

**ROLE OF COMMERCIAL BANKS IN FINANCING SMALL
SCALE INDUSTRIES IN NIGERIA
(A CASE STUDY OF FIRST BANK OF NIGERIA PLC)**

BY

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CERTIFICATION

This research project has been supervised carefully approved as having satisfied partial fulfillment of the requirement for the award of Postgraduate Diploma in Management in the department of Business Administration, Faculty of Management Sciences Usman Danfodiyo University Sokoto

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DECLARATION

I hereby declare that this project work has been written by me based on my research findings.

All errors of omission in this work are entirely mine and all materials consulted in the course of this research work are duly acknowledged.

Name of Student

Signature

Date

DEDICATION

This project is dedicated to the memory of my Lovely Husband Maxwell
Musa Kure and kids Esther and Mary.

ACKNOWLEDGEMENT

In the name of God Almighty, who has seen me through successfully not only on this project work but also through life endeavours.

I am most grateful to my major supervisor Dr.Maryam Koko who despite her tight academic schedule, her national and international engagement still attended to my work by offering useful advice and contributing immensely towards the timely completion of this research work. I am also most grateful to my Husband who stood by me all through. I am also grateful to my father Engr. Thomas Bimba for his contribution.

To my beloved Mother Mrs. Mary Bimba, I want to express my sincere appreciation, my profound gratitude for all those who have contributed; supported and encouraged me in this work,

Utmost important, I want to seize this opportunity to express my profound gratitude and appreciation to my humble Father Inlaw Engr. Musa Yahaya for love and support, may the Almighty reward you abundantly, Amen.

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ABSTRACT

An appraisal Of Commercial Banks in Financial Small Scale Industry in Nigeria. A case study of First bank of Nigeria plc. This study is to ascertain the extent to which commercial banks have helped to finance small scale industries in Sokoto. To achieve this study adopted a survey research which employed the use of simple random sampling technique was employed and SMEs where selected which constitute the sample size of the research. Structured questionnaire was designed to facilitate the collection of the relevant data which was used for the analysis. Descriptive statistics which involves simple percentage and chi-square. The findings indicate that the operations of commercial banks towards SMEs have grown phenomenally in the last 3 years, driven largely by expanding informal sector activities. The study also reveals the challenges faced by SMEs, which has been addressed in this research. Commercial banks traditional lend to medium and large enterprise, which are judged to be credit worthy. They avoid doing business with small and medium scale industry because the associated

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO PROBLEM

Small and medium enterprises are believed to be the engine room for the development of any economy, because they form the bulk of business activities in a growing economy like that of Nigeria. This is manifested in the following ways, Employment generation, rural development, Economic growth and Industrialization, Better Utilization of Indigenous Resources. In the past, Nigeria's over dependence on oil which really exposed the economy to unprecedented macro-economic instability resulting from the effects of external shocks to oil prices. The world economic recession and the sustained slump in oil prices posed a serious challenge on Nigeria economy which accounted for a reduction in our external Reserves and also diminished on the nation's capacity to finance much of its development needs. It was also observed that the real GDP growth slows to 2.2% from 2009; population growth rate will climb to 2.5%. Such situation could plunge the country into economic embarrassment and posed a major challenge to the Government. However, with the trend of this event, the Government under vision 20:2020 program came up with undoubtedly consolidated empowerment program called the National Economic and Empowerment Development Strategy (NEEDS) and other reforms which

imperatively leads to the recognition given to the development of SMEs

The SME sector is positioned generate employment, create wealth, reduce the prevalence of poverty and sustain economic growth and development. Commercial banks provide broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro-enterprises. M.S Robinson asserts that 'if it were widely available, institutional commercial banks could improve the economic activities and the quality of life of hundreds of millions of people in the developing world". However it is generally agreed that micro-credit given to those of the poor who do not have a capacity to repay can increase their poverty. Until the early 1960s, many economists viewed the continued existence of small-scale industries in less developed countries as justified by scarcity of capital and administrative experience. It was often argued that with economic growth, the small, traditional type of enterprise would, in one sector after another, be superseded by modern forms of large-scale production. In order to ensure an orderly transition, small industries were seen to deserve support, but mainly in sectors where modern methods could not immediately applied. In the mid-1960s a new approach to small to medium-scale enterprise (SME) development began to emerge due to several factors. First, there was growing concern over low employment elasticity of modern large-scale production. It was claimed

that even with more optimal policies, this form of industrial organizational was unable to absorb a significance proportion of the rapidly expanding labour force (Cherney et al 1974; ILO, 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large-scale, capital intensive techniques was partly to blame (McCormick, 1988; House, 1981; Cherney et al 1974). Third, empirical studies revealed that the causes of poverty were not confined to unemployment, and that most of the poor were employed in a large variety of small-scale production (Noor Mohamed 1985). This suggests a new role of small industries, in what has come to be labeled "the urban informal sector". Small, labor-intensive industries were seen not only to increase employment, but also to increase the living standards of the poor. They were also thought to be capable of providing a new dynamic of economic growth. The new objective was not just to stop to retreat, but to promote the small-scale sector (House, 1981; Schmitze, 1982; GiamartinoS, 1991). This change in approach was accompanies by a shift of focus towards a "rurally orientated smallholder" (ROSH) industrialization strategy, well-articulated in Kilby (1975), Child (1976), House (1978), Noor Mohamed (1'985), and Olofin (1990), among others. While the Word Bank 91992) and others have tended to favour the ROSH implementation strategy by assigning the major role to the private sector,

there are those who favour its implementation by assigning a major role to government (Olofin 1990, Noormhamed, 1985). Assigning the major role to the private sector has its appeal in the fact that the private sector has the resources needed to implement the strategy. But the proponents of assigning the role to the government are aware that in many developing economies; government is the major mover of the economy with only a small and sometimes weak private sector. Thus, they argue that assigning such an important role to the private sector would not work. Besides, for the strategy to produce an optimal effect on the wellbeing of the people, the social environment has to be considered something the private sector may not be willing to do. Kilby (1969) Sees SMEs as a quasi sponge for urban employment and a provider of inexpensive consumer goods with little or no import content, serving an important pressure-releasing and welfare-augmenting function. SMEs also contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of the small-sector. Most previous studies throughout African treat the information sector as essentially homogenous in its characteristics (Morris and Pitt, 1995; Bewayo, 1995; Ekpenyong and Nyong; 1992). Recent research suggests that government policy should be more narrowly targeted to subsectors within the informal sector (Parker and Torres, 1994). This study examines survey data in order to evaluate the characteristics of small-

scale manufacturers that make it more difficult for them to be profitable and the particular problems that they face which may have contributed to their poor performance. Since her independent in 1960, Nigeria has been trying to meet the yearnings and aspirations of her teeming population, especially in the area of provision of employment. Unfortunately, not much has been achieved in this respect. Given the importance of 'small' and 'very small' enterprise in the creation of employment, this study seeks to evaluate the financing of microenterprises in Lagos State of Nigeria by identifying the problems of financing very small enterprises (VSE's). However, the growth of the country's economy has not been without problems. For instance, Omopariola (1978) notes three successive phases can be discerned in the economic history of Nigeria. The first phase, dating back to 1900, "was the pleasant economy characterized by static and subsistence product" and a "high birth rate which was equally matched by high death rate" (P.15 resulting in a low population growth rate. The second phase, which occurred in the middle of the nineteenth century, was' a dynamic export-oriented economy" Omopariola (1978) reiterated further that during this economic phase, "Nigeria had a steady growth in her economy which was stimulated primarily by agricultural exports during the first three decades of the twentieth century." (Ibid, p.16) the economic, starting from the collapse of international trade during the world economic crisis grinded

