FINANCING SMALL AND BUSINESS ENTERPRISES FOR ECONOMIC DEVELOPMENT IN NIGERIA AS A MOTIVATION

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Abstract: The main objectives of this paper were to review the government policies for SMEs in Nigeria. Examine source of finance and incentives for SMEs to present an analysis of Nigerian firms and access to credit for SMEs and finally recommend strategies for the promotion of SMEs in Nigeria. The major conclusions drawn from this paper were available data and records indicate that the performance of SMEs in Nigeria has not justified the establishment of Micro Credit Institutions. Analysis on Nigerian firms shows that about 52% of Micro Firms have access to external finance, while 82% of small and 89% of medium scale firms have access also. While large firms have almost 100% access to external finance. The analysis further revealed that almost 50% of Micro, 39% and 37% of small and medium scale firms sampled report being credit constrained as opposed to 25% of the very large firms. This shows that small and medium scale firms are discriminated against credit market. About 25.2% of the small business and 23.2% of medium scale business sampled complained of high interest charges and claimed that because of this, they could not secure loans. It is recommended that specialised SMEs banking and support programmes need to be set up. The small loan scheme needs to be reviewed and mobile banking services need to be organised to make credit accessible to SMEs. A clear policy commitment needs to be made to improve access to credit to rural areas. Finally, government should create an enabling environment that will discourage corruption and bureaucratic bottlenecks.

Keywords: Micro-credit Financing, Government policies, Firms, Industrial Development

INTRODUCTION

One of the instruments that have been identified to tackle poverty and promote economic development is the promotion of small and medium enterprises. Development of SMEs is seen as an instrument that can be used to generate sustainable development (Anka, 2010). A sustainable development is one which ensures that the general population contain an acceptable level of welfare both at present and in the future. The importance and relevance of SMEs is also manifested in numerous dimensions. First they enhance capacity building as they serve as entrepreneur usually creates more employment opportunities per unit of investment because they are characterised by labour intensive operation. Thirdly, they achieve a much more relatively high value added operations because they are propelled by basic economic activities that depend mostly on locally sourced raw materials (Onugu, 2005).

SMEs are also effective avenues for mass participation in industrial development. In view of their relatively low take-off requirements, they widen and other production factors, they widen the scope of participation in industrial activities even by people with limited capital. Given all the positive impact and indicators SMEs can create in an economy. It is now generally accepted that they are the centre piece of development process worldwide (Alawode, 2006). In Nigeria, the official definition of small scale enterprises has changed from initial capital investment veiling of N60,000 in 1978 to the ceiling of N2million about US$250,000 excluding land and building as at 1992. We may assume as at now, 2011 the ceiling will be about N10million in view of the inflation that is rising every year due to changes in the economy.

The importance and relevance of SMEs is also manifested in numerous dimensions. First they enhance capacity building as they serve as entrepreneur training avenues. Secondly, small scale industries create more employment opportunities per unit of investment because they are characterised by labour intensive operations. Thirdly, they achieve a much more relatively high value added operations because they are propelled by basic economic activities that depend mostly on locally source of raw materials (Okolo etal, 1997).

It is interesting to note that SMEs provide an interesting alternative for countries like Nigeria, that desire the fast option for industrial take development. This is because SMEs provide good testing ground for new products and are characterised by short term gestation periods and high potentials for quick yield on investment (Jamali and Anka, 2010).

Problem Statement

The problem of availability of credit and finance to small and medium enterprises in Nigeria is one of the greatest challenges the country is facing for quite sometime. The large sector, being organised, has been the main focus of government's attention whenever promotional and financial policies are formulated and implemented. It is seldom recognised, however that these policies have an undesired impact of discriminating against SMEs putting it as a gross disadvantage in relation to large scale sector. The desired policy intervention should aim at creating an overall atmosphere for competition between the two sectors on equitable terms, mainly by adopting even handed approach towards availability of credit and finance and rationalising the regulatory framework.

Objectives

- To review government policies for SMEs in Nigeria.
- Examine source of finance and incentives for SMEs and experience of other countries in financing small scale sector.
- To present an analysis of Nigerian firms and access to credit for SMEs.
- Assessment of performance, problems and challenges of SMEs.
- To recommend strategies for the promotion of SMEs in Nigeria.

