loans disbursed to Small and medium scale enterprises and the nations GDP. The result of the test **computed using SPSS software** is shown below;

TABLE 4.32 CORRELATION OF LOANS TO SME & GDP

Correlations

		GDP	Bank Loans to SME
GDP	Pearson	1	.336
	Correlation		
	Sig. (2-tailed)		.461
	N	7	7
Bank Loans to SME	Pearson	.336	1
	Correlation		
	Sig. (2-tailed)	.461	
	N	7	7

The results of the test are interpreted as follows;

The result of the first test is 0.578 which shows that there is a strong relationship between banking system credit to Economy and Gross Domestic product. This proves the fact that the level of credit to the economy affects the national GDP. The result of the second test is 0.336 which shows a weak relationship between credit disbursed to SME and the nations GDP.

We therefore reject the null hypothesis that says there is no relationship between the level of micro credits disbursed and

the contribution of small and medium scale to the Gross domestic Product and accept the alternate hypothesis.

We therefore conclude that the level of credit advanced to small and medium scale enterprises have direct impact on their contribution to the GDP.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATION

The summary of the findings, the conclusions to be drawn from such findings and the relevant recommendations are presented in this concluding chapter of the thesis.

MAJOR FINDINGS

The major findings of the research could be grouped into four sub-heads, namely the sectoral spread of SMEs, the pattern of their funding, the issue of SMEs access to credit and the impact of government intervention on financing SMEs.

1. Sectoral spread of Small and Medium Scale Enterprises.

The result of the research shows that only 25% of the entire SME's sampled are in the manufacturing sector. The remaining 72% are into services, distribution and

trading. This lopsided spread underscores the need for direct government initiatives to encourage entrepreneurs to move into the manufacturing sector. Entrepreneurs are discouraged from venturing into the sector due to the persistent problem of infrastructural inadequacies presently ravaging the country. **Ojeme S. (2009)** in his paper entitled "*Sustaining small scale business amid poor infrastructure*" stated that in spite of the obvious contribution of the SMEs to the economy, operators in that segment of business have suffered untold hardship in Nigeria due mainly to infrastructure failure, especially power.

2. Financing structure of Small and medium Scale enterprises.

The survey revealed that 63% of the entrepreneurs sampled finance their business primarily through personal savings. Though they do not rely on one source only for their business, personal savings constitute the major source. This accounts for the low capitalization of SMEs in the country. Savings comes from petty trade, peasant farming, art works and as employee. There is need to

expose our entrepreneurs to other avenues through which they can source fund to do business. This is in line with the work carried out by **Elumilade D.O et al(2001)** in Osun State to determine the pattern of financing SMEs. They observed that 83% of their respondents depended on proprietor's savings for their initial capital. They concluded that micro enterprises in Osun State largely obtained their initial capital from informal sources.

3. Low access to Bank Loan/credit: In the survey conducted, 62% of the respondents sourced less than 20% of their capital from of bank loans or overdraft. This implies that only few entrepreneurs have access to Bank credit. Bank micro credit is one of the avenues adopted by government to assist small and medium scale enterprises financially. Low credit utilization also arises from the inability of SMEs to meet the lending conditions imposed by banks. In that regard, about 97% of the respondent agreed that they encountered problems in accessing credits from banks. Other factors that inhibit predictable credit delivery to SMEs include;

a) Cumbersome loan appraisal process

- b) inability to provide adequate financial records on part of SMEs.
- c) High cost of credit.
- d) short term nature of bank credit.

4. Impact of Government Involvement in Financing SMEs.

The survey data indicated 71.5% of the respondents were of the opinion that government programmes towards financing small and medium scale enterprises only had small impact. In other words, all the efforts of government programme had not gotten the necessary spread as to impact on the life of the citizenry. Respondents were also of the opinion that there is still a lot more to be done by government to assist SMEs. This position is also evidenced by the failure of past government programmes to achieve desired results in the area of improving the funding of SMEs. For instance Philips T.(2003)had noted that *"Inspite of the success recorded by the National Economic Recovery Fund (NERFUND), it faced a number of problem, such as poor loan recovery, dwindling demand for loan due to foreign exchange risks, under funding and unco-operative attitude on part of some*

participating banks. On the part of SME operators, the collateral requirements stipulated by the participating banks were considered to be very stringent, as they limited SMEs ability to access the loan facilities”.

