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Funding Arrangements for Small and Medium Scale Enterprises (SMEs) in Nigeria: An Assessment

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Abstract

Small and Medium Scale Enterprises have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting development. They not only contribute significantly to improved living standards, employment generation and poverty reduction but also bring about substantial domestic or local capital formation and achievement of high levels of productivity and capability. A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. This study seeks to generally appraise and analyze the operating environment and circumstances of Small and Medium Scale Enterprises in Nigeria with a view to actually identifying why SMEs are not playing major roles in the Nigerian economy as in other economies. The random sampling method was employed and responses to the questionnaire were complemented with personal interviews of key operators. Analysis was undertaken using the Statistical Package for Social Sciences (SPSS). Findings revealed that SMEs have performed below expectation in the development of Nigeria economy due to a combination of factors. Thus, the paper recommends that the realization of these require a paradigm shift from paying lip service to a practical radical forward approach to issues and focus on this all-important sector of the economy and realistically addressing the identified problems by the key operators.

Keywords

small and medium enterprises, governments, economic growth, promoting development, nigeriaeconomy

1. Introduction

Before the arrival of the British Colonialists in Nigeria, there were numerous small scale industries and handicraft enterprises based on the available raw materials to meet local and regional demands. The Hausa, Yoruba and Bini people developed significant small-scale manufacture of goods for a variety of trade, social and religious purposes. "The West African manufacturing sector was based on clothing, metal works, ceramics, construction and food processing. While Kano produced textiles and leather goods, iron was being smelted at Nok, in Benue-Plateau region".

This traditional manufacture survived well into the colonial period, which understandably failed to provide sustainable basis for industrial change or investment (Synge, 1993).

1.1 1962-1968 National Development Plan

The 1962-1968 National Development Plan, tried to correct past deficiencies in the nation's industrial sector programme.

Given the poor base of industrialization in the country and increase in direct government investment and promotional measures coupled with an ever increasing demand for foreign manufactured goods from abroad, the strategy of Import Substitution Industrialization (ISI) was adopted. The original aim of the strategy was to promote growth and economic diversification as a means of reducing the dependence of the economy on the agricultural sector as the principal earner of foreign exchange. Also the strategy was adopted because it was aligned to the potential as well as other known requirements of ready-made markets. It was limited at its early stage to the replacement of imports of non-durable consumer goods which generally called for the services of unskilled and semi-skilled labour and less application of advanced technological method (Sule, 1986).

1.2 1970-1977 National Development Plan

In the 1970s, particularly within the context of the 1970-1974 National Development Plan, the Federal Government did not only emphasize the need to maximize value-added to the GDP, but also initiated the establishment of heavy industries in the intermediate and capital goods sector. While it could be said that the first stage of the ISI strategy (which involved the replacement of imported non-durable consumer goods and their inputs with domestic production) was fairly successful, the second stage (which involved the replacement of imported intermediate inputs and producer and consumer durables) was a failure. The industrial policies, especially the credit-incentive and tariff-protection measures, pursued in the 1970s and early 1980s were not conducive to generating the intermediate and capital goods production (Egbon, 1995).

The indigenization decrees were promulgated in 1972 and 1977. The principal aim of the decree was undoubtedly laudable but its implementation was sloppy. Besides creating a class of rich Nigerians, the greatest hindrance to the decree was Nigeria's high level of technological dependence and managerial ability (Egbon, 2004).

1.3 1985-1990 National Development Plan

In the 1985-1990 National Development Plan, public investments were allocated to large capital and skill intensive projects, particularly heavy and intermediate industries like steel, oil refineries and fertilizers etc. However, besides suffering from protracted and cost-increasing construction period and low capacity utilization, the Ajaokuta and Delta Steel companies and the various steel mills constituted a burden to the annual budgets due to recurrent losses and the supply of expensive industrial input into the down-stream sectors. For instance, by 1999, the capacity utilization in the Delta Steel Company had fallen below 0.04 percent (Egbon, 2004). This inability of the steel mills to produce at prices sufficiently low to ensure a substantial rate of return on prospective investment also led to a failure to provide the basis of technical skills and knowledge necessary for the development of capital-saving techniques and therefore, reinforced a "state of technical backwardness".

In 1989, a new industrial policy for Nigeria was instituted. A quick comparison of the 1989 "New Industrial Policy" objectives with the industrial objectives in the Fourth National Development Plan revealed that, in terms of policy content, the 1989 industrial policy (for Nigeria) was at least, a consolidation of the fragmentary industrial policies of the past and a reflection of the inherent and persistent problems of industrial development (Egbon, 1995). However, in terms of emphasis, the small and medium scale enterprise projects, contained in the 1989 industrial policy stood out.

After two decades of Nigeria's pursuit of an industrialization strategy based on import substitution, the weight of the burden on the economy by the import-dependent manufacturing came to light by the early 1980s as the country's foreign exchange earnings declined significantly and the unemployment rate soared. The social and political repercussions of this high rate of unemployment made it inevitable for the industrial sector to aim at partly creating job opportunities and generating income to help alleviate the poverty related problems in Nigeria.

Generally, it can be said that Nigeria witnessed the most sustained and severe economic crisis for about two decades (1978-1999) (Egbon, 2004). Several policy packages under different regimes or administration were articulated with a view to engendering economic recovery within a dependent state capitalist model of accumulation rather than encouraging growth through a fundamental transformation of the structure. For many years, Nigeria's policy makers had concentrated their emphasis on demand management while paying lip service to the need for a re-examination of the fundamental assumptions on which the real sector is founded. It is true however, that some form of intervention took place, especially in the provision of fiscal incentives to domestic producers. These policies sought to stimulate domestic production based on tinkering with the tariff regimes, tax incentives as well as attempts aimed at improving the investment climate.