REVIEW OF LITERATURE

Economic hardship, retrenchment, low disposable income and lack of incentives had forced many Nigerians to look inwards towards utilising the available local resources including raw materials. Through innovative use of these locally available factors of production including waste materials, some small entrepreneurs were able to fill gaps left by declining imports and large scale outputs by producing imports vehicle spare parts, paints, confectionary and cosmetics.

Stagnant income per capital has also stimulated growth in self employment as people struggle to maintain family incomes. This has many made modern sector workers to turn to self employment activities to supplement their declining real wages while others were forced to work on their own when laid off. Some enter the business circle through the apprenticeship route. These trades include garment making, carpentry, vehicle repairs, metal working, tailoring, soap making, cosmetics production, candle production and so on (Momoh, 2004).

The problem created by this rapid development is that the number of adults with similar skills increases without necessarily impacting the entrepreneurial and innovative activities needed to become more productive with high product quality. It must be noted that the abi9lity of cottage/small enterprises to grow would also dependent on the ability of the financial system to shift resources to them from industries that are declining and on how severe demand and credit were restrained under stabilisation policies.

Two attributes of small scale industry are lack of huge capital and specialised managerial skills. For the small/cottage enterprises to perform the role in our national industrial development all organs including all arms of government (Federal, State and Local Governments) research Institutes, Financial Houses and indeed the basic information and corporation, management, technological and financial assistance to SMEs.

Government Policies for Small Scale Industrial Sector

Systematic economic planning started in Nigeria at the end of the Second World War (1946). At this time, the Secretary of State for the Colonies called on each government of the British Colonies to formulate a ten year plan for economic social development of their territories. Since independence, Nigeria has executed six national development plans between 1962 – 1990s; these have a number of short comings. After independence, Nigeria attempted to develop strong indigenous entrepreneurial base and to avoid dependence on foreign investors, established gigantic industries like petroleum refining, pulp and paper industries, iron and steel, cement and fertiliser production etc (Agaju, 2005)

The thinking of the government then was that after establishing big industries, medium and small cottage industries might develop from them. The gravity of this concern derives from the industrial sector for structural transformation, employment generation and diversification of resources of foreign exchange earnings.
The Nigerian Industrial Policy was aimed at achieving greater efficiency in the allocation of resources and also to attract foreign capital and investment into the economy with the private sector taking the lead. The high light of the policy were: -

- Provision of a one step approval agency to ensure that all required approvals of new business are obtained within 60days through Industrial Development Coordination Committee (IDCC).
- Increased private sector participation by opening up restricted areas in manufacturing to private sector.
- Employment generation by promotion of small scale industries nd establishment of National Directorate of Employment which is charged with entrepreneurial development and training for the youth.
- The Federal Government establish some banks such as Bank for Industry, Nigeria Bank for Commerce and Industry to provide medium and long term finance to SMEs. The National Economic Reconstruction Fund was established to correct the inadequacies and problems of small and medium enterprises. The fund also provides medium and long term finance and foreign exchange for importation of machinery and equipment.
- The World Bank also provide loan for small and medium enterprises in the private sector with fixed assets including land.

Specific Policies

Credit Policies with Negative Impact on SMEs – Non availability of credit has been identified as the major constraint to the growth of SMEs. There are a number of factors responsible for this persistent handicap faced by SMEs. Firstly, banks and other Financial Institutions are willing to make credit available to large scale enterprises and SMEs do not receive the same treatment. There is an institutional culture which is biased towards large enterprises. It is considered safe to give large loans as the receiving enterprises are able to offer adequate collateral because of their large asset base and other securities./ the loan approval procedure is lengthy and time consuming with local managers of lending institution having power to sanction loans. (Iornem, 2000).

Under the small loans scheme of small and medium enterprises Agency although it is mandatory for banks to provide small loans according to annual targets with elaborate and tedious collateral requirements ensures that SMEs are continued to be deprived of the loan facility. There is also no monitoring mechanism to periodically ascertain the proportion of SMEs receiving loans under th small loan scheme.