to a halt in its growth in 1929 and remained more or less stagnant until 1945. From 1954 until the outbreak of the war of unity (civil war) in 1967 and up to the end of the war in 1970, "Nigeria experienced steady economic growth" (Ibid, P. 16). The third Phase, which has its roots in 1960 when the country attained political independence from the British colonialists, has been described as the indigenized economy. This is still the phase under which the Nigerian economy is characterized. Thus, over the years, the Nigerian economy has been going through a number of developmental stages and its growth has not been smooth. Although the economy continues to hold out a bright promise of growth, this has been hampered by factors such as under-productivity, unemployment, heavily depreciated national currency, inadequate infrastructure facilities and structural defects in the country's industrial framework. The scope of this study focuses on the latter factors, structural defects in the nation's industrial framework. A business whether small or big, simple or complex, private or public, etc. is created to provide competitive prices. Business in Nigeria has been classified as small, medium and large. However, a small scale industry can be defined by the criteria of project costs, capital, cost turnover by the employee, etc. the federal and state ministries of industry and commerce have adopted the criterion of value of installed fixed capital to determine what a small scale industry is, in this respect, the value has

varied from N60,000 in 1972, N159, 000 in 1975, N250,000 in 1979, N500,000 in 1986, to a fixed investment of not more than N2,000,000 (Two Million Naira) in 1992. This figure is exclusive of a building and subject to government determination and land prevailing objectives of public policy. In the wake of SFEM, and SAP, this value has now been reviewed and subsequently, increased to five million naira. Since this happened, there may be a need to classify the small scale industry into MICRO and SUPER MICRO business, with a view to providing adequate incentives and protection for the former. In the meantime, any business or enterprises below the upper limit of N250,000 and whose annual turnover exceeds that of a cottage industry currently put at N5,000 per annum is a small scale industry. The National Directorate of Employment (NDE) concept of a small scale industry has been fixed to a maximum of N35, 000. Contributed significantly to the growth of the Gross Domestic Product (GDP), employment generation and exports. The sector now includes not only SSI units but also small scale services and business enterprise (SSSBEs) and is thus referred to as the small enterprises sectors.

1.2 STATEMENT OF THE PROBLEM

Small and medium enterprises have not made the desired impact on the Nigerian economy in-spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. The

expectation has been that, after the initial take off of the small scale enterprises, the business should be able to raise funds from the formal sector especially MFIs or banking industries to expand its operations. This has not been the case for a number of reasons (Sule, 1986; Inang and Ukpong, 1996; Iniodu and Udomesiet, 2004);

- The perception of small and medium enterprises as high risks;
- Inability of the SMEs to prepare acceptable or viable banking business plans;
- Poor record keeping, especially of financial operations which at times make the entrepreneur draw money than expected from the business either for personal or family use;
- Discriminatory cultural practices which at times make it impossible or difficult for women to borrow or own assets or land titles;
- Weak capacity on the part of banks to down-scale their lending to SMEs; and
- High transaction cost of small and often segmented loans.

The study will examine problems associated with the role of commercial banks in financing small scale industry in Nigeria.

It will give information on the possible areas for in provident.

Furthermore, the study will help commercial banks to assess and appraisal their role in financing small scale industry in Nigeria.

Moreover, suggestions and recommendations made in this paper will help policy makers formulate new economic policies maintain or modify the existing one.

It will equally serve as guidelines to researchers who may wish to decide with this study in the future.

It will also help small scale entrepreneurs to make sufficient preparation in their request for credit assistance.

It will guide the entrepreneurs in making credits demands that are compliance with government monetary policy.

1.3 OBJECTIVE OF THE STUDY

Since the importance of SMEs forwards the development of any country's economy, as already discussed. This write up is aim at achieving the following questions.

- a. To highlight the different sources of finance available to small and medium industries?
- b. To examine the role of commercial banks in satisfying the financial needs of SMEs in Nigeria.
- C. To examine method to reduce formality needed for financing the entrepreneurs by commercial banks.

1.4 RESEARCH HYPOTHESIS

HO1. There is no significant relationship between Financing of small and medium scale Enterprise and Commercial Banks.

HO2: There is significant relationship between commercial banks and lending to small scale industries and also in meeting the needs of small and medium scale Enterprises

1.5 SCOPE OF STUDY

The scope of the study is an appraisal of commercial banks in financing small scale industries in Nigeria, a case study of first bank limited.

Commercial banks adhere strictly to the rule of secret; in banking thus they refused to release information.

It will guide the entrepreneurs in making credit demand that are compliance with government monetary policy.

Finally it will help the entrepreneurs to display competence in preparing justification for their project; it is rear to see most of them coming up with cash projections, projected balance sheets.

1.6 LIMITATION OF STUDY

However, there are constraint imposed on the researcher this includes the following.

- a. Time a study of this nature, needs a relatively long time during which information for accurate or at least near accurate inferences

could be drawn. The period of the study was short, hence time posed as a constraint to the researcher.

b. Cost: The researcher would have extent the survey to areas. But limitations here included cost of transportation to source for materials and cost of type setting the already completed work.

c. Dearth (Scarcity) of statistical data:

Lack of statistical data from our financial institutions like central bank of Nigeria (CBN) ministry of financial and economic development, commercial and merchant bank posed constraints.

Commercial banks adhere strictly to the rule of secret; in banking thus they refused to release information.

1.7 SIGNIFICANCE OF THE STUDY

In the modern times, industrial production requires the procurement of equipment, machineries and other inputs. The capital required in procuring the requirements is limited in supply and very few industrialists have access to it

Considering the type of collateral security required by the banks which must be fulfilled before granting loans.

Since Commercial Banks act as intermediaries between surplus and deficit or as a bridge between scattered pockets of savers and the business

community desirous of loans for investment, at the end of this research work the following will be attained;

SMEs industrialist will be able to know some sources of finance and choose amongst them the best.

Commercial Banks will know how effective and efficient they have been towards economic development.

Commercial Banks will be able to make some adjustments in their lending processes.

1.8 DEFINITION OF TERMS

Small scale industry:

Any industry with capital not exceeding N750, 000 including capital but excluding cost of land.

It is also defined by center for industrial research and development of Obafemi Awolowo University Ile Ife as those industries whose total assess in plant equipment and working capital do not exceed N250,000 with not more than 50 employees.

2. COMMERCIAL BANK

A financial institution that acquires deposit from savings surplus unit and give out loans to savings deficit units.

3. INDUSTRIAL DEVELOPMENT CENTER:

Provide management, technical, consultancy and extension services for the small scale.

4. INDIGENISATION DECREE:

A decree that stipulates that most business become, at least 60 percent owned by Nigerians.

5. SOLE PROPRIETORSHIP:

Is a business owned and conducted by one person presumably assisted by one or more persons for intakes wife and children.

SS/CS small scale industry credit scheme.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION:

This chapter is the review of related literature; this is where the researcher review concepts and theories to give clear understanding of the subject and to see through the tested results.

2.2 MEANING OF SMALL SCALE INDUSTRY

Small scale business, small scale industries and small scale entrepreneurship are used interchangeably to mean a small scale industry firm. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these features equally vary from one country to the other.

1. In Nigeria, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, or whose investment in machinery and equipment that does not exceed six hundred thousand naira.

2. The Central Bank of Nigeria in its credit guidelines, classified small scale business as those businesses with an annual income/asset of less half a million naira (N500, 000).
3. The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150,000 in manufacturing and equipment alone.
4. The small scale industries association of Nigeria (1973) defined small scale business as those having investment (i.e. capital, land building and equipment of up to N60, 000 pre-SAP Value) and employing not more than fifty persons.
5. The Federal Ministry of Industries defined it as those enterprises that cost not more than N500, 000 (pre-SAP Value) including working capital to set up.

The definition of medium- and small-scale industry has differed according to the period, varying in maximum complement from 10 to 20 to 100 employees. Today, government classification designates enterprises with less than 300 employees and capital of less than N100 million as medium- to small-scale. According to statistics, factories with fewer than 20 employees account for 87.3 percent of the total number in Japan, employ 20.1 percent of all workers, and contribute 12.6 percent of the total national

output. Factories with more than 500 employees, on the other hand, comprise only 0.3 percent (1.807 total or all factories in Japan; they employ 20.5 percent or the nation's workers (2,246,000) and account for 38.3 percent or total output. While in Japan factories with fewer than 100 workers make up 98.0 percent of the total and employ 58.0 percent of all workers, in the United States, the respective figures are 87.7 percent and 25.4 percent, and in West Germany the corresponding proportions are 72.6 percent and 18.7 percent. The percentages for factories in Japan employing more than 1,000 workers are 0.1 percent and 13.4 per cent, in the United States 0.6 per cent and 27.5 percent, and in West Germany 2.2 percent and, 38.0 percent. Aside from the statistical significance of these comparisons, it is clear that even in highly industrialized countries, medium- and small-scale factories have a role, and that, depending on the type of technology and industry, an enlargement of scale may be unwise or impossible.