In the same vein, the Central Bank of Nigeria (CBN) introduced measures that were meant to ensure the sustainable growth of the Money and Capital Markets that would in turn supply the much needed medium and long term capital for both existing as well as prospective producers. It is equally true that the Central Bank of Nigeria has also been actively involved in influencing the direction and rate of change of key price variables such as exchange rates and interest rates, in order to achieve both domestic and external balances. However, since all these policies were expected to stimulate domestic economic growth through the predominantly import substituting industries, they were rendered ineffective and, in some cases, counterproductive. This led to severe instabilities in the macroeconomic variables. The real sector could not grow fast enough to even arrest the deterioration in per capita income resulting solely from the increased population witnessed in the last several decades. Industries relied heavily on foreign raw materials, machinery and spare parts whose inelastic demand contributed immensely to exchange rate instability as well as the depreciation of the local currency. On the other hand, the necessity to import also implies that companies had to pay more Naira in order to get the Dollars needed to pay for those imports. This in turn translates into additional borrowing from the banks, which results in an upward pressure on interest rates.

Eventually, this led to higher costs of production for domestic producers and uncompetitive prices for their products as compared to foreign competitors. It is not surprising therefore, that a lot of manufacturing companies have been closing down over the last few decades. This is particularly true of the Northern part of Nigeria where the rate of closure is very alarming. Kano and Kaduna is a case in mind especially in the textile and garment industry. The situation becomes even gloomier against the fact that the highest proportion of those industries that closed down is made up medium scale industries, which were expected to develop into heavy industries eventually. The situation in some other states that have a significant number of manufacturing concerns is not radically different (Inang & Ukpong, 1992).

The socio-economic costs of these policy failures include job losses accompanied by the stress that they impose on households; reliance on imported products and the loss of foreign exchange concomitant with it, as well as the protracted social tensions, periodically manifested in inter-ethnic and religious strife, over the years.

On the other hand, conventional solutions to the nation's problems such as a return to the logic of autarchy in the hope that domestic industries could grow and thrive under total protection are no longer feasible under the current globalization frenzy. Import substitution strategies, popular in the 1960s, have proved a woeful failure, creating more problems in the long run than solutions. Yet the economic problems facing the country today are symptomatic of market failures arising from asymmetry of information and structural rigidities.

On the one hand, Nigerian banks and the SMEs do not seem to share the same information. Banks require adequate financial records to enable them assess the profitability profiles of the industries. They also need vital information on the firms' annual budgets as well as their long-term vision for their companies. All these require sound managerial skills which are in most cases, absent in the enterprises in question.

Under these circumstances, the banks behave in accordance with the only rational option they have: they become risk-averse.

The small and medium scale operators on the other hand, do not seem to understand the procedures to follow in order to access funds from the banks. Even when they do, the procedures are normally too cumbersome. A wide gulf is therefore created.

2. Literature Review

2.1 Definition of Small and Medium Scale Enterprises

It has become clear in Nigeria that the changing pattern of the definition of SMEs is in response to the changing environment. The more stable the economic environment, the more lasting the definition would be. For the purpose of this paper we consider as small scale any enterprise with capital base of between N1 million and N10 million (excluding the cost of land) and employing 10 to 50 employees. The medium scale enterprises is any business with capital base of between N40 million and NI50 million (excluding the cost of land) and employing 50 to 100 employees excluding commerce. On this basis any enterprise short of requirement for the small scale is a micro enterprise while above the medium enterprise is a large enterprise. This choice of definition is adopted based on the definition of Small and Medium Scale Enterprises by the Central Bank of Nigeria in 2000. This definition is dependent on a business that maintains revenues or a number of employees below a certain standard as every country has its own definition of what is considered a small and medium scale enterprise. In the United States, there is no distinct way to identify SME; it typically it depends on the industry in which the company competes.

Furthermore, development strategists have advocated the progressive use of Small and Medium Enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of the world. Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing (Osinowo, 1997). With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing activities. This requires specific incentives to assist in the development of the SMEs sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally designed equipment and spares (Ekpenyong, 1992, 1997).

2.2 The Economic Importance of Small and Medium Scale Enterprises (SMEs)

It is often argued that government should promote SMEs because of their greater economic benefits compared to large firms in terms of job creation, efficiency and growth. This theoretical arguments and their empirical evidence are discussed below.

2.2.1 Share of Firms and Employment

In most developing countries, micro and small scale enterprises account for the majority of firms and a large share of employment. In Ecuador, for example, firms with fewer than 50 employees accounted for 95 percent of firms and 55 percent of employment in 1980; in Bangladesh, enterprises with fewer than 100 workers accounted for 99 percent of enterprises and 58 percent of employment in 1986 (Hallberg, 1995).

The relative importance of small producers varies significantly across countries and within a given country, across stages of development over time. Comparative studies of manufacturing show a common pattern in the transformation of the size distribution of firms as industrialization proceeds. In low income countries, the vast majority of firms are micro and small, scale, existing alongside a few large scale enterprises. In middle income countries, medium scale enterprises account for a relatively larger share of production and employment. In most countries, the trend toward larger firm size continues as per capita income increases (Snodgrass & Biggs, 1996).

The exceptions to this rule are found in Asia. In Taiwan or China for example, the size distribution of firms has remained relatively constant over the past 30 years, even as the structure of production changed from labor-intensive manufacturing to high-tech computer industries. On average, however, small scale enterprises play a declining role as countries develop.

2.2.2 Labour Intensity

Small firms employ a large share of the labour force in many developing countries, but the question is whether they are more labour demanding than the large firms (for a given scale of production).

Many argued that, within industries, SMEs are more labour-intensive than large firms (Little et al., 1987; Snodgrass & Biggs, 1996).

However, the evidence suggests that the enterprise scale is an unreliable guide to labour intensity. Many small firms are in fact more capital intensive than larger firms in the same industry (ibid, p. 314).

2.2.3 Job Creation

Apart from labor-intensity, it is often argued that SMEs are important for employment growth, that is, job creation. Here again, the evidence may not support the conventional wisdom. While gross job creation rates are substantially higher for small firms, so are gross destruction rates. This is because small firms exhibit high birth rates and high death rates, and many small firms failed to grow.

2.2.4 Efficiency of the Enterprise

Measures of enterprise efficiency (for example, labor productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as management skill and technology, and the effects of the policy environment. In the US and UK manufacturing sector, industries in which larger firms have a greater market share have greater productivity growth. Most studies on developing countries show that the smallest firms are the least efficient, and there is evidence that both small and large firms are relatively inefficient compared to medium scale firms (Little et al., 1987).