Most of Government programmes and policies towards improving the lot of SMEs had always been well intended and well articulated but had always lacked proper implementation machinery. Failure at the implementation stage has always been the bane of government policies and programmes.

CONCLUSION

The following conclusion can be drawn from the investigation;

1. The growth of small and medium scale entrepreneurs has been severely limited by lack of funds. Asaolu T.O & Elumilade D.O(2007) in a similar study carried out in Osun State on the state of finance of SMEs concluded that such businesses were inadequately financed. This conclusion arise from their finding that out of 240 enterprises sampled only 13 representing 5.42% were adequately capitalized.
2. Majority of Entrepreneurs are not venturing into manufacturing sector which incidentally is a preferred sector that government has been doing everything to revive. The sector has the capacity to boost the economy and generate employment. This survey shows that only 27% of the sample of 200 enterprises are into manufacturing and production.
3. Potential entrepreneurs in Nigeria lack the requisite skills and knowledge to embark on viable business

ventures that will be profitable and boost the growth of the economy.

4. The average Nigerian entrepreneur lack the knowledge of various options available to raise fund to finance small scale businesses. This lack of awareness is hindering the growth of SME's. **Alegiemo J(2005)**. in his paper entitled; *Sources of funding for Small Scale enterprises* concluded that a small enterprise owner could fund his business through several sources depending on the nature of business and the scale of operation provided that they are adequately informed.
5. Bank credit to SME's remains marginal when compared with total Banks credit to the economy. This is evidenced by the information contained in the CBN's statistical bulletin 2007 which provided the summary of Commercial bank credit to SMEs compared to total bank credit to the entire economy. The summary for 7 year period (2001 to 2007) shows that the highest percentage ratio of bank credit to SMEs to total bank credit for the years was 7.5%.

6. Nigeria has a lot to gain from adopting the methods/reforms which accounted for the success of other countries which have excelled in revolutionizing their micro-credit programme. **Egwuatu B.S.C(2008)** in his study entitled "*Reducing Poverty Through Better Credit Delivery: Asian experience*" shares the opinion that Nigerian will gain a lot if the model adopted by countries like Bangladesh, India & Pakistan was applied in this country. He specifically concluded in his paper that in Asia, the Micro-finance revolution has changed attitude towards helping the poor in many countries and in some has provided substantial flows of credit, often to low income groups or household who would normally be excluded from by conventional financial institutions.

RECOMMENDATIONS

The following recommendations are made with a view to improving the financing and performance of Small and Medium Scale enterprises.

1. **COMPREHENSIVE TRAINING PROGRAMME:**

Comprehensive training programme should be organized for potential and existing entrepreneurs. Such programme should be in form of seminars, workshops, enlightenment etc and should covers areas as, skills acquisition, financing options, viable business that they can venture into etc. This has become necessary as there is serious knowledge gap among potential entrepreneurs. The training programme should cover the six-geopolitical zones of the country. CBN has taken a lead in this direction by establishing entrepreneurial development centre in three locations in the country. Federal Government should implement this through the Directorate of Employment by creating a fund for that purpose and fund it through the annual budget. **OBOH G.A.T (2005)** in his study

recommended similar actions that Industrial Development Centres (IDC) should be established where indigenous entrepreneurs will be trained on both operations and management of SMEs.

2. **ESTABLISHMENT OF CREDIT GUARANTEE SCHEME**

FOR SME'S: One of the problem being faced by small and medium scale entrepreneurs is their inability to access credit facilities from Banks due to stringent rules they place on loan appraisal process and the ability of the entrepreneurs to satisfy them. These problems can be overcome by establishing a credible ***small and medium scale Enterprises Credit Guarantee scheme in Nigeria*** in the form of Agricultural Credit Guarantee Scheme in Nigeria (ACGS).