2.3 GOVERNMENT POLICY ON SMALL SCALE FINANCING

According to Ezeigbo (1987:3) the inability of small scale industries to pool their resources together and form co-operative society has not only denied them the attention of the government while formulating certain economic policies that affect them but has also retarded the prospect of expansion and continuity.

Ashaye (1985:13) observes that in essence, any government policy towards the business community always favor the multinational companies which exploit the situation to the detriment of the small scale industries.

Government should not allow this trend to continue. Small scale firms are the back bone of any economy and therefore, must be encourage flourishing.

Although, the central bank of Nigeria is not allowed to participate in private businesses activities except as the directives of the federal government.

The bank has tired to influence the channeling of greater institution finance to small scale enterprises through its credit guide lines and its equity participation in the establishment of Nigeria bank for commerce and industry (NBCI).

Small and medium industries equity investment scheme (SMIEIS) was introduced in 200 in which N3.59 billion was set aside to date by the bank under SMIEIS. The center bank intends to spare no effects on ensuring that banks fully comply without compromising the smooth functioning of the nation banking system.

The various government policies have implications for the survival of small scale enterprises. Even if the banks and other institutions re-shape their policies and adopt new suggested measured, there is still likely to be

an important role for the government to play. Even though, the government has tried to ensure the survival of small scale firms by using various measures among which are moral suasion, creating of priority sectors and percentage loan stipulation for such firms. It has not been helpful in overall appraisal of the development of the sector.

Toyin (1989) however, noted that the various policies aimed at attaining economic development and breakthroughs have had adverse effects on its sector. The structural adjustment programme (SAP) is a case point. Even though there have been some government schemes designed to deal with some of the problems confronting Nigeria small scale industries, unfortunately some of these measures have been largely inadequate and ineffective in dealing with the problems.

Reference has already been made to the industrial development centers which provide the managerial, technical, consultancy and extension services for small scale industries.

Osayameh (1989) observes that with regard to finance, the federal government has embarked upon a programme of small industries financing through the provision of soft loan by the government owned Nigeria bank for commerce and industry.

To ensure that the desired impact is made, efforts were made to progressively simplify the application procedures, such that deserving

small scale enterprises can easily take advantage of these soft loans, at least for the purchase of equipment and machinery.

The real constraint to commercial banks lending to small scale industries is not therefore, the medium to long term nature of such lending.

Any product lender would expect a customer borrowing for a business to show his commitment to the venture by having a reasonable financial state in it, as otherwise the borrower would abandon the project at the first sign of strain, since his own funds have not been staked. Commercial banks therefore, rightly insist that the proprietor of a small scale industry should form parts of his equity.

It is not enough to restrict the proprietors contribution to a piece of land, a piece of land on which he places his own value. Bank would like to see a loan equity ratio of the order 3:1 where the proprietor cannot raise this equity contribution alone, he should consider boarding the base of equity participation. This would help him to minimize his personal risk

Osayameh (1986) maintained that banks would also expect that before their fund is put into a venture, there should be a reasonable assurance that the venture would succeed. The first indication of this is usually given in a well documented feasibility study. Generally entrepreneurs shy away from the meeting the cost of such studies in the protest that they are expensive.

Yet the government provides technical assistance which they could avoid themselves of. Most of the entrepreneurs knows that the ventures they are about to embark on would be viable by relying on other past experiences which are mostly in highly speculative endeavours (general commerce import, export etc) banks however do not count chickens before they are hatched.

The production of feasibility studies on industries is a condition for any consideration a lending to such ventures by banks.

Olashore (19870) observes that no consideration of bank lending would fail to mention the relevance of good management.

A one man type of undertaking that is family managed rarely guarantees that levels of efficiency in management required by commercial bank lenders.

Adekanye (1986) observes that the industrial sector has a high priority rating in bank lending in Nigeria. The requirements which banks insist on are not ordinarily difficult to achieve, the problem seems to arise from an improper understanding of the role of banks in financing industry. The difficulty of private companies and small firms in obtaining long term funds, and the Variety of capital issued constitute an aspect of the financial problem scale industry in Nigeria. This problem makes it difficult for these firms to obtain necessary and right type of financial facilities from the

formal capital marked at the right time, in the right quantities and on satisfactory terms.

The financial problems of these small enterprise are in various ways connected with their other special difficulties which have become accentuated by the by the failure of banks and other financial institutions to adopt their conventional practices to suit local conditions adequately.

According to Dada (1988) credit institutions are not prepared to cater for the special problems involved in financing small business because of the attendant risk of default, cost of handling small loans and lack of adequate collateral security. Furthermore, these small enterprises and their advisers are not adequately necessary financial facilities. Finance from banks and other formal institutions as of now is relatively of small significance, especially when compared with the total sources of finance for this group of enterprises.

Agu (1986) observes that only a very small proportion of commercial bank loans were granted to small scale industrialists. The banks were more interested in financing the bill marked scheme and large industries the conclusion is that the commercial banks have shield away from financing small scale industries because such financing is considered very risky.

It is not uncommon for small scale borrowers to trailer project reports to the requirements of lending bank. In order to obtain the required loan,

small industrialists want on the managers of banks and show all sincerity of purpose.

After the loan sought with greater enthusiasm has been received, the small scale industrialists cease to co-operate.

When the banker calls to discuss his business problem, he becomes evasive.

The attitude often occurs where loan is given against the security of the assets proposed to be acquired but the client has failed to utilize the loan for the purpose for which it was obtained, thus jeopardizing the banks interest.

The loan disbursed are thus turned into loans without any security. The misuse of funds and failure to repay the fixed installments security weaken the capacity of the lending institutions to extend loans to other numerous clients.

2.4 MONETARY POLICY DEVELOPMENT IN FAVOUR OF SMALL SCALE INDUSTRIES.

Adekanye (1986) observes that was not until 1972 that the disturbing trend about the issue of foreign owned banks was arrested by the promulgation of the Nigeria enterprises promotion decree popularly known as the indigenization decree.

Before the promulgation of the decree, the government has found it necessary to direct financial institutions through the central bank of Nigeria's credit guidelines to extend a certain percentage of their total loans and business in which Nigeria equity participation is not less than 50 percent. The percentage allocation increased progressively from 35 percent in the late sixties to 90 percent for fiscal year 1984.

Olashore (1985:10) observes that as a result of the indigenisation decree. Most business becomes at least 60 percent owned by Nigerians. It was therefore possible for banks to achieve full compliance with the directive on lending to indigenous borrowers without necessarily extending facilities to small scale enterprises which were wholly owned by Nigerians and for which the policy was originally designed based on this and the government's belief that a sizeable number of small scale enterprise as an essential ingredient of a competitive economy, some modifications had to be made.

Ojo (1992) observes that while most banks have over the years been able to meet the required levels of lending to indigenous borrowers they were unable to meet the prescribed percentage reserved for small scale enterprises.

2.5 BENEFITS OF SMALL SCALE ENTERPRISES

Ojo (1992) observes that the benefits of small scale industry include:

- i. Stimulation of indigenous entrepreneurship.
- ii. Greater employment creation per unit of capital invested.
- iii. Development of local technology.
- iv. Enhancement of regional economic balance through industrial dispersal.
- v. Production of intermediate products for use in large scale enterprises.
- vii. Facilitation of managerial training for unskilled than large enterprises at making specialized goods such as embroidery.

Mobilization and utilization of domestic savings.

2.6 PROBLEMS FACING SMALL SCALE INDUSTRIALIST

The background of the entrepreneur engaged in small scale industries is varied. Some have considerable experience in distributive trade and have only moved into producing those goods which were therefore, their stock in trade.