2.2.5 Wages and Benefits

While there are many exceptions to the basic pattern, the weight of evidence suggests that larger employers offer better jobs in terms of wages, fringe benefits, working conditions, and opportunities for skills enhancement, as well as job security (Davis et al., 1993). In low income countries like Nigeria, small enterprises have much lower productivity levels than larger firms, and this is reflected in the lower wages and non-wage benefits paid by SMEs compared to larger firms.

2.2.6 Social, Political and Equity Justifications

The SMEs are often said to contribute to a more equal distribution of income or wealth. The SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income. However, SME owners and workers are unlikely to be the poorest of the poor, so that SME promotion may not be the most effective poverty alleviation instrument. In addition, the strategy of promoting SMEs to achieve equity objectives may be less effective than more direct methods, for example, income transfers (Hallberg, 1999).

2.3 Financing Options of Small and Medium Scale Enterprises (SMEs) in Nigeria

It is generally accepted by both the practitioners and academicians that SMEs serve as catalysts for the economic growth of any nation. However, the SMEs are faced with many challenges. In Nigeria, one of the major challenges faced by SMEs is that of capital to finance their operations (Fatai, 2009). Empirical evidence shows that finance contributes about 25% to the success of SMEs (Ogujuiba et al., 2004). A World Bank report showed that 39% of small scale firms and 37% of medium scale firms in Nigeria are financially constrained (World Bank report, 2001).

Many SMEs in Nigeria lack the capital to continue their business and they are forced to close shop because they are unable to access the required funds.

What are therefore, the financing options of SMEs in Nigeria?

Every enterprise is financed either through debt or equity or a combination of both. Both types of financing are usually sourced from either the Informal Finance Sector (IFS) or the Formal Finance Sector (FFS). The two fundamental financing concepts of SMEs, the formal and informal forms of financing, have been identified by previous researchers, scholars and practitioners (Gelinas, 1998; Aruwa, 2004). The researchers identified commercial banks and development banks in the formal sector as the most popular source of finance for enterprises. The informal sector which consists of borrowing from friends, relatives and cooperatives are also important source of financing SMEs. Another source of enterprise financing is through personal savings.

The informal finance sector consists of informal finance institutions like money lenders, landlords, friends, relations, credit and savings associations (co-operative societies), esusu, also known as ayo among the Yorubas, isusu or atu among the Ibos, osusu among the Edos, adashi among the Hausas, dashi among the Nupes and etibe among the Ibibios (Okorie & Miller, 1976). The formal finance sector is made up of formal finance institutions such as commercial banks, microfinance banks, international development agencies etc.

The Federal government policy interventions for the funding of SMEs are generally geared towards improving the expected contribution of the sector to the growth and development of the national economy.

Government has over the years introduced a variety of financing schemes and programs aimed at overcoming the financial constraints as witness by the SMEs in Nigeria.

Some of the initiatives to overcome the financing constraints of SMEs are as tabulated below:

Table 1. Government Innovations/Initiatives to Overcome the Financial Constrains of SEMs

Government Innovations/Initiatives	Year Established	Objectives	Loan Facility	NO. Beneficiaries
National Economic Reconstruction Fund (NERFUND)	1980s	1. Provide needed medium–to long-term financing to viable Small and Medium Scale Enterprises. 2. Increase the quantum of goods and services available for local consumption and export. 3. Provide needed employment, expand our production base and add value to the economy.	-	-
Agricultural Credit Guarantee Scheme Fund (ACGSF)	1978	1. Guarantees credit facilities extended to farmers by banks up to 75% of the amount in default net of any security realized.	N 43.12 Billion	701,000 (Q1- 2011) Alone
SME II Loan Facility	-	1. Fast-track the development of the SMEs and manufacturing sector of the Nigerian economy. 2. Provide guarantee for credit from banks to SMEs and manufacturers. 3. Increase access of promoters of SMEs and manufacturers to credit. 4. Set pace for industrialization of the Nigerian economy.	$270 million	
Community Bank Scheme	1991	1. The promotion of emergence of an effect and integrated national financial system that responds to local government areas and states to the national level. 2. The promotion of rural development by providing, financial and banking services as well as other	-	-

		facilities to communities inadequately supplied with such services. 3. The rapid enhancement of the development of productive activities in both rural and urban areas, and hence the improvement of the economic status of small producers in the informal sectors of the national economy.		
People's Bank & Family Economic Advancement Program (FEAP)	2002	1. Provide basic working capital requirements for small scale farming and traditional processes as loans to the low income groups; 2. Provide facility for the procurement of machinery and equipment for Nigerians to set up and run cottage and small scale industries; 3. Create employment opportunities at ward levels through the establishment of enterprises and pilot projects in the wards;	-	-
Bank of Industries Emerging from merger of NERFUND & NIDB	2002	1. Provide financial assistance for the establishment of large, medium and small projects as well as the expansion. 2. Diversification and modernization of existing enterprises.	-	-
Refinancing & Rediscounting Facility (RRF)	2002	1. To encourage medium and long term bank lending to the productive sectors of the economy in order to expand and diversify the nation's production base. 2. To reverse the trend where short-term credits to general	-	-

		commerce and trade dominates domestic lending. 3. To deliberately encourage a high ratio of aggregate (medium and long term) credits to the real sector for growth and development.		
Micro-Finance Imitative (MFI)	2005	1. Empowerment of Low-Income Earners, Reduce Poverty, Generate Employment. 2. Mobilize Domestic Savings and Promote Banking culture among low-income groups. 3. To grant access to the poor and low income earners to factors of production, especially credit. 4. Providing financial services to the poor who are traditionally not served by the conventional financial institutions.	-	-
Small and Medium Scale Enterprise Equity Investment Scheme (SMEEIS)	2009	1. Promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialization. 2. Sustainable economic development. 3. Poverty alleviation and employment generation.	N42.3 billion	336 Projects (As at the end of 2009)
Intervention Fund	2010	1. Improve access to credit by SMEs. 2. Refinance and Restructure the outstanding credit portfolio of manufacturing SMEs in the country.	N500 billion	539 SME's Projects