Secondly, it is not mandatory for banks to take account the rural urban distribution when providing loans. The market for loans is perceived to be primarily located in urban areas and the institutional culture pays scant attention to the needs of entrepreneurs in rural areas particularly in the SMEs sector.

Thirdly, information about various loan schemes is not easily available, while the large sector entrepreneurs would generally receive preferential treatment from officials of a lending institution, the small officials of a lending institution, the small sector entrepreneurs may have to make several visit just to get complete information and guidance about a loan scheme. Publicity of schemes especially of the small loans scheme is severely limited and most schemes are occasionally advertised in the urban media. Information about schemes is available only from the concerned institution whose geographical coverage is generally very restricted (Promotion of SMEs in Pakistan, 1995).

Training Policy – Vocational training is another critical issue in SMEs growth, a number of factors are responsible for keeping SMEs out of the scope of formal training programme. Firstly, there had been practically no linkages between the training institutions and SMEs. Due to this, the skills taught in these institutions had little relevance to SMEs requirements.

Secondly, the training provided by the formal institutions had been largely superfluous to SMEs needs. The courses were generally too long with emphasis on theory at the expense of practical. The training was too trade specific and did not take into account allied skills required by SMEs to perform multiple tasks. Thirdly trade specific local training programmes do not exist where production-cum-training centres could address specific training and technological needs of SMEs. There is no recognition of this at policy level; such centres could play a vital role in up gradation of skills leading to competitive product quality acceptable to SMEs.

SOURCE OF FINANCE FOR SMEs

Source of funding for SMEs in Nigeria can either be private or institutional, we shall examine the following: -

a. **Personal Initiative and Efforts**: - Personal savings and loans and grants from parents, relatives or business associates are a major source of finance for this category of business in Nigeria.
b. **Banking Industry**: - The Nigerian Banking Industry made up essentially of commercial and investment banks remain a veritable source of funding for SMEs. The major limitation of bank loans is the associated cost in terms of interest and other charges.
c. **Small Scale Industries Credit** Scheme: - this was a popular scheme for financing of SMEs before the introduction of Structural Adjustment Programme (SAP). They are funding assistance to cottage and small/medium enterprises by the Regional Governments.
d. **Small Medium Industry Equity Scheme**: - this is a voluntary initiative of the Bankers Committee. The initiative was in response of government concerns and policy measures for the promotion of SMEs. The scheme requires all banks to set aside 10 percent of their profit before tax for investment in the form of equity to eligible industries such as SMEs.
e. **Bank for Industry**: - Three Institutions were merged to form this bank, such as Nigerian Bank for Commerce and Industry, National Economic Reconstruction Fund and Nigerian Industrial Development Bank. The aim is to promote SMEs in Nigeria.
f. **Capital Market**: - The Nigerian Stock Exchange seeks to promote SMEs by establishment of second tier securities market. The aim is to facilitate access to capital market by SMEs to raise cheap funds.
g. **State Ministries of Commerce**: - The State Ministries of Commerce and Industry are also actively involved in the promotion and financing of SMEs.
h. **National Directorate of Employment (NDEs)**: - The NDE has over the years created avenues for providing financial assistance to young graduates who have excellent ideas but lack financial resources to execute them.

Incentives for the Development of SMEs in Nigeria

In order to promote small and medium enterprises and achieve the objectives of employment creation and even development through employment dispersal, the Federal Government adopted different strategies and policies. These could be broadly classified into three, namely Fiscal and Export Incentives and Technical Assistance Programme.

a. **Fiscal Incentives**: - An array of fiscal incentives have been put in place for SMEs promotion, this include tax relief for small enterprises during first six years of operation, granting of pioneer status for a period of five years with possible extension of two enterprises located in rural areas,
b. **Export Incentive**: - To encourage firms including SMEs to produce for export and diversify the country's revenue base, the government provided a package of incentives which include the introduction of the manufacture in-bond, import duty draw back and export credit and insurance schemes. To protect SMEs, the government discourage importation of some industrial goods that could be produced domestically.
c. **Technical Assistance Programme**: - To enhance entrepreneurial development in various aspects of small and medium enterprises, the government provided an array of technical assistance programmes. The programmes were aimed at providing the needed skills in project implementation. The following agencies were charged with the responsibility to implement these programmes include: Industrial Development Centre (IDC), centre for Management Development, Project Development Agency (PRODA), Federal

Institute of Industrial Research, Oshodi Lagos (FIIRO) and Raw Materials Research and Development Council (RMRDC)).