Others however, have adopted completely new lines and have only hazy (uncertain) knowledge of either the production marketing and purchasing techniques of the products they are producing. There are yet others who graduated from being small craftsman to small scale industrialists by

increasing their equipments, achieving a higher level of mechanization and at the same time increasing their labour force. These do not exhaust the possible varieties but in general most of the small scale industrialists are deficient either in technical know-how or in management technique.

Osayameh (1989) observes that the problems of small scale industry are many and varied, it includes the following.

- Problem of getting organized
- Management problem
- Marketing problem
- Financing problem coupled with an information gap.
- Infrastructure problem
- Society and / attitudinal problem

Akuzaolu (1978) observes that most of the small scale industries have limited access to sources of funds. Commercial banks are usually hesitant to lend to small scale indigenous entrepreneur due to the inherent exposure in granting such facilities. They generally expect their clients to supply a substantial proportion, if not all their risk capital other factors that the banks consider are the risks and the low returns on the facilities, granted which are normally short term in nature and quite small when resources committed by the banks are considered. Since small scale industrial in

Nigeria are generally individual or family businesses operating in a low income economy, they are not always able to assemble personal savings sufficient funds to finance their capital equipment or other fixed assets because of the limitation of finance, the owners often appear reluctant to spend money on feasibility studies considered a necessary pre-requisite for enlightened planning and operation. Nor are the small scale industries being mostly private companies able to obtain the much needed risk capital from the capital market.

Umesi (1987:24) observes that even with this central bank of Nigeria directive the financing problem of the small scale industrialist has not been substantially alleviated.

Ashaye (1985) observes that the small scale industrialist usually find himself in financial difficulties due to limited source of finance.

However, the federal government in its efforts to assist small scale industrialist directed, through the central bank of Nigeria that about 15% of each bank's loan portfolio should be reserved for small scale indigenous entrepreneurs.

2.6.1 TECHNICAL KNOW-HOW

The promoters or owners of the small scale enterprise are people of average means with no specialized skills or expertise.

Because of financial constraints, they are unable to hire the services of experts on part time or full time basis

As a result, efficiency and productivity are low and hence the small enterprises.

Umesi (1987:24) observes that efficiency is a main area of weakness of small business. The owner manager, on most cases is neither a technical expert nor an able administrator. He runs his business with average efficiency, leaving a wide margin for better and fuller utilization of resources at his disposal, usually entrepreneurs engage in the small scale industries where they do not have appreciable technological background or experience.

Ashaye (1985:4) observes that technical advisory department is normally non existent.

Hence, there is lack of.

- Technical advice on operational problem in the workshop.
- Development work on issues relating to efficient utilization of labour requirement and also proper use of raw materials to improve product design.
- Technical training facilities for staff.

The know-how to resolve the problem of high production cost and quality of the products.

2.6.2 PERSONNEL MATTERS AND GENERAL ADMINISTRATION

The survival and growth of any enterprises depends largely on the caliber and efficiency of its administrative unit.

It is a characteristic of the small scale entrepreneurs that responsibilities and duties are usually not delegated to subordinates hence administrative units are non-existent.

Ashaye (1985:4) listed the following procedure which could have aided productivity but are normally non-existent in small scale industries.

- Organization structure and reporting relationship.
- Lines of authority and responsibility
- Co-ordination among pay-roll accounting and other related functions
- Well defined manpower management policies and procedures.
- Wages, and salary administration procedures
- Labour costs control and labour performance measurement procedures.

2.7 IMPROVING FUNDING OF SMALL SCALE INDUSTRIES

Olashore (1985:10) observes that states and federal governments should increase their assistance to small scale enterprises instead of shifting the

burden entirely to the financial institutions. Government should induce rather than compel banks to extend credit to these enterprises because credit extended under compulsion and against the credit judgment of the banks have not in the past proved successful or beneficial to the economy.

Government should consider setting up a small business loan guarantee scheme such as scheme will be a cost effective means of increasing bank lending to small forms with viable projects but lacking proven track records or sufficient personal security.

The promotion of a guarantee scheme can be justified based on two grounds, first where there is reason to believe that competition among banks in the area is not sufficiently effective to ensure that variable small business get the necessary access to sufficient funds on reasonable terms.

The second in where it is felt that the public benefit from the activities of small business is greater than the private benefit, because of their importance to job creation.

Ojo (1989) noted that, it is also desirable as part of the inducement to banks that the central bank of Nigeria should provide a rediscount facility for bank credit to the small scale business small side firms requiring import licenses to bring machinery spare parts and or raw materials should be given special attention by the government especially where such forms are

to produce goods and services with the ultimate objective of replacing imported ones or where the location of such industries will assist government in the rural urban population drift more fiscal incentives for examples lower rate of corporation tax for small scale enterprises that satisfy the above objectives should be introduced.

Financial institutions which offer leasing as an alternative source of finance to small scale industries should be given more tax incentives to encourage their business.

Olashore (1985:10) argued that all the financial institutions in the country should be made to participate in funding of small scale industries. Despite the numerous involutive assistance provided by banks towards proliferating successful small scale business the enterprise still suffer from financial management technical, commercial and infrastructural deficiency.

CHAPTER THREE

RESEARCH METHODOGY

3.0 INTRODUCTION OF THE STUDY

The research is descriptive in nature and employs the survey method in assessing the impact of commercial banks on small scale enterprises in Nigeria.

3.1 RESEARCH DESIGN

The research design used for the purpose of the study is the survey design.

3.2 AREA OF THE STUDY

The survey covered the Small scale enterprises around Sokoto used as the case study. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the field the researcher used descriptive statistics. The primary data was obtained through the use of questionnaire and interview.

3.3 POPUPLATION OF THE STUDY

The survey covered the Small scale enterprises around Sokoto used as the case study. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the field the researcher used descriptive statistics. The primary data was obtained through the use of questionnaire and interview.

3.4 SAMPLE SIZE DETERMINATION

The total population was 200, while the sample size was 30% of the entire population that is 60% of 200 =120. The questionnaires administered was based on the sample size of 120 and 80 were dully filled and return, the remaining 40 were too busy and undecided, so the actual sample used for this study was 80. Stratified random sampling techniques were used to select respondents. The state identified cut across all segment of first bank staffs and small and medium scale industry namely: Senior management Middle Management, Officer Level and customer; each stratum was selected based on their importance.

Simple random sampling was used to select target individual from each stratum. The complete questionnaires were collected serially, coded and analyzed sequentially a cording to the research questions. Tables were used to present information to facilitate analysis, simple percentages where used while Chi -square was used to test the hypothesis. The responses were of five-point scale which range from "strong agreed to the undecided ". Thus; Strongly Agreed = 5 Agreed = 4 Undecided = 3 Disagreed = 2 Strongly Disagreed = 1

MODEL SPECIFICATION.

The model specification for this analysis is a Chi-square, is a sample of statistic. It is computed as follows:

$$X^2 = \sum \frac{(O-E)^2}{E}$$

Where O= Observed Frequency

E =Expected frequency

A degree of freedom (df) is obtained using the formula

$$D.F. = (r - 1) (c - 1) \alpha = 0.05$$

Where r = number of rows in the contingency table.

Throughout this work the level of significance adopted is 0.05.

Decision Rule: Reject if $X^2 > X^2_{\alpha}$ otherwise accept H_0 .

3.5 INSTRUMENT FOR DATA COLLECTION

In most developing countries like ours. The availability or the available number of research instrument for use is some how limited. Thus, the instrument used for the data collection of the this research work we as follows

- a. **PERSONAL INTERVIEW**
- B. **QUESTIONNAIRES**
- C. **PERSONAL OBSERVATION**

Questionnaires were for this research study because the research would not have adequately used personal interview and observation on all respondents with limited time at his disposal.

The researcher also employed personal interview and observation so as to give complete information. It required on ascertaining the validity of the respondents claims.