2.3.1 Financing SMEs by the Formal Finance Sector (FFS)

Commercial banks, Microfinance banks, International development agencies, the CBN and some of its agencies are some of the institutions in the formal finance sector that have played very prominent roles in the financing of SMEs in Nigeria. Commercial banks remain the biggest source of finance for SMEs across the globe. However many commercial banks are reluctant in financing SMEs because of perceived risks and uncertainties. In Nigeria the difficult economic environment, absence of the appropriate managerial skills and lack of access to modern technology by the SMEs have all contributed to the commercial banks reluctance to finance the sub-sector. The result of this reluctance is the steady decline in financing of SMEs in the country over the years. The CBN (2010) statistics show that commercial banks advances to SMEs have been on the decline over the years. Commercial bank loans to SMEs as a percentage of total credits decreased from 48.79% in 1992 to 0.15% in 2010 (Luper, 2012).

2.3.2 Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

The Central Bank as part of its developmental role established the scheme for promoting access to credit by SMEs in Nigeria. The scheme has a fund of N200 billion (two hundred billion Naira) wholly financed by CBN.

One of the schemes is to fast track the development of the manufacturing SME sector of the Nigerian economy by providing guarantee for credit from banks to SMEs and manufacturers. Activities to be covered under the scheme include:

(1) Manufacturing;

(2) Agricultural value chain;

(3) Educational institutions;

(4) Any other activity as may be specified by the managing agent (CBN).

The credit facilities will essentially be for the following:

(1) Long term loan for acquisition of plants and machinery;

(2) Refinancing of existing loans;

(3) Resuscitation of ailing industries;

(4) Refinancing of existing lease;

(5) Working capital.

All Deposit money Banks (DMB) and development finance institutions are to participate in the scheme. The Bank of Industry (BOI) is the managing agent. The interest rate of 7% will apply to the loans, tenor is 15years. The scheme also makes provision for refinancing/restructuring facilities. The overall goal is to increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide inputs for the industrial sector on a sustainable basis.

2.3.3 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

This scheme is a voluntary initiative of the bankers' committee. The 246thmeeting of the bankers' committee held in December 1999 approved the scheme. The initiative is in response to the Federal government concerns and policy measures for the promotion of Small and Medium Enterprises as vehicles for rapid industrialization, sustainable development, poverty alleviation and employment generation (CBN, 2012). The scheme requires all banks in Nigeria to set aside 10% of their profit after tax for investment and promotion of Small and Medium Enterprises. The scheme is essentially a pool for venture capital.

The scheme covers every legal business activity except:

a) Trading/Merchandising;

b) Financial Services.

The funds invested by participating banks shall be in the form of loans or equity investment or a combination of both in eligible enterprises.

The interest on the loans shall be single digit subject to a maximum of 9% (CBN, 2012).

Banks shall remain equity partners in the business enterprises for a minimum of three years after which they may exit. Under the scheme, existing debts owed to participating banks may be converted to equity. As at June 2009, a total amount of N28, 204,078,746.00 had been set aside by the banks.

2.3.4 Agricultural Credit Guarantee Scheme Fund (ACGSF)

Despite the over 90% contribution of revenue from crude oil to the Nigerian economy, agriculture which was the mainstay of the economy before the discovery of oil will continue to be relevant to the nation. The agricultural sector has the capability of generating massive employment. In recognition of this, the agricultural credit guarantee scheme fund was set up in 1977 and it started operation in 1978 (CBN). Virtually all the farmers' societies, farmer groups and cooperatives will be categorized as SMEs. The fund guarantees credit facilities extended to farmers by banks up to 75% of the amount in default net of any security realized. The fund is managed by CBN.

Other agricultural credit schemes put in place by the Federal government and the Central bank of Nigeria are:

a) Agricultural Credit Support Scheme (ACSS); the scheme is an initiative of the Federal government and the CBN with the active participation of the bankers' committee. It has a prescribed fund of N50 billion. The scheme has the objective of lowering the cost of agricultural production, generate surplus for export, increase Nigerians' foreign earnings as well as diversify its revenue base.

ACSS are disbursed to farmers and agro-allied entrepreneurs at a single-digit rate of 8%.

b) Commercial Agricultural Credit Scheme (CACS); the CBN in collaboration with the Federal Ministry of agriculture and water resources established the commercial agricultural credit scheme in 2009 to provide finance for the countries agricultural value chain (production, processing, storage and marketing). The scheme is financed through a N200 billion bond raised by the debt management office. Loans under this scheme are disbursed at a maximum rate of 9%.

2.3.5 Microfinance Financing (MF)

The CBN recognized microfinance as an important tool for poverty alleviation through empowering the micro and small entrepreneurs (Olaitan, 2006). Most of the microfinance policies were targeted towards developing the agricultural sector of the economy. More than 60% of Nigerians, especially in the rural areas are engaged in agriculture and the informal sector. Microfinance financing of the agricultural sector was initiated by the Nigerian government through the CBN to improve the lot of the SMEs in this important sector of the economy.

Government policies for providing microfinance for the development of agriculture included:

Commercial bill financing scheme (1962);

Regional commodity boards (later called national commodity boards, 1977);

Export financing and discount facility (1977);

Nigerian agricultural co-operative and rural development bank, NACRDB (1972);

Community banks, now known as microfinance banks;

Sectorial allocation of credit and concessional interest;

Specified percentage of total deposits mobilized in the rural areas;

Rural banking programme (1977).

2.3.6 Financing of SMEs by International Development Agencies

A member of the World Bank group, the International Finance Corporation (IFC) has made significant contributions towards SME financing in Nigeria. In 2010, the IFC more than doubled its exposure to Nigeria's banking sector, investing almost $400 million of equity and loan financing in First Bank of Nigeria (FBN). First City Monument Bank (FCMB) and GT bank (Omorogbe, 2011). The purpose of the new investment and advisory services of IFC was to help banks reach segments of the economy that needed better funding such as infrastructure and the SMEs. Specifically, FCMB received $70 million in November 2010 to help it increase financing of SMEs. The corporation is also working with the Department for International Development (DFID) to expand its funding and advisory role programs to Nigerian banks that have incorporated non-financial services to SMEs. In the words of IFC'S country Manager for Nigeria, Solomon Adegbie-Quaynor "Non-financial services such as management and advisory support help SMEs acquire the skills they need to grow. ICF is working with banks in Africa to help them deliver non-financial services, which in turn allows The banks to build a more loyal and diverse portfolio of small and medium Businesses" (Oladunjoye, 2012).