Financing SMEs Some Lessons from Developing Countries

Brazilian Experience: - The main thrust of the Brazilian model was that apart from heavy funding and subsidies, the government provide infrastructure in an area and encourages the cluster of industries in such areas. The Sinos Valley Shoe Cluster Industries have revolutionised the Brazilian Shoe Industry. For the past 30years, over 500 SMEs that produce shoes are located there. Today, Brazil is the world's third largest shoe exporter.

Bangladesh Experience: - The Grameen Bank Model establish by Legendary Prof. Muhammad Yunus, in this model banks, target potential borrowers for its core operations and form them into groups. Then soft loans are made available to these SMEs, repayable within a specific period before others in that strategic group can benefit from the scheme. With this system there is a subtle pressure from other SMEs that are members of this strategic core on the benefiting group to repay so that others can benefit from the scheme. This has introduced healthy capitalisation among SMEs in Bangladesh through factoring the credibility of the borrowers.

Indian Experience: - The basic principle guiding the finding of SMEs in India is that the government regards small business as the eggs that hatch big business. Apart from adequate incentives, the government supports SMEs by bulk purchasing of their products and retailing them both for domestic market and for exports. To facilitate their access to bank credit, the government issue SMEs Local Purchase Orders (LPOs). Banks accept such contract papers as collaterals. When small business bid for government contracts with small ones, big businesses must bid 15% less than small business for them to supply government needs. Payments are promptly made to the SMEs and this encourages their growth (Ogunjuba etal, 2004).

ACCESS TO CREDIT FOR SMEs

Since the attainment of independence in Nigeria, every known regime recognises the importance of promoting SMEs as the basis of economic growth. As a result, several Micro lending Institutions were established to enhance the development of SMEs. Unfortunately, records indicate that the performance of SMEs in Nigeria has not justified the establishment of these Micro Credit Institutions. We present some data that shows access to credit by Commercial and Merchant Banks.

Loans Disbursed by Commercial Bank

Table 1 – Ratio of Loans to SMEs by Commercial Banks

Year	Loans to SME	Banks Total Credit	% of Total Credit
1992	20,400	41,810.0	48.8
1993	15.462.9	48,056.0	32.2
1994	20,552.5	92,624.0	22.2
1995	32,374.5	141,146.0	22.0
1996	42,302.1	169,242.0	25.0
1997	40,844.3	240,782.0	17.0
1998	42,260.7	272,895.5	13.6
1999	46,824.0	353,081.1	13.3
2000	44,542.3	508,302.2	8.8
2001	52,428.4	796,164.8	6.6
2002	82,368.8	954,628.8	8.6

Source: Statistical Bulletin Vol. 13, December 2002, Page 57,
Central Bank of Nigeria.

Table 1 depicts the level of Commercial and Merchant Bank loans to small scale enterprises as percentage of total credit. Similar trends were observed for banks, the analysis focus on Commercial Banks' loan to entrepreneurs from 1992 to 2002. In 1992, the loan was 48.8%, it declined to 22.9% in 1995, while it recorded a slight increase to 25% in 1996. Since then it fell continuously to 8.6% in 2002.

Loans Disbursed by Merchant Banks

Table 2 – Ratio of Loans to SMEs by Merchant Banks

Year	Loans to SME	Banks Total Credit	% of Total Credit
1992	3,493.4	11,188.8	31.2
1993	4,900.0	25,189.3	19.5
1994	5,489.3	30,185.1	18.2
1995	9,159.6	30,612.2	29.9
1996	5,595.8	41,139.5	13.6
1997	7,137.9	54,491.5	13
1998	7,800.8	60,290.6	12.9
1999	6,389.1	49,257.7	13.0
2000	51,001.1	565,871.7	9.0

Source: Statistical Bulletin Vol. 12, December 2002, Central Bank of Nigeria.