3.6 VALIDITY OF THE INSTRUMENT

After preparing the questionnaires it was sent to the student supervisor after dictating the mistakes, it was sent back to the researcher for corrections after that, it was sent to the project supervisor who then confirmed that the questionnaires are valid

3.7 RELIABILITY OF THE INSUREMENT

Two set of questionnaires were used in collecting the primary data for the research work.

The questionnaires were constructed in such a way that questions were neither leading question, ambiguous nor embarrassing. They were specific and mostly short questions.

Furthermore, to ensure that correct and accurate information was supplied after the preparing the questionnaires. It was sent to the respondent the

researcher collected it and analyzed it after two weeks, the same questionnaires were sent back to the same with the provision responds shows that the research questions were reliable and consistent.

3.8 METHOD OF DATA COLLECTION

This study is based upon data analyzed from primary and secondary sources of information. Essentially it must be understood that the gathering of relevant data is the bed rock upon which any good study rest.

The research/project is to be approached using.

- a. Personal interview and questionnaires
- b. secondary data newspaper, journal, publications, magazines.

3.9 DATA ANALYTICAL TECHNIQUE

The chi-square (χ^2) statistical was employed in testing hypothesis. The chi-square (χ^2) is a sample statistical measure used in testing hypothesis concerning the signification of any difference between a set of observed frequency (o) of a sample and a corresponding set of expected of theoretical frequency (E).

Osuala (1982) Observed that it is repented by the following formula.

$$\chi^2 = \frac{(O-E)}{E}$$

Data in which the chi-square test is to be applied are arranged in a contingency table.

To calculate the theoretical or expected each of the observed frequency the procedure is as follows, the row total multiplied by the corresponding column total all divided by the over all number of cases (N)

$$\text{E.g. } a = \frac{N_a \times N_i}{N}$$

Where N_a = row total

N_i = column total

N = total number of cases

The chi-square formula is represented by

$$\chi^2 = \frac{(O-E)^2}{E}$$

If the computed χ^2 value is greater than the critical value obtained from the χ^2 table at a particular degree of freedom (df) and level of confidence or significance, the null hypothesis being tested is rejected and the alternative is accepted. It would then be held that the relationship or association being in target is statistically significant at that degree of freedom and level of significance.

CHAPTER FOUR

PRESENTATION AND ANALYSIS

In this chapter, the information gathered for the study is presented.

In presenting and analyzing the data, more emphasis was laid on this question that are directing related to the objectives and problems under study.

In addition to sources of data mentioned earlier, this study made use of questionnaires which are analyzed with the aid of the chi-square statistical tool to test the hypothesis.

4.1 DATA ANALYSIS AND INTERPRETATION

The questionnaire administered and interview conducted with the bank, the I.D.C officials and the small and medium scale industrials were used for the analysis and interpretation of data collected.

A total of 100 questionnaires were administered out of which 55 were administered to the bank and the remaining 45 to the small and medium scale industrialist. Out of the 55 questionnaires administered to the bank, 50 were Returned duly completed and 5 uncompleted. The duly completed questionnaires represent 90.9% of the total questionnaires administered to the bank. Out of the 45 questionnaires administered to the industrialists, 40

completed questionnaires were returned. This implies that 33 were duly completed and represent 88.89% of the total questionnaires administered.

4.2.1 ANALYSIS AND INTERPRETATION OF DATA FROM THE BANK

QUESTION 1: Educational qualification

Table 4.1a: Educational background

RESPONSES	FREQUENCY	PERCENTAGE %
SSCE/WAEC/GCE O'LEVEL	-	-
NCE/OND/GCE A'LEVEL	2	4
B.Sc/HND	30	60
Masters	17	34
Professional qualification	1	2
TOTAL	50	100

Source: fieldwork

QUESTION 2: How long have you worked with the bank

Table 4.1b Working Experience

RESPONSES	FREQUENCY	PERCENTAGE %
0 – 5 years	18	36
above 5 years	29	58
above 20 years	3	6
Total	50	100

Source: fieldwork

QUESTION 3: Have you been or are you directly involved in granting of loan in your bank?

Table 4.1c: Involvement with lending

RESPONSES	FREQUENCY	PERCENTAGE %
YES	35	70
NO	15	30
Total	50	100

Source: field work

Comment: Tables 4.1a, 4.1b and 4.1c shows the educational qualification, the number of years spent and the involvement in granting loans of the respondents respectively. This information was used to verify the authenticity of the answers or responses given by the respondents in the questionnaire.

Table 4.1a shows a very high level of educational background of the respondents as it is seen that only 4% have qualifications below B.Sc./HND, while 60%, 34% and 2% have B.Sc./HND, Master's Degree and professional qualifications respectively. 58% of the respondents have worked for more than 5 years, 6% for more than 20 years and 36% worked for less than 5 years.

Table 4.1c shows that 70% of the respondents have experience with loan granting procedures. This implies that the information gathered using above parameters can be strongly relied on.

QUESTION 4: Do you have lending program for small and medium scale industries in your bank?

Table 4.2

RESPONSES	FREQUENCY	PERCENTAGE %
YES	50	100
NO	-	-
Total	50	100

Comment: To verify whether bank operates a lending programme for small and medium scale industries, the bank officials surveyed, i.e. the respondents were asked whether they have lending program. As seen in the table above, the response was 100% yes. This implies that the bank has lending programme for small and medium scale industries.

Other questions were also asked, such as the specification of the type of loans. The response shows that Agric. loan and small and medium scale enterprises loans are most common.

QUESTION 5: On the average, what percentage of the populace would you say is aware of the loans and advances services being granted by commercial banks?

Table 4.3

RESPONSES	FREQUENCY	PERCENTAGE %
0 – 20%	-	-
21 – 40%	-	-
41 – 60%	5	10
61 – 80%	10	20
81 – 100%	35	70
Total	50	100

QUESTION 6: Do small and medium scale industrialist apply for loans and advances in your bank?

Table 4.4

RESPONSES	FREQUENCY	PERCENTAGE %
YES	47	94
NO	3	6
Total	50	100

Comment: table 4.3 shows that there is high level of awareness of the loans and advances services among the industrialists. 70% of the respondents indicated 81-100% level of awareness of the industrialist, 20% indicated 61-80%

While 10% indicated 41-60%.When asked whether small and medium scale industrialist apply of loans and advances, 94% of the respondents indicated yes while the remaining 6% said no. See table 4.4. The 3 respondents out of 50 are of the opinion that even if the smlists apply for loans they may at the end of the day not be able to meet the banks requirement in securing loans. It could also be that the long procedures to be followed in securing loans and the time taken before the loans is finally granted by the bank are among other factors that could discourage smlist from applying for loans. Instead, the smlists go for an alternative source of funds. This view is further revealed by asking question 10 below.

QUESTION 7: what percentage of the industrialists take advantage of this service?

Table 4.5

RESPONSES	FREQUENCY	PERCENTAGE %
0-20	35	70
21-40	15	30
41-60	-	-
61-80	-	-

81-100	-	-
Total	50	100

Majority of the respondents, 35 out of 50 indicated 0-20% of the industrialists benefit from the service. This implies that even if 94% as seen in table 4.4 agree that the industrialists apply for loans, only few of them endure to fulfill all the requirements of the bank.

QUESTION 8: Do you specify how loans are to be used?

Table 4.6

RESPONSES	FREQUENCY	PERCENTAGE %
YES	11	22
NO	39	78
Total	50	100

From information gathered through interviewing bank officials, They stated that problems usually arise when it comes to loan recoveries from smlists. These problems usually cut across inadequate planning on the part of the entrepreneur, diversion of funds to other uses and delay in repayment. From the Above table (4.6), it can be seen clearly that these problems arise from the fact that the banks do not specify how these loans should be used. Also the banks after disbursing loans do not monitor how

they are being used as was the response of 7% of the respondents in table 4.6 above.

QUESTION 9: From 2000-2004, how much was marked aside by your bank for this project? Please specify amount for each year.

QUESTION 10: Do you have problems with disbursing the funds?

Table 4.7

RESPONSES	FREQUENCY	PERCENTAGE %
YES	35	70
NO	15	30
TOTAL	50	100

From the above table, there is an indication to problems faced by the bank officials when it comes to disbursing the funds as indicated by 70% of the respondents. This might be as a result of the criteria for payments mated out to the smlists and their inability to meet certain conditions.