The African Development Bank (AFDB) is another international agency that plays a role in financing of SMEs not only in Nigeria, but in many other countries in Africa. The AFDB has approved a total of $700million worth of loan programs for Small and Medium sized Enterprises in Nigeria (Mungcal, 2011). Another institution used by the AFDB in its effort to improve funding for SMEs is the African Guarantee Fund (AGF).

2.3.7 Venture Capital and Business Angels

Venture Capital involves the provision of investment finance to private Small or Medium Enterprises in the form of equity or quasi-equity instrument not traded on the stock exchange (Abereijo & Fayomi, 2005).

Venture Capital is also referred to as risk capital. Venture Capital focuses on high growth business in early stages of development. The stages of venture capital are basically:

a) Seed Capital;

b) Start-Up and Early Stage Capital.

2.3.8 Pension Reform Act and SME Financing

The pension reform act of 2004 established the Compulsory Pension Scheme (CPS). The act has been largely adopted by the Federal government and the private sectors. However, only 17 out of the 36 state governments have passed bills to adopt and implement the CPS as at the end of 2010 (CBN). One of the duties of the National Pension Commission (Pencom) is the establishment of standards, rules and issuance of guidelines for the management and investment of pension funds under the act. Under the pension act, the funds may be invested in private equity funds and venture capital subject to a maximum of 5% of pension assets. The funds can also be invested in money market and equities. SMEs will benefit directly from pension funds investment in private equity funds. The pension asset funds were N2.029 trillion as the end of 2010. This means that more than N100 billion can be available for investment in private equity and venture capital. This amount will grow as pension funds grow by an estimated 20-30 percent per annum in the next few years (James, 2011).

2.3.9 Financing SMEs from IFS

The sources of investment finance for SMEs include owner's savings local authorities, moneylenders and other sources of finance from the informal financing sector. In a study by Ojo (1984), funds from personal savings was 96.4%, 3% from informal sector and only 0.21% from the formal finance institutions. This trend is in agreement with a 1983/84 study by the Nigerian Institute for Social and

Economic Research (NISER). NISER findings show that about 73% respondents obtained their funds from personal savings while only about 2% obtained their funds from the financial institutions (Terungwa, 2011). A more recent (2009) study indicate that there is improvement in funding of SMEs by the FFS. The percentage of financing of SMEs by FFS is now about 30% and the IFS is now about 70%.

2.3.10 Constraints to SMEs Financing in Nigeria

The banks by their nature and position in the economy remain the known formal source of finance for enterprise. A 2001 World Bank survey on Nigeria showed that although 85% of the firms had relationship with banks, most of them had no access to their credit (Terungwa, 2011).

The lack of adequate financing for the SMEs is traceable to among other reasons the reluctance of banks to extend credits to them for the following reasons:

1) Inadequate collateral by SMEs operators.

2) Weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians.

3) Lack of patronage of locally produced goods.

4) Poor management practices by SMEs operators.

5) Undercapitalization.

3. Methodology

The paper has as its basic consideration the funding arrangement at present that is available to the SMEs and whether such arrangement is sustainable. The basic research method suggestively should therefore be a normative-survey (Osuala, 2005) and the paper used both primary and secondary data. This is to ensure that all the relevant materials or information required for the paper were acquired and utilized. The data presented and analyzed are drawn from the answers of the respondents on whom the questionnaires were administered.

The SMEs that were employed in this paper cut across the strata of virtually all the legal forms of companies, ranging from sole proprietorships through family businesses, partnerships up to public limited liability companies. In terms of nature or kind of operations, the respondents also spanned various forms of economic activities including Food, Beverages and Tobacco, Textile, Wearing Apparels, Wood and Wood Product, Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, Non-Metallic Minerals Product, Plastics and Rubbers Product, Electrical and Electronics, Basic Metal, Iron and Steel & Fabricated, Motor Vehicles and Miscellaneous, Information & Communication Technology, as well as Solid Minerals Mining/ Processing.

In order to enable the paper evaluate the effectiveness of funding arrangements and confirm the greatest drawback for SMEs in Nigeria and fully appreciate their respective relevant significance, the paper had to postulate the following hypotheses:

Ho_1: Funding arrangements for SMEs have not contributed significantly to their growth and expansion in Nigeria.

Ho_2: Existing Funding arrangements are not easily accessible by SMEs due to demand for too much collateral and extensive burp.

A total of 2000 questionnaires were lodged across the various industries in all the regions, out of which 1500 were completed and retrieved, representing 75% retrieval rate. Out of the 2000 questionnaires administered 314, 1,500 and 186 were distributed to Micro, Small and Medium scale industries respectively. The numbers of questionnaires retrieved from Micro, Small and Medium scale industries are 118, 1,320 and 62 respectively. This represents a retrieval rate of 37.57% for micro scholar industries, 88% for small scale, and 33.33% for Medium scale industries. This is quite consistent with the open enthusiasm that they displayed during the conduct of the fieldwork (see Table 2 and 3).

3.1 Data Presentation and Analysis

The pattern of lodgments and retrievals of questionnaire, in accordance with the different industrial classicize, micro, small and medium scale industries, provides very useful insights into the most dominant types of industries and the spatial concentrations of such industries in Nigeria.

Accordingly, an attempt is made here, to summarize these response patterns as revealed by the results of the survey. It should however be appreciated, right from the on-set, that what governed the proportional lodgments between the small and medium scale industries was the degree of spread across the country.