Credit Guarantees are conceptually designed to attract or entice reluctant lenders to advance funds to the disadvantaged and credit rationed sector so as to achieve growth and contribute to the nation building and development. Guarantee arrangements provide that the guarantor settles a determined percentage of

defaults that could arise from lending to clients to benefit from loans that do not have collateral. Using guarantees would create more room for more clients to benefit from loans that would be the case if the guarantee were not provided. It is also based on the theory that in the long run, the lenders would by experience, observe that such clients are not as risky as earlier perceived and so would continue to lend to them without the need for guarantee since the most important criteria for lending is character.

In line with best practices, a private sector led credit guarantee for SME's is most desirable for the country. But as previous attempts to establish the scheme had consistently failed, it is strongly suggested that the intervention of CBN is most desirable. The CBN, as the lead promoter of economic development ought to break the jinx by spearheading the establishment of credit guarantee scheme for the SMEs by actualizing the pledge made in its 2004/2005 monetary policy circular. The Bank could collaborate with multilateral and other relevant international agencies to establish the scheme,

get it on sound footing, then gradually divest and totally hand over to the private sector in the long run.

According to **Mohammed S.F(2007)**, Credit guarantees were noted for their roles in improving the accessibility of financing to SMEs and other credit rationed groups. Nigerian SMEs need this service in order to expand their scope of operations, acquire new machinery and create additional jobs for the teeming unemployed.

- 3. PARTICIPATION OF STATE AND LOCAL GOVERNMENT IN MICRO CREDIT SCHEME:** One of the problems faced by SME's is lack of support by government. Government agencies established in the past to address the problem of SME;s failed because of lack of commitment on the part of government. For a Micro-credit scheme to succeed, government at all levels (Federal, State & Local) must show commitment by appropriating a defined percentage of the annual budget toward micro-credit delivery. The appropriated money can be disbursed through Microfinance or commercial Banks or through a dedicated agency.

Recently some state government have keyed into this vision and the scheme is working very well. The Delta and Anambra state government are already implementing programs geared towards reducing poverty to the barest minimum. The Delta State Government has committed over N750million into its micro-credit scheme and has empowered 23,537 people in the state as stated by Director of the programme (Anthonia Asiedu) in a seminar. The scheme is targeted on rural women and youths that are already engaged in one form of business or the other. Also recently the Anambra State launched a N2.5 billion microfinance scheme which is a collaborative effort between the State Govt and Access Bank. The scheme is for the active poor and the maximum to be loaned to any individual is N500,000. The security would be in the form of proven good character of the borrower and not tangible assets. This was made known by the Governor of the state Mr peter Obi during the launch of the programme.

Federal, State and Local government should key into this type of programme which would go a long way into

reducing poverty and unemployment and in the long-run boost economic development of the nation.

4. ACTUALIZING THE DREAM OF MICRO-CREDIT FUND:

Micro-credit Fund is a programme recently launched by Federal Govt in collaborations with the Bankers committee to replace the Small and Medium Enterprises Equity Investment Scheme (SMEIS). SMEIS was a fund set aside by Banks out of their profit to serve as equity investment in any viable company that approached it for financing. The scheme failed as banks continue to give reasons why though a huge sum has been set aside, only few companies qualify for funding, hence the lunch of the micro-credit fund.

According to publication by the Development finance division of Central Bank of Nigeria, the fund is expected to kick off with N20 billion balance of the SMEIS fund as at December 31,2007 and subsequently contributions would be made by Deposit Money Banks to raise the fund up to N100 billion by end of 2010. The fund will be made available to all state government with viable microfinance proposals after setting aside

counterpart fund equal to the amount of the loan being sought from the bank.

If this programme is not allowed to fizzle away like its predecessors, it will go a long way to reducing poverty and financing medium and small scale enterprises.

5. **ADOPTING GUINEA'S C3 POVERTY ALLEVIATION**

PROGRAMME: There is need for Nigeria to borrow a leaf from Guinea in its effort to reduce poverty to a minimal level in the country.

Experience has shown that properly designed income-generating activities support rational natural resource management. However, the development of these activities in the rural areas in Guinea had been constrained by lack of access to credit by resource-poor villagers. To address the problem, the Expanded Natural Resource Management (ENRM) initiative in Guinea has developed a network of mutual Community Savings and Loans Associations called "C3.."