The analysis in Table 2 focuses on Merchant Banks from 1992 – 2000. In 1992, the total loan was 31.2%, it declined to 29.9% in 1995, while it further declined continuously to 9.0 in 2000.

Survey and Analysis of Nigerian Firms

The problems of source of external finance by Nigerian firms (small, medium and large) the major focus of this analysis is small scale firms which is presented below.

Table 3 – Ratio of Loans to SMEs by Merchant Banks

Full Sample	Micro	Small	Medium	Large	Very Large	Foreign Owned	Indigenous
80.3	51.7	81.8	89.8	100.0	93.1	93.6	70.1

Source: World Bank Report 2001, the World Bank Washington DC.

Table 3 shows the percentage of firms that ordinarily have access to external funding. About 52% of the Micro Firms have access to external finance, while 82% of small and 89% of medium scale firms also have access. It is interesting to note that large firms have almost 100% access to external finance. We must note that having access to external finance does not translate into procuring the loan and the important point to note is that large firms that require large amounts of capital may crowd out smaller firms in the credit market.

Table 4 – Percentage of Firms Reporting being Credit Constrained

Full Sample	Micro	Small	Medium	Large	Very Large	Foreign Owned	Indigenous
38.5	48.2	38.6	36.7	36.1	25.0	33.3	42.5

Source: World Bank Report 2001, the World Bank Washington DC.

In Table 4 almost 50% of the Micro, 39% and 37% of the small and medium scale firms sampled respectively report being credit constrained as opposed to 25% of the very large firms. This suggests that small and medium scale firms are discriminated against credit market. Another implication of this result is that the stringent conditions attached to loan availability may discourage small firms from applying for such facilities, since most SMEs rely on bank loans, this can frustrate their growth.

Table 5 – Interest Rates on Over Draft Percentage Constrained

Full Sample	Micro	Small	Medium	Large	Very Large	Foreign Owned	Indigenous
23.5	25.1	25.2	23.2	23.2	20.8	21.8	25.4

Source: World Bank Report 2001, the World Bank Washington DC.

Table 5 presents the percentage of firms that are constrained because of the interest rates charged on both overdrafts and short term loans. 25.2% of the small business and 23.2% of medium scale business sampled complained of high interest charges and claimed that because of this they could not secure loans. This suggests that high interest charges do not constrain big business in Nigeria, because short term loans are usually rolled over. There is effectively little difference between them and overdrafts inn terms of interest charges.
Another interesting point highlighted by the survey is that the average level of collateral for the firms value of the loan. This has serious implications for accessing external finance especially for the majority of Nigerian SMEs because of their weak asset base.

Table 6 – Firms Receiving Long Term Loans Percentage Constrained

Full Sample	Micro	Small	Medium	Large	Very Large	Foreign Owned	Indigenous
15.6	12.1	11.4	20.4	20.5	10.3	21.3	11.3

Source: World Bank Report 2001, the World Bank Washington DC.

Table 6 confirms that Nigerian Banks do not provide long-term loan to SMEs. Banks prefer to give short term loans in the form of overdrafts where they charge market interest rates on the amount they borrow. For Instance 20.4% of medium scale firms sampled reported being constrained in receiving long term loans as against 10.3% of very large firms. Short term facilities accompanied by interest rates and high collateral can hardly aid the growth of small and medium enterprises. They cannot make long term plans because of shortness of the facilities available to them. The lack of long term credit facilities forces small and medium scale business to finance investment with internal finance which is highly unsustainable.

Managers of SMEs reported that since they had to rely on short term funds they were hesitant to under take major investments because they could not be certain that they would have the funds to complete them. This might engender cost overruns and the eventual collapse of the projects (Ogunjuba, etall, 2004).

POOR PERFORMANCE of SMEs

The major reason identified as responsible for poor performance of SMEs were as follows: -

a. Inconsistency in poor formulation and poor implementation of policies
b. Poor management capacity, low skills and lack of adequate knowledge.
c. Poor account keeping habits, weak financial and marketing planning.
d. Lack of mutual trust among SMEs business partners.
e. Lack of infrastructure which significantly increases the cost of doing business.
f. Poor linkages among vibrant SMEs, large scale enterprises and the rest of domestic sector of the economy generally.
g. Policy incentives are in favour of large scale enterprises.
h. Poor access to information and to markets for SMEs products and services
i. Poor access to modern technology.
j. Over-dependence on imported raw materials and industrial input.
k. Non patronage of SMEs by government departments and agencies.
l. Low level of education, training and technological knowledge on part of SMR operators.
m. Poor or non existence of preservation and storage facilities.

n. Policies made without consulting the institutions directly.
o. Poor coordination of government policies as well as frequent change in the policies.