Table 2. Distribution and Retrieval of Questionnaires: Micro Scale Enterprises

		Micro Scale Enterprises		
No	Regions	Lodgment	Retrieval	% Response
1	North-East	40	8	6.7
2	North-West	60	42	35.7
3	North-Central	50	16	13.6
4	South-West	60	32	27.1
5	South-East	47	13	11.0
6	South-South	57	7	5.9
	Total	314	118	100

Source: CBN, 2012.

Table 3. Distribution of Respondent by Lodgment and Retrievals: Small Scale Enterprises

		Small Scale Enterprises		
No	Regions	Lodgment	Retrieval	% Response
1	North-East	220	203	15.40
2	North-West	330	318	24.00
3	North-Central	220	189	14.30
4	South-West	300	277	21.00
5	South-East	230	202	15.30
6	South-South	200	131	10.00
	Total	1500	1320	100.00

Source: Survey Report, 2014.

Many of the medium scale industries that are still functioning are owned by foreigners such as Lebanese, Chinese and Indians who generally refused to accept the questionnaires. However, several of them as a result of the fervent appeals by the research assistants, eventually accepted them, but returned the questionnaires either partly completed or wholly uncompleted.

As a result, since the survey was intended to cover a certain minimum number of industries in each state, some questionnaires initially meant for several medium scale industries ended up being lodged with smaller industries that were more cooperative (see Table 4).

Table 4. Distribution of Respondents by Lodgments and Retrievals: Medium Scale Enterprises

		Medium Scale Enterprises		
No	Regions	Lodgment	Retrieval	% Response
1	North-East	40	6	9.70
2	North-West	20	13	21.00
3	North-Central	30	9	14.50
4	South-West	40	16	25.80
5	South-East	23	10	16.10
6	South-South	43	8	12.90
	Total	196	62	100.00

Source: Survey Report, 2014.

Table 5. Distribution of Respondents by Lodgments and Retrievals: All Regions

		All Regions		
No	Regions	Lodgment	Retrieval	% Response
1	North-East	300	217	14.50
2	North-West	400	373	24.90
3	North-Central	300	214	14.40
4	South-West	400	325	21.50
5	South-East	300	225	15.00
6	South-South	300	146	9.70
	Total	2000	1500	100.00

Source: Survey Report, 2014.

On the other hand, the region that recorded the highest response rate under the micro industries group is South-West region with 16, followed by North-West region with 13; North-Central 9, South-East 10 and the lowest response of 6 came from North-East. The North-West and South-West recorded the highest number of response from both small and medium enterprises. This may not be unconnected with the fact that the two commercial cities in Nigeria Lagos and Kano fall into this regions.

An analysis based on the responding industries by size and major lines of business is equally revealing. The analysis here is aimed at identifying those industries that are active under the most vibrant economy.

The preliminary analysis proceeds with an examination of the general picture portrayed. Accordingly, the most glaring impression emanates from the Food, Beverages and Tobacco sector which recorded 149 companies or producing firms, representing almost 26 percent of all the responding businesses in the regions. It is by far the most dominant sector. It is followed by other (unclassified) businesses that have 99 firms, representing 17 per cent of all the responding firms. Those under the Wood and Wood Products also made an impressive showing with a total of 73 companies representing 12.6 per cent of all companies that responded.

The least dominant line of business or sector is the Electrical and Electronics sector in which only a total of six companies responded to the questionnaires administered. It is followed closely by Chemicals and Pharmaceuticals which accounted for only 1.6 percent of total response. In other words, the most important businesses in the regions in general are, in order of their importance, Food, Beverages and Tobacco; Basic Metals and Iron and Steel and Fabricated Metals, Wood and Wood Products; Textiles, Wearing Apparels; Information and Communication Technology and Plastic and Rubber Products. All other businesses accounted for less than 20 percent of the total responding firms.

However, there is a large group of unclassified businesses, 99 of them and representing 17 percent of all responding enterprises, that when properly re-classified, might lead to the identification of more important business lines or sectors in the economy.

The general picture is not significantly different from that emanating from an examination of the micro industries. Under this general pattern, the three most dominant sectors or lines of business are Food, Beverages and Tobacco; Basic Metals, and Wood and Wood Products.

Under the small-scale industries, the three most dominant sectors include Food, Beverages and Tobacco, Wood and Wood Products, and Textiles and Wearing Apparels, Basic Metals Iron and steel and Fabricated Metals. The last two sectors indicated an equal representation of 9.6 percent each out of the total responding companies in the sector.

3.2 Characteristics of Responding SMEs

The survey report on the regions revealed the distribution of the responding lines of business with respect to their size, i.e. micro, small and medium-scale enterprises in the whole zone. Top among these lines of business is the Food, Beverages and Tobacco with 149 firms. Basic Metals, Iron and Steel and Fabricated Metals sector follows with 78 firms.

Table 6. Distribution of Responding SMEs by Major Lines of Business: All Regions

No	Major Line of Business	Number	Percentage
1	Food, Beverages & Tobacco	149	25.70
2	Textile, Wearing Apparels etc.	45	7.80
3	Wood and Wood Product	73	12.60
4	Pulp, Paper & Paper Products	16	2.60
5	Chemicals & Pharmaceuticals	9	1.60
6	Non-Metallic Minerals Product	14	2.40
7	Plastics and Rubbers Product	21	3.60
8	Electrical and Electronics	6	1.00
9	Basic Metal, Iron and Steel & Fabricated	78	13.40
10	Motor Vehicles and Miscellaneous	11	1.90
12	Information & Communication Technology	28	4.80
13	Solid Minerals Mining/ Processing	13	2.00

Source: Survey Report, 2014.

Table 7. Responses of Respondents on Whether Funding Arrangements by Government Have Contributed to the Growth of SMEs in Nigeria?

Industries	Yes	No	Total
Micro	36	82	118

Small	312	1008	1320
Medium	20	42	62
Total	368	1132	1500

Source: Field Survey, 2014.

The majority of the respondents incidentally showed a lot of interest and swiftly completed the questionnaires and returned them, thus indicating that many SMEs have been groaning under heavy problems and have been looking out for a "savior" or respite. Hence they embraced this study and thus expect that the outcome would positively impact on their (SME's) fortunes.