QUESTION 11: How long does it take your bank to process loans indications?

Table 4.8

RESPONSES	FREQUENCY	PERCENTAGE %
1-3 months	10	20
4-6 months	25	50
7-12 months	15	30
Less than a month	-	-
TOTAL	50	100

From the table above, it can be seen that over half of the Respondents indicated that it takes the commercial banks more than 3 months to process loan applications of smlists although this delay might be as a result of the inability of the entrepreneur to meet certain specified conditions, at stipulated

Times; yet the mere fact that it takes the entrepreneur over 3 months to know whether his application is successful can be highly deleterious to the start-up or survival of a business.

QUESTION 12: What are the condition for granting loans to small and medium scale industrialists?

Table 4.9

RESPONSES	FREQUENCY	PERCENTAGE %
Collateral	30	60
Guarantor	10	20
Nature of business	-	-
Registration of business	-	-
Others (specify)	10	20
TOTAL	50	100

In question 12 of the questionnaire, the respondents were asked to indicate the criteria used in disbursing the loans. The response showed that the intending borrower has to satisfy certain terms and conditions which are as follows; being a customer of the bank, proper completion of application form, ability to put the loan into proper use, feasibility study, means of repayment, the applicants initial contribution to the project, collateral security and guarantee. This implies that the loan cannot be given until these conditions are fulfilled, from the table above it can be seen that a lot of the respondents (60%) say collateral security is required before a loan can be given.

QUESTION 13: What constitutes the collateral securities required?

Table 4.10

RESPONSES	FREQUENCY	PERCENTAGE %
Land property	20	40
Educational certificate	-	-
Others (specify	30	60
TOTAL	50	100

From table 4.9, it showed that more emphasis was placed on collateral security from responses. The respondents were then further asked to indicate what constitutes the collateral securities required in table 4.10 above.

From the summary of their responses it reveals that most of the loans given by commercial banks to small and medium scale entrepreneurs in Nigeria are secured on highly valuable securities. In the above table, 40% of the respondents indicated landed property, while the remaining 60% fell under others indicating life assurance policy, certificate of ownership (c of v), guarantee and lien over deposit were also mentioned. Educational certificate is not accepted.

QUESTION 14: Have the small and medium scale industrialists been meeting such requirements?

Table 4.11

RESPONSES	FREQUENCY	PERCENTAGE %
YES	15	30
NO	35	70
TOTAL	50	100

Comment

Question 14 asked whether small and medium scale industrialists have been meeting the bank requirement on securing loans. The response shows that 70% of the respondents indicated that the industrialists do not meet the collateral security requirements. This reveals that most of the small and medium scale industrialist cannot obtain loans from the commercial banks due to lack of collateral and other requirement. Table 4.11 illustrates this.

QUESTION 15: what kind of loan is available for these small and medium scale industrialist.

Table 4.12

RESPONSES	FREQUENCY	PERCENTAGE %
Short-term loan	50	100

Medium-term loan	-	-
Long-term loan	-	-
TOTAL	50	100

Comment:

Table 4.12 above shows that 100% of the respondents indicated that the small and medium scale industrialists get short-term loan from the banks.

The repayment period is between 1-6 months according to the respondents implying

that the banks, due to the short repayment time discourages the smlist. The duration could also cause default in repayment. This was the assertion of the respondents when they were asked the duration of repayment in question 15.

QUESTION 16: in case of default by the borrower what do you do to recover the loan?

Table 4.13

RESPONSES	FREQUENCY	PERCENTAGE %
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Auction the pledge	38	76
Legal action	3	6
Other (specify	9	18
TOTAL	50	100

Comment: From the above table, 76% of the respondents indicate that in a situation where the borrower cannot pay up at the stipulated time the bank can auction the pledge (securities) of the defaulter. Legal action can be taken if the

Pledge is not enough. On the other hand, the bank can also sell off the business venture for which the loan was taken on conditions that proceeds from the sale will cover up. This is what the remaining 18% indicated as 'others' in the table

Above represents. This can also help in discouraging potential borrowers from defaulting as they would not want to lose their business.

QUESTION 17: Would you say that the CBN also influence the bank lending policies.

Table 4.14

RESPONSES	FREQUENCY	PERCENTAGE %
YES	40	80

NO	10	20
TOTAL	50	100

When asked in question 17 whether the CBN influences the lending policies of the bank, 80% of the respondents indicated yes while 20% said no. These responses conform to some findings that in 1999, the bankers committee at the initiative of the CBN developed an interventionist strategy called the small and medium industries equity investment scheme (SMIEIS). This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in an equity participation framework. (See bullion, CBN publication October -December 2004.)

Question 18 Asked how far is it true that the commercial banks do not follow the federal government directives concerning loanable fund to these subsectors of the economy. To this response, 70 percent of the respondents said this is false accusation while 20% agreed with the accusation. The remaining 10% did not respond to this question. In my opinion, I agree with the 20% that agreed with the accusation as the 70% would want to favour their organization. This assertion could be related to the fact that the respondents did shy away from the question demanding the allocated fund

and amount actually disbursed in the year 2000-2005. So the CBN has to come up with SMIEIS.

In response to question 18 which asked whether the collateral securities demanded from borrowers are too rigid or hard to come by, 90% of the respondents indicated yes. Based on this information and the one gathered from IDC this is my opinion could be the reason why some of the smlists find their

Way through their “god fathers” either in government or the banks to secure loans without actually pledging any tangible assets and most times such loans are used for unproductive venture.

QUESTION 19: How would you rate the performance of first Bank of Nigeria in financing small and medium scale industries in Nigeria?

Table 4.15

RESPONSES	FREQUENCY	PERCENTAGE %
Good	35	70
Satisfactory	10	20
Poor	5	10
Very Poor	-	-
TOTAL	50	100

70% of the respondents rated the performance of the bank as good, 20% said it was satisfactory while 10% said it was poor. None of the respondents said It was very poor. From this table above it can be deduced

that the commercial Banks are trying their best to make their impact felt in the areas of helping out

splits but there is still a lot they can do to improve their services.

4.3.2 ANALYSIS AND INTERPRETATION OF DATA FROM SMALL AND MEDIUM SCALE INDUSTRIES.

QUESTION 1: FORM OF OWNERSHIP

Table 4.15

RESPONSES	FREQUENCY	PERCENTAGE %
Sole Proprietor	30	75
Partnership	3	7.5
Company	7	17.4
TOTAL	40	100

A large number of the respondents expressed an overwhelming preference to the sole proprietorship form of business. From the above table, it is shown that 75% favour sole ownership while 17.5 are owned by private companies only 7.5% of the businesses are joint partnership which makes it the most unpopular form of ownership. This might be as a result of the entrepreneurs mistrust for each other so they avoid partnerships. This will definitely result in the trend of low capital base as indicated by the answer

given to question 1 of the industrialist’s questionnaires. The answer showed that most of the entrepreneurs have small capital base which could have been improved if at least two people had put their capitals together to start up a business.

QUESTION 2: Number of employees.

Table 4.16

RESPONSES	FREQUENCY	PERCENTAGE %
Skilled	90	18
Semi-skilled	248	49.6
unskilled	162	32.2
TOTAL	500	100

A breakdown of the total work force of the small and medium scale industries was taken and is represented in table 4.16 above. The workers were grouped into skilled, semi-skilled and unskilled. A skilled worker is one who has learnt some form of techniques or has acquired some knowledge resulting from apprenticeship or some other form of training. A semi-skilled worker is one who is in the process of learning a technique or undergoing some on-the-job training to acquire some technique or knowledge as an apprentice. An ‘unskilled worker is one who hasn’t any

knowledge or knows any technique, and the work he is involved with does not require any skill.

The sample unit indicated in table 4.16 above shows that out of 500 persons employed, about 49.6% are semi-skilled, 32.4% are unskilled whereas 78 only 18% are skilled. The result shows that small and medium scale industries are mostly made up of semi-skilled and unskilled workers.