Problems of Financing SMEs

a. Unwillingness of banks to lend to SMEs despite the fact that generally they repay their loan.
b. Inadequate non-monitoring of small enterprises by banks leading to default.
c. Inadequate staff training to handle SMEs.
d. Inability of borrowers to offer acceptable collateral for large loans which places a limit on their probable scale of operation.
e. Problems of illiteracy which affects recordkeeping and decision making ability to borrowers.
f. Diversion of funds
g. Delays by banks in processing and disbursement of loan (Olaitan, 2006).

Problems and Challenges of SMEs in General

Most SMEs die within their first five years of existence. Another small percentage goes into extinction between the sixth and tenth year thus only about five to ten percentage of young companies survive, thrive and grow to maturity. Many factors have been identified as to the possible causes or contributing to then premature death.

Key among them include insufficient capital, lack of focus, inadequate market research, over concentration on one or two market for finished products, lack of any record at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery (Rogers, 2002).

Challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc), unfavourable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistency, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw material source problems, competition with cheaper imported products, problems of inter-sector linkages given to most large scale firms to source their raw materials outside the country (Ogunjuba, etal, 2004).

Lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources.

Strategies for the Promotion of SMEs in Nigeria

A number of measures have been suggested for introducing policy reforms and support services aimed at the small sector's growth.

However, these steps fall in the domain of an establishment whose principal focus has not been and is not likely to be the small scale sector. The absence of umbrella organisation, therefore is badly felt which would singularly focus on pursuing strategies for the growth of small enterprises and in the process involve, relevant service delivery agencies both in public and private sectors.

Under such an organisation, these services would be organised and delivered by mobilising small enterprise in given geographical areas for which these enterprises would also be willing to pay. The organisation would also be responsible for conducting regular studies to determine the needs of small enterprises and assessing the impact of government policy and programmes on the small sector. This information could then be used for policy reform and formulation of support programmes for small enterprises. Such organisations should be fully autonomous for which an endowment fund could be created with contributions from government and donors (Anka, 2010).

The following proposals are recommended: -

a. Credit Policy and Schemes

- Revise conditions under small loans scheme to ensure that the loans are only given to small enterprises and not to large firms.
- Fix targets under the small loans schemes according to the needs of small enterprises in various sectors and geographical areas.

- Introduce a mechanism to regularly assess the small sector's credit needs and monitor the impact of small loans scheme.
- Simply collateral requirements by introducing innovative approaches towards credit delivery to small enterprise and involve NGOs in the process.
- Make repayment schedules more flexible according to circumstances and conditions of small enterprises.
- Make credit approval and disbursement more efficient by simplifying procedures involved and decentralising loan approval powers.
- Make arrangements for a wider dissemination of information on credit schemes to small enterprises.

b. Training Policy and Programmes

- Make training programmes strictly demand driven by closely involving small enterprises in the process of need identification and programme planning.
- Expand the scope of training programmes by introducing assistance to small enterprises in the choice of appropriate technology and training in entrepreneurship development.
- Provide assistance to small enterprises in product testing and keep them regularly informed of the changing product standards in domestic and international market.
- Assist small enterprises in forming marketing cooperatives for promotion of their product in domestic and international market.
- Establish localised research and development facilities for development and dissemination of appropriate technology to small and medium enterprises.

c. Fiscal Policy

- Abolish the distinction between industrial and commercial rates of duty from all items.
- Assist small and medium enterpr8ises in collectively importing raw materials and machinery to offset higher market costs.
- Assist small enterprises in promotion and marketing of their products in domestic and international markets.
- Instead of offering concessions to the large sector, focus on creating competing competitive conditions for investment.
- Simply income tax assessment and collection procedures for small enterprises (promotion of SMEs in Pakistan, 1995).