The spread of the respondents, though highly concentrated in South West (Lagos) and its surroundings, largely covered all the zones (36 states and Abuja). Next in concentration to Lagos was the South East (Aba) region in terms of the distribution of the respondent SMEs. The beauty of it all derives from the fact that all the states and Abuja as well as various sectors of the economy were covered in the study.

The personal interviews conducted by the researcher largely captured key and articulate SME practitioners, industry leaders within the SME sub-sector, professional services providers and consultants as well as executives of associations of SMEs.

3.3 Proof of Hypothesis

Using the rankings of the problems of SMEs by the respondents as inputs into the statistical package for social sciences and executing various commands including frequency distributions, analysis of variances, test of difference of means, correlations and chi-square tests of significance at 0.05 level, the outputs displayed in tables 4.1 to 4.3 were obtained among others. The proofs of the various hypotheses formulated in this research are based on the resultant findings.

3.3.1 Hypothesis 1

In most developed countries, efforts to support SMEs growth are over a century and have helped to create an enabling environment for their operations (Sule, 1986). According to Sule, the experience of the developed countries suggests that the key environmental support for SMEs in creating a favorable operational environment through policy framework should include;

1) Sophisticated or developed capital markets that offer the full range of financial products, ranging from seed capital to secured debt.

2) Public policies that provide incentives to private financial institutions to lend directly to SMEs.

3) Comprehensive public delivery system for business development services supplemented by innovative private and non-profit initiatives.

4) Public policy that promotes the creation, analysis and dissemination of data on the SMEs sub-sector.

5) Legal and regulatory protections that provide incentives for innovation, ease business entry and exit costs, and reduce business risk.

6) Tax incentives for SMEs development and expansion.

The working definition by International Labour Organization (ILO) and United Nations Development Programme (UNDP) for SMEs and large enterprises indicates that: employing less than 5 employees including the owner is a micro enterprise; employing 5 to 20 employees is a small enterprise; employing 21 to 99 employees is a medium enterprise; and employing above 99 employees is a large enterprise (UNDP, 2001). The International Finance Corporation (IFC) defined small scale enterprises as the enterprise employing between 10 and 15 employees and with asset base of less than US$2.5 million. The medium scale employed between 51 and 100 (IFC, 2002).

The Nigerian Bank for Commerce and Industry (NBCI) in the same year defined small scale enterprises as those businesses (for the sake of revolving loan schemes) investing not more than N500,000 (excluding the cost of land but including working capital). In 1985, NBCI redefined small scale enterprises as firms whose capital costs do not exceed N750, 000 (including working capital but excluding land). In the 1990 budget, the Federal Government of Nigeria defined small scale enterprises, for the purpose of commercial bank loans, as those enterprises with an annual turnover not exceeding N500,000 and for merchant bank loans, as those with a capital investment of not less than N2 million (excluding cost of land) or a maximum of N5 million.

The National Economic Reconstruction Fund (NERFUND) puts the ceiling for small scale industries at N10 million. Section 37(2) of the Companies and Allied Matters decree of 1990, defined a "small company" as one with annual turnover of not more than N2 million, and net assets value of not more than Nl million (Ekpenyong, 1997).

Ho_1: Funding arrangements for SMEs in Nigeria do not contribute significantly to their growth and expansion.

The hypothesis would be tested at 5% significance level, using the data in table 8.

Degree of Freedom (DF) = (r-1) (c-1) = (3-1) (2-1) = 2

The critical value of X^2 i.e., the table value, at 5% (0.05) significance level=5.991. Thus, we reject null hypothesis and accept alternative hypothesis if the calculated value of X^2 is greater than 5.991 and vice versa (Table 8 & 9).

Table 8. Chi-Square Test-1

Industries	Yes	No	Total
Micro	36 (28.95)	82 (89.05)	118
Small	312 (323.84)	1008 (996.16)	1320
Medium	20 (15.21)	42 (46.79)	62
Total	368	1132	1500

Source: Field Survey, 2014.

Table 9. Chi-Square Test-2

O	E	0-E	$(0 – E)^2$	$(0 – E)^2/E$
36	28.95	7.05	49.70	1.72
82	89.05	-7.05	49.70	0.56
312	323.84	-11.84	140.19	0.43
1008	996.16	11.84	140.19	0.14
20	15.21	4.79	22.94	1.51
42	46.79	-4.79	22.94	0.49
				$X^2 = 4.85$

O E 0 – E $(0 – E)^2$ $(0 – E)^2$/ E $(O – E)^2EX^2 = 4.85$.

The analysis above shows that the calculated value of Chi square (X^2) of 4.85 is less than the table value of 5.991; thus, we accept null hypothesis which states that the funding arrangements for SMEs do not contribute to their growth and development, and reject alternative hypothesis. It is evidently clear from the analysis above, that government programmes toward financing SMEs have not yielded desired results. This may not be unconnected with lack of access to these funds by the SMEs as targeted by these programmes.

Table 10. Responses of Respondents on Whether the Existing Funding Arrangements Are Easily Accessible and Affordable by SMEs in Nigeria

Industries	Yes	No	Total
Micro	42	20	62
Small	1008	312	1320
Medium	82	36	118
Total	1132	368	1500

Source: Field Survey, 2014.

3.3.2 Hypothesis 2

Ho_2: The Existing Funding Arrangements are easily accessible and affordable by SMEs in Nigeria.

The hypothesis would be tested at 5% significance level, using the data in table 5.6.

Degree of Freedom (DF) = (r-1) (c-1) = (3-1) (2-1) = 2

The critical value of X^2 i.e., the Table value, at 5% (0.05) significance level = 5.991. Thus, we reject null hypothesis and accept alternative hypothesis if the calculated value of X^2 is greater than 5.991 and vice versa.

Table 11. Chi-Square Test-1

Industries	Yes	No	Total
Micro	42(46.79)	20(15.21)	62
Small	1008(996.16)	312(323.84)	1320
Medium	82(89.05)	36(28.95)	118
Total	1132	368	1500

Source: Field Survey 2014.