Each C3 represents a savings and loan association established in targeted rural areas by members of the villages themselves, with the initial technical assistance provided by ENRM. The objective of this approach is to increase the ability and motivation of rural people to mobilize their own resources for their own economic well being. The credit provided by the C3 is primarily for individuals and village-based groups involved in agricultural production, transformation and commercialization, and off-farm micro-enterprise activities.

The C3 approach develops a sense of ownership among participating villagers and enhances long-term sustainability. It starts with a group of villagers who pool their savings to create a loan fund that members of the group can borrow to finance their income-generating activities.

The C3 is managed by a committee, which is democratically elected by the members of the group. Each C3 has two cashiers who are selected by the General Assembly. The by-laws and statutes for the C3, which have been developed with the assistance of the project, give detailed descriptions of the roles and responsibilities of not only the committee

members and the cashier but also of the general assembly and individual members of the C3. The project agents train the management committee and the cashiers in financial management, bookkeeping, literacy, and numeracy to develop and strengthen their capacity in managing the savings and loan accounts.

In order to ensure the participation of women in C3 activities, the project has encouraged the local communities to include women as members of the management committees. Female members make up 38% of all memberships of the C3 network as of September 30, 2001.

Delta state micro-credit programme has already adopted the C3 style and is focused mainly on the rural poor. There is evidence that the goals of the programme are being achieved given the testimonies of those who have benefited from the programme. The programme has empowered up to 2500 men & women drawn from all the local government area of the State. They encourage their people to form co-operative societies and loan is advanced to the group through Micro-finance banks. Other states and federal Government should buy into such programme.

6. IMPROVING BASIC INFRASTRUCTURES IN THE

COUNTRY: For small and medium scale industries to thrive and succeed in Nigeria, finance should not be the only area of need to be addressed. Even if credit is made available to entrepreneurs under the current harsh environment of the country, it may still be difficult for them to operate successfully and contribute to the economic development.

There has been sustained public outcry concerning the poor state of various infrastructures affecting the day to day operations of small scale business enterprises. The critical area of infrastructure failure which government has been trying to tackle include; power &, transportation (roads, rails, water), Security and land tenure system. Government should speed up its effort in tackling these critical areas as it plays a vital role in the sustenance of small and medium scale enterprises. **Gwang P. (2007)** had suggested that government alone would not be able to surmount the problem of decayed infrastructure but should involve private sector. The use of public-private partnership (PPP) was

recommended by him to handle some critical infrastructural challenges currently facing the nation. Government has already bought the initiative by creating an Infrastructure Concession Regulatory Commission to oversee and regulate the transfer of some infrastructures presently being handled by government to private sector.

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RESEARCH QUESTIONNAIRE

Department of Banking & Finance
Faculty of Management Science
Nnamdi Azikiwe University
Awka
Anambra State.

3rd September, 2009.

Dear Sir/Madam,

I am a post-graduate student of the above named University Conducting a research on **“Financing Small and Medium Scale Enterprises in Nigeria for Economic Development”**.

The purpose of the attached questionnaire is to obtain all relevant information necessary for the objective analysis of the topic. The research is in partial fulfillment for award of MSc (Banking and Finance) of the University.

Please, kindly complete this questionnaire as honestly as you can. Your opinion/information supplied will be used purely for the purpose of the study and such information will be treated with utmost confidentiality.

Your co-operation will be highly appreciated.

Thank you

Yours faithfully,

ROBERT EKE

**SECTION A (SMALL AND MEDIUM SCALE
ENTREPRENEURS)**

Kindly complete the following questions by ticking in the appropriate box; the option that you will feel is the most correct. Also write down your view on the lines provided for some of the questions.

Q1. Name _____ **of** _____ **Company**
(Business)

Q2. How long have you been in business?

- (a) 1-5years
- (b) 5-10years
- (c) 10-20years
- (d) above 20years

**Q3. To which sector of the economy does your
business belong?**

- (a) Manufacturing
- (b) Distribution
- (c) Oil and Gas
- (d) Transportation
- (e) Others (Specify)

Q4 How many sources of did you obtain funds for your

business?

(a) One

(b) Two

(c) Three

(d) Four

Q5. What has been your major source of financing your business?