d. Labour Laws

- Simplify labour laws by reducing their number minimising record keeping and reporting requirements and making registration process less time consuming and simple.
- Reduce minimum standards to include only safeguards against hazards to workers health and safety.
- Evolve and introduce a strategy for gradually enforcing universally the standards related to wage payment, working hours, social security benefits, employment of children (Azam, 1995).

e. Implementation Strategy for SMEs Growth

- Organise a setup that would exclusively focus on the issues regarding small sectors growth by mobilising small enterprises.
- Arrange demand driven services in coordination with relevant departments and agencies and organising research, development and monitoring activities on a regular basis (Anka, 2010).

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The problem of availability of credit and finance to small and medium enterprises in Nigeria is one of the greatest challenges the country is facing for over three decades. This paper examine of finance and incentives for their development, present an analysis of Nigerian firms and access to credit for SMEs. Assess the performance of SMEs in general and analyse the problems and challenges and finally recommend strategies for the promotion of SMEs in Nigeria.

Conclusion

The major conclusions drawn from this paper were: -

- Available data and records indicate that the performance of SMEs in Nigeria has not justified the establishment of micro credit institutions.
- The analysis on Commercial Banks shows that in 1992, 48.8% of the loan was sanctioned to SMEs, it declined to 22.9% in 1995, and an increase of 25% was recorded in 1996. Finally, in 2002 it fell to 8.6%.
- The loans disbursed by Merchant Banks shows that in 1992, the total loan was 31.2%, it declined to 29.9% in 1995, and it further declined to 9.0% in 2000.
- Analysis on Nigerian firms shows tht about 52% of Micro firms have access to external finance, while 82% of small and 89% of medium scale firms have access also, while large firms have almost 100% access to external finance.
- The analysis further revealed that almost 50% of the micro, 39% and 37% of small and medium scale firms sampled report being credit constrained as opposed to 25% of the very large firs. This shows small and medium firms are discriminated against credit market.
- About 25.2% of the small business and 23.2% of medium scale business sampled complained of high interest charges and claimed that because of this they could not secure loans.
- Data presented confirms that Nigerian Banks do not provide long term loans to SMEs. Banks prefer to give short term loans in the form of overdraft where they charge market interest rates on the amount they borrow.
- Short term facilities accompanied by interest rates and high collateral can hardly aid the growth of small and medium enterprises. They cannot make long term plans because of shortness of the facilities available to them.
- Another interesting point highlighted by the survey is that the average level of collateral for the firms in the sample was in excess of 1.51% of the value of the loan. This has serious implications for accessing external finance especially for Nigerian SMEs because of their weak asset base.

Recommendations

On the basis of the above conclusions, the following recommendations are made: -

- Specialised SMEs banking and support programmes need to be set up, geared to their peculiar conditions and needs. These programmes would adopt innovative approaches towards issues such as collateral and would have simplified procedures for loan application and approval.
- Present banking and other financial institutions in Nigeria need to be encouraged to have properly trained staff who could reach out to SMEs and have a flexible approach towards collateral requirements by involving NGOs and SMEs associations.
- The small loans scheme need to be reviewed to ensure that credit is made available to SMEs especially by fixing annual targets on the basis of various categories of the size of turnover and fixed investment.
- The Small and Medium Enterprises Agency (SMEDAN) should regularly monitor compliance with the targets set by Central Bank and take immediate remedial measures in cases of deviation.
- Mobile banking services need to be organised to make credit accessible to SMEs in rural areas and targets set under small loans scheme should take into account the rural-urban distribution of credit.
- A clear policy commitment needs to be made to improve accessibility of credit to rural areas.
- Extensive publicity of credit opportunity needs to be organised with the help of NGOs and support organisations and through public media with the focus on rural areas (Gwerrero, 2005).
- Government should create an enabling environment that is appreciably devoid of corruption and bureaucracy.
- A change in our value system which would place high premium and recognition of entrepreneurial acumen, honesty and ability to contribute to the society through innovation and creativity (Agrawal, 2001)
- Government should establish Enterprises Development Agencies in every State of the Federation and Small Business Development Centres in all 774 Local Government Areas through Public, Private Partnership (PPP).

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