Table 12. Chi-Square Test-2

O	E	0-E	$(0 – E)^2$	$(0 – E)^2/E$
42	46.79	-4.79	22.94	0.49
20	15.21	4.79	22.94	1.51
1008	996.16	11.84	140.19	0.14
312	323.84	-11.84	140.19	0.43
82	89.05	-7.05	49.70	0.56
36	28.95	7.05	49.70	1.72
				$X^2 = 4.85$

The analysis above shows that the calculated value of Chi square (X^2) of 4.85 is less than the table value of 5.991; thus, we reject null hypothesis which states that the Existing Funding Arrangements are easily accessible and affordable by SMEs in Nigeria and accept alternative hypothesis which states that the Existing Funding Arrangements are not easily accessible and affordable by SMEs in Nigeria. It is evidently clear from the analysis above, that government present funding arrangements toward SMEs have not yielded desired results. This may not be unconnected with the demand for huge collateral and government policy inconsistencies and bureaucracy.

4. Summary of Major Findings

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. From a planning standpoint, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth and dispersal. In most countries, including the developed countries like Japan, USA, UK, etc. SMEs account for well over half of the total share of employment, sales, value added and hence contribution to GDP.

A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. With over 150 million people, vast productive and arable farmland, rich variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs. Unfortunately, SMEs have not played the significant and crucial role they are expected to play in Nigeria's economic growth, development and industrialization.

It is difficult to fathom out the reason why the SMEs would not lead Nigeria to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards.

The findings of this paper point to two main causative factors as to why Nigerian SMEs are performing below standard.

1. Internal Factors: These relates to attitudes, habits and way of thinking and doing things.

2. Environmental Factors: These relates to our environment including our educational system, culture, government, lackluster approach to policy enunciation and poor implementation among others. The solution to the problems of Nigerian SMEs can only be realized if both the leaders and the citizens concertedly work together. The government has to take the lead by extending the current reforms to the educational and industrial sectors especially as regards policy formulation and implementation, ports reforms, transportation sector reforms, revamping the infrastructural facilities, value reorientation and reduction of bribery and corruption to the barest minimum if not total eradication. Given efficient and effective execution of all these as well as the political will and good leadership and good followership, the SME sector will certainly be an effective tool for a rapid industrialization of the Nigerian economy.

The SMEs sector is, without doubt, the key to unlocking the economic potentials of Nigeria. In all, the results of the findings of this paper is quite revealing.

1) Until recently, government policies, strategies and programs have laid undue emphasis on large scale enterprises and in a number of notable cases, have even discriminated against SMEs especially micro-scale enterprises.

2) The SMEs are mostly owned and run by "small" people especially Small and micro scale enterprises for local markets and using mostly materials from the locality of the businesses. A viable means of promoting self-reliance in economic development as well as introducing diversity into regional, national and local economies is through the deliberate promotion of SMEs and encouraging entrepreneurial spirit and skill in business venture.

3) Apart from the superior employment generating capacity and potentiality of the SMEs, there are the added advantages of their being flexible and easily adapt to changing market opportunities and conditions. The SMEs require limited capital and can more easily combine simple and advanced technology as may be appropriate.

4) There are different sources of funds available to the SMEs which include among others financial institutions, government agencies, nongovernmental organizations, personal savings, friends and family, international donor agencies, cooperatives.

5) Most of the SMEs operate under an unfavorable environment bedeviled by a number of constraints emanating from lack of access to credit, poor infrastructures and lack of raw materials.

6) The granting of loans or credit to SMEs is still a major problem as many of the SMEs are unable to access such funds. Also there is the problem of information between the loan provider and the loan receiver as to the availability, cost and mode of assessing such fund.

7) Most of the SMEs are into the business of manufacturing, construction and provision of services.

8) The exploitation and processing aspects of the mineral raw materials are still very underdeveloped. They are characterized predominantly, by manual processing methods, involving mainly size reduction (crushing, grinding and pulverization) and physical separation (Magnetic and gravity) with little attention to chemical purification processes. Likewise, the equipment used are generally unsophisticated.

5. Conclusion

Contrary to the generally believed notion or assumption, this paper found out the top ten key problem areas facing SMEs generally in Nigeria in descending order of intensity include access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, management problems, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and the non-availability of raw materials locally.

The mortality rate among SMEs in Nigeria is very high within their first five years of existence. The reasons for the high mortality rate include the following among others: Many prospective entrepreneurs do not have a clear vision and mission of what they intend to do. Many of the SMEs are not business specific and hence have no focus and are easily blown away by the wind.

They tend to emulate or copy other successful SMEs without any planning of their own. Many fail to plan well and waste a lot of resources on brochures and other non-essentials as a result of no focused and logical procedure or articulated plan of actions. Other mistakes by startup SMEs include placing advertisements without quality and commensurate goods and services to match, promoting themselves (promoters) instead of the business per se, promoting the business in the wrong environment, quitting at experiencing a slight setback or disappointment, not researching the market well ahead of commencement, not being original and stopping marketing too soon.

The rate of growth of SMEs in Nigeria is stunted due to the following key reasons: lack of entrepreneurial spirit and drive, fear of failure of the enterprise, fear of starvation for a few months after quitting a paid job, inability to produce or pay for a feasibility study or business plan, mindset that "it will not work" or "I won't succeed" and the likes.

Capacity building especially in terms of business knowledge, self-confidence, skills and attitude, acquisition and development of entrepreneurial spirit and right business motivation and ability to set goals are imperatives for entrepreneurial success.

Access to finance/capital, infrastructure and government policy inconsistency and bureaucracy has remained the three greatest major problems of the manufacturing subsector of SMEs in Nigeria. Power supply poses the greatest challenge as most of them have turned to generating sets for regular power supply at a debilitating cost. Many also have to contend with constructing their own road network and providing their own water system also at huge costs.

Many SMEs in Nigeria are not aware of the existence of SMEDAN, the various sources of funds for SME development, the incentives available for them, the legal and regulatory requirements, how to source funds from banks or even the basic procedure for promoting an enterprise. Majority of SME promoters are averse to going into partnership schemes and also to equity participation by banks under the SMIEIS programme.

In all the development of SMEs and its effective promotion have not been approached seriously in Nigeria; hence, the lack of their impact in the economy. In