(a) Personal saving

(b) Help from friends/relatives

(c) Local money lenders

(d) Credit and savings association

(e) Bank micro-credit

Q6. If the source of finance includes all the above, what percentage is Bank credit?

(a) 1-10%

(b) 10-20%

(c) 20-30%

(d) 30-50%

(e) above 50%

Q7. To what extent do you depend on bank micro credit

to finance your business?

(a) Not dependent

(b) Marginally dependent

(c) Heavily dependent

Q8 Which category of banks do you obtain credit from

(a) Microfinance

(b) Commercial banks

(c) Both

Q9. Apart from the sources mentioned in Q4, what other sources can you obtain fund from?

Q10 Do you encounter problems in accessing loans from the banks?

(a) Yes

(b) No

Q11. Indicate which of the following problem you encounter when trying to obtain bank credit (NB-rank them 1(least encountered) to 10(most frequently encountered) in order of recurrence.

- (a) Inability to provide collateral securities
- (b) Cumbersome loan appraisal process
- (c) Inability to provide accurate financial records
- (d) High cost of credit

(e) Lack of knowledge of source of credit

For small and medium enterprises

(f) Other problems (specify) -----

Q12. To what extent has government programmes impacted on financing small and medium scale enterprises?

(a) No impact

(b) Small Impact

(c) Great Impact

(d) Very great impact

Suggest further steps Government needs to take to improve the financing status of medium and small scale enterprises

SECTION B (PERSONAL PROFILE)

Please complete the questionnaire by ticking in the box the option that you feel is the most correct.

Q13. Sex: (a) Male (b) Female

Q14. Marital Status: (a) Married
(b) Single
(c) Others (Specify)

Q15. Educational Qualification

- (a) WASC or GCE/O'LEVEL
- (b) NCE/OND
- (c) HND/BSC/B.A
- (d) Degree of Masters
- (e) Professional Qualification

Q16. Age:

- (a) Under 30years
- (b) 30-40years
- (c) 41-50years
- (d) 51years and above

SECTION C (COMMERCIAL AND MICRO-FINANCE BANK STAFF)

Q17. Type of Bank

- (a) Commercial
- (b) Micro-finance

Q18. Banking Experience

- (a) 1-5years
- (b) 6-10years

- (c) 11-20years
- (d) 21 and above

Q19. From your relationship with small and medium scale enterprises which of the following constitute their major source of finance

- (a) Personal savings/contribution
- (b) Help from friends/relatives
- (c) Local money lenders
- (d) Credit/savings association
- (e) Bank credit

Q20. If their source of finance includes some or all of the above, what percentage is bank credit?

- (a) 1-10%
- (b) 10-20%
- (c) 20-30%
- (d) 30-50%
- (e) above 50%

Q21. Apart from sources mentioned above what other sources can small and medium scale enterprises access funds?

Q22. Indicate which of the following reasons/problem induce you to turn down credit request from small and medium scale enterprises (NB-rank them 1(least reason) to 10(most recurring reason)).

- (a) Inability to provide collateral securities
- (b) Inability to provide accurate financial records
- (c) Non-repayment of loan by some enterprise
- (d) False data supplied by the entrepreneurs
- (e) Others reasons (specify) -----

Q23. Does Nigeria stand to benefit from other countries economy in terms of financing their SME?

(a) Yes

(b) No

If yes, state the details-----

Q24. To what extent has government programmes impacted on financing small and medium scale enterprises?.

(a) No impact

(b) Small Impact

(c) Great Impact

(d) Very great impact

Suggest further steps Government needs to take to improve the financing status of medium and small scale enterprises

SECTION D (PERSONAL PROFILE)

Please complete the questionnaire by ticking in the box the option that you feel is the most correct.

Q25. Sex: (a) Male (b) Female

Q26. Marital Status: (a) Married
(b) Single
(c) Others (Specify)

Q27. Educational Qualification

(a) WASC or GCE/O'LEVEL
(b) NCE/OND
(c) HND/BSC/B.A
(d) Degree of Masters
(e) Professional Qualification

Q28. Age:

- (a) Under 30years
- (b) 30-40years
- (c) 41-50years
- (d) 51years and above