QUESTION 3: Raw materials used in the industry or company

Table 4.17

RESPONSES	FREQUENCY	PERCENTAGE %
Local	36	90
Imported	-	-
Both	4	10
TOTAL	40	100

When the entrepreneurs were asked the source of their raw materials, from the above table it can be seen that about 90% of them get their materials from within the country. Only 10% of them get their materials from local and imported sources and none acquire materials from external sources.

This might be as a result of the high exchange rate of most foreign currencies from where they are likely to get viable materials. Most of these smallists might find it unaffordable.

QUESTION 4: Market for finished products of the company or enterprise.

Table 4.18

RESPONSES	FREQUENCY	PERCENTAGE %
Within the country	40	100
Outside the country	-	-
Both	-	-
TOTAL	40	100

Table 4.18 shows that 100% of the respondents market their finished products in Nigeria. This might mean that, their goods are made to suit the Nigerian markets on the other hand, it might also mean that their finished products cannot compete for foreign users due to market research carried out which revealed their products are needed most within the country. This definitely shows the level at which our small and medium scale industries are functioning presently.

QUESTION 5: Do you keep daily or weekly records of business transactions.?

Table 4.19

RESPONSES	FREQUENCY	PERCENTAGE %
Yes	40	100
No	-	-
TOTAL	40	100

QUESTION 6: Do you have accounts into which business receipts are paid?

Table 4.20

RESPONSES	FREQUENCY	PERCENTAGE %
Yes	40	100
No	-	-
TOTAL	40	100

All the respondents responded in the affirmative when asked whether they keep records as indicated in table 4.19. This is an advantage since there is always a need to keep records in a business whether big or small. On further enquiries, it was discovered that there was no particular format in which accounts were kept, but all records were recorded haphazardly as

no financial experts like accountants were employed. This will usually result in the commercial banks being reluctant to give them loans because their books do not normally reveal their true financial positions.

Table 4.20 reveals that all respondents have accounts with commercial banks where they keep profits of transactions. It was discovered that most of the small and medium scale industrialists (with particular reference to the small scale industrialists) do not separate personal and business accounts. These results in them use the money in solving personal problem which will ultimately result in liquidation of the company that was barely staying afloat.

QUESTION 7: Source of initial capital

Table 4.21

RESPONSES	FREQUENCY	PERCENTAGE %
Commercial banks	5	12.5
Personal savings	25	62.5
Relations and friends	7	17.5
Government	3	
TOTAL	40	100

Comment: in response to the question of the source of their initial capital, the small and medium scale industrialists indicated that the initial capital is sourced mostly from the personal savings followed by sources from friends and relations. Table 4.21 shows that 62.5% comes from personal savings, 17.5% from friends and relations, 12.5% from commercial banks and 7.5% from government.

This implies that commercial banks and government make little impact on the initial take-off of the small business. From their opinion (smallists), it is very difficult to source the capital for initial take off from the banks and some of them are not aware that they can also source funds from the government. Therefore the best option is to source capital from the personal savings and friends and relations.

QUESTION 8: What sources do you obtain fund to run your business?

Table 4.22

RESPONSES	FREQUENCY	PERCENTAGE %
Personal savings	11	27.5
Retained earnings	9	22.5
Relations and friends	8	20.0

Loans from banks	8	20.0
Government	4	10.0
TOTAL	40	100

Comment: Question 8 above asked the smlits the sources of funds for running their business. In response, table 4.22 shows that 27.5% indicated personal savings, retained earnings 22.5%, friends and relations 20%, loans from banks 20% and government 10%. This implies that personal savings still plays greater role in sourcing of funds, to run the business followed by retained earnings. However, the table above shows that commercial banks prefer to give loans to small and medium scale industrialists for working capital to initial capital (see table 4.21). Also using 22.5% of the retained earnings as working capital indicates that the smlits don't make adequate profit.

QUESTION 9: Has your business ever needed advice on certain issues or information concerning your business.

Table 4.23

RESPONSES	FREQUENCY	PERCENTAGE %
Yes	36	90
No	4	10

TOTAL	40	100
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From the above table (table 4.23), it can be seen that 90% of the small and medium scale entrepreneur have needed advice at some point from various sources on how to go about their business. 10% on the other hand have never needed any form of advice. They were then further asked in question 10: if yes what are/is your source(s) of advice.

Table 4.24

RESPONSES	FREQUENCY	PERCENTAGE %
Friends	15	41.7
Consultants	8	22
Commercial banks	5	14.3
Any others (specify)	8	22
TOTAL	36	100

Thirty six of the entrepreneurs responded in the affirmative to question 9. So they were further asked the sources of advice in table 4.24 above. The table reveals that they mostly get advice from friends (41.7%). Consultants are also

other source of advice for them. The 22% response under the others column is advice from IDC and NDE officials. Only 14.3% of the entrepreneurs indicated commercial banks as sources of advice. This indicates that the impact of the IDC and NDE's on advising the industrialist is felt more than that of commercial banks.

On further investigation, it was revealed that the small firms do not approach officials of commercial banks for advice as a result of their unco-operative attitudes. They mostly get advice from friends which is why they usually run into series of problems as indicated in the questionnaire, such problems include financial, managerial, lack of adequate supply of raw materials etc. this could have been taken care of if they had been able to get good and sound advice from commercial banks instead of friends and relations who might not be in a position to give unbiased advice for a particular problem.

QUESTION 10: How would you rate the performance of commercial banks in financing small and medium scale industries in Nigeria?

Table 4.25

RESPONSES	FREQUENCY	PERCENTAGE %
Good	2	5
Satisfactory	14	35

Poor	18	45
Very poor	6	15
TOTAL	40	100

The respondents in the smlists were asked how they would rate the performance of commercial banks in the promotion of smis in Nigeria. They responded as shown in table 4.25. 45% of the respondents indicated that the commercial banks have a poor performance when it comes to financing smis. 35% indicated satisfactory, 15% said very poor and only 5% said good. They were then asked to comment further on their answers to question 10. The respondents who rated commercial banks as poor and very poor listed the following factors; cumbersome and time consuming procedure in loan approval, bribery, repayment problems and collateral securities requirements. All these make it very difficult or impossible to obtain loans from commercial banks at stipulated times. Those who rated them as good and satisfactory maintained that commercial banks are doing their best though more efforts are needed. Nigeria is just starting up this micro financing and time and effort is needed for it to workeffectively. The commercial banks are not charitable organizations but also business

ventures out to make their own profit and they need to have very good reasons to administer loans and advances so their business flourishes and succeeds. Other questions asked on the questionnaire revealed that 80% of the small and medium entrepreneurs in the sample unit did apply for loans from commercial banks only 42% out of them got the loan. Greater part of those who were unable to secure the loan indicated that it was on the basis of lack of tangible collateral security while the rest indicated improper completion of application form, lack of accounting system in their business records, etc. however, those smlists that succeeded ad were satisfied with the loan procedures still complained of the interest rates being too high and thus, adversely affect their business, they also complained of the duration of repayment time which also is a bottle neck on the progress of the business. This according to the smlists is due to the dwindling nature of the economy. According to them, the profit they make is not sufficient enough so as to repay the loans conveniently. This is also attributed to the government's policy on allowing importation of goods which are locally made here in Nigeria though cannot effectively compete in the market with the imported or foreign goods. This is one of the major reasons why banks are reluctant in giving out loans to smlists.

4.5 TEST OF HYPOTHESIS

Hypothesis One

That financing of small and medium scale enterprises by commercial banks in Nigeria has been a failure.

Table 4.15 and 4.25 reveals the respondent's view from both the bank and smlists respectively on the performance of commercial banks in respect of financing small and medium scale industries.

It is seen that in table 4.15, 70% of the respondents rated the performance of the bank as good 20% said it was satisfactory while 10% said it was very poor. While table 4.25 shows that 45% of the respondents from the industrialists indicated that commercial banks have a poor performance when it comes to financing SMEs. 35% indicated satisfactory, 15% said very poor only 5% said good.

I feel strongly that the industrialist's result will be considered more accurate to test this hypothesis knowing fully well that banks will certainly favour themselves since they are the creditors. Although result from table 4.22% shows that 8 respondents out of 40 industrialists, constituting 20% indicate that fund are obtained from banks, 27.5%, 22.5%, 20% and 10% indicate the sources of finds come from personal savings, retained earnings friends and relations and government respectively.

This implies that banks do fund SMEs, to some extent and thus the null hypothesis one above is not accepted.

Hypothesis Two

That securing loans from commercial banks in Nigeria by small and medium scale entrepreneurs is very difficult and that most of their funds are obtained through personal savings and friends and relatives. To test the above hypothesis, question 9 was put to bank officials as whether entrepreneurs apply for loans and advances in their banks. The response was that 94% of the respondents indicated yes while the remaining 6% said no. (See table 4.4). The 3 respondents one of 50 are of the opinion that even if the smallists apply for loans they may at the end of the day not be able to meet the bank's requirements in securing such loan. In addition to this, the long procedures to be followed in securing loans and the time taken before loans are finally granted by banks are among other factors that make securing of loans to be very difficult. This assertion is further supported by results from question 10 of the bank officials. Table 4.5 shows the percentage of the industrialists that take advantage of the service. 70% of the respondents indicated 0-20% industrialists take advantage.

Responses from the industrialists on questions 8, 12, 14 and 15 (chapter 4) further justified the above responses from bank officials. Table 4.12 shows 62.5% of their initial capital comes from personal savings. For sources of

funds to run the business i.e. working capital, which was asked in question 12, 27.5% which represents the highest comes from personal savings. In response to question 14 and 15, 80% of the entrepreneurs apply for loans, 42% out of them got the loan.

A total of 100 questionnaires were administered out of which 55 were administered to the bank and the remaining 45 to the small and medium scale industrialist. Out of the 55 questionnaires administered to the bank, 50 were returned duly completed and 5 uncompleted. The duly completed questionnaires represent 90.9% of the total questionnaires administered to the bank. Out of the 45 questionnaires administered to the industrialists, 40 completed questionnaires were returned. This implies that 33 were duly completed and represent 88.89% of the total questionnaires administered.

CHAPTER FIVE

5.1 SUMMARY

This study sheds light on the problems, roles and importance of small and medium scale industries in the economic development of any country and Nigeria in particular. Attempt was made to evaluate the role of commercial

banks of Nigeria through financing these industries. The other sources of finance available to small and medium scale industries were also enumerated. Issues raised by both the bank and the SMEs were analyzed and summary of the findings were discussed in chapter four, in which the primary data were collected through two sets of questionnaires; one to the bank and the other to the small and medium scale industries. Interviews were also conducted in which IDC staffs were included. The secondary data obtained were from annual and financial reports, bulletins, publication of CBN, newspapers, relevant text books etc.

In an effort to enhance and develop these small and medium scale industries, the federal government of Nigeria at the initiative of the CBN introduced a scheme (SMIEIS) which requires banks to set aside 10 percent of their profit before tax to fund SMEs in an equity participation framework other schemes like NERFUND and SSICS were also established.

The purpose of this research work is to analyze the result of these programs so far and ascertain whether it offers an effective means of solving the problem of funding small and medium scale businesses in Nigeria, whether banks can play the intermediary role.

5.2 CONCLUSION

From the analysis of the results in chapter four, one can deduce that the accessibility to credit market for small and medium scale businesses in Nigeria is extremely difficult due to the fact that the macroeconomic instability and uncertainty in the business environment has forced banks to lend short to SMEs. Also such facilities i.e. overdrafts and short term loans are made available at a very high interest rate of over 26 percent and they are heavily collateralised. In a situation in which SMEs are mainly dependent on bank loans, this situation could be very disastrous. The implication is that many SMEs do not have access to bank loans with grave implications for their growth and development. Also the inconsistency in government industrial policies for example the inability of the government to execute budgets on time is a major restriction on the ability of manufacturing firms to factor tariff measures into their trade decisions. The lack of infrastructural facilities is also part of external problems that affect the growth of small and medium scale industries. Here, many banks blame their inability to fund SMEs on the poor economic climate prevalent in the country, citing for instance the low performance of public utilities as one of the factors threatening fund managers. Apart from the external problems that harm the growth of SMEs, there are also serious internal problems that greatly constrain their growth and serve as a deterrent for banks to lend. These problems include among others poor management practices, high

rate of business failure, poor accounting standards, shortage of skilled manpower and financial indiscipline. On the basis of these problems, some recommendations are made below which , if implemented will improve the dwindling state of our economy in general and the small and medium scale industries in particular.

5.3 RECOMMENDATIONS

There is no way Nigeria can achieve sustainable funding of small and medium scale enterprises by commercial banks and other agencies such as NERFUND, NIDB etc established for the funding purposes until both the external and internal problems of SMEs are solved. Banks react to the stimulus of the macroeconomic environment and as long as the environment remains conducive, banks will continue to exhibit risk-averse behavior irrespective of the programs put in place to address this problem including the SMIEIS program that was already highlighted. The following recommendations in my opinion will help improve the growth and development of the SMEs:

1. The government should cut down the interest rate since interest rates are not favorable to investors in the sense that the cost of funds could undermine profits and cause a loss of the investment. Interest rates in Nigeria officially are as high as 23.6% and this has a negative impact on

the ability of small and medium scale industries to obtain credit from the banks.

2. The government should be consistent in its industrial policies so as to enable manufacturing firms to factor tariff measures into their trade decisions.

3. The government should provide adequate infrastructural facilities like electricity, roads and water supply for the SMEs as this will reduce the high cost of doing business. This will encourage banks to fund the SMEs as their investment will be recouped.

4. The government should regard SMEs should regard SMEs as the ‘eggs’ that hatch big businesses. Apart from the adequate incentives in (3) above, the government should support SMEs by bulk purchasing their products and retailing them both for the domestic market and for exports.

5. To facilitate their access to bank credits, the government should be issuing LPOs to the SMEs and payment should be made promptly to the SMEs as this will encourage their growth and the banks can also accept such contract papers as collateral.

6. On the issue of the internal problems of the SMEs like poor management practices, high rate of business failure, poor account standards, shortage of skilled manpower and financial indiscipline, the government should set up small business management assistance agencies manned by highly skilled

and dedicated workers with the view of tackling these problems. The agencies should complement the provision of credit by insuring its efficient use through training and counseling of the small and medium scale entrepreneurs.

7. The banks should target potential borrowers for its core operations and form them into groups. Then soft loans should be made available to these SMEs, repayable within a specified period before others in that strategic group can benefit from the scheme. The idea is that with this system, a subtle pressure from other SMEs that are members of this strategic core is mounted on the benefiting group to repay so that others can benefit from the scheme. This will no doubt introduce healthy capitalization among SMEs through factoring the credibility of the borrowers.

8. The need for capitalization of the banks cannot be overemphasized as capitalization influences the way banks react to GDP shocks. Also, the credit supply of well capitalized banks is less pro-cyclical. This indicates that well capitalized banks are not risk-averse. Moreover, well capitalized banks can better absorb temporarily financial difficulties on their borrowers and preserve long term lending relationships.

9. If (8) above is achieved, the mega banks such as Union Bank should play a more active role in actualizing the objectives of SMIEIs by setting up separate desks to manage the funds and vigorously pursue the idea as

with any other bank product and undertaking studies aimed at attracting foreign investors scanning overseas markets and monitoring developments that have implications for the sector.

10. The banks should adopt relationship lending as a dominant bank rule in funding SMEs. This will mitigate the problem of weak asset based collateral. However, this can be more effective if the borrowers show some high level of responsibility, discipline and trustworthiness. According to the CEO of one of the mega banks in Bangladesh, they give loans to SMEs without collateral and realize over 96 percent of their investments (CNN CONNECTS, Sept 05).

I strongly believe if all these recommendations are given serious attention by both the key players' i.e. the government, the banks and the SMEs themselves, financing the SMEs by commercial banks will be made a lot easier, more effective and the impact will be felt towards the growth and development of small and medium scale industries vis-à-vis the economic development of Nigeria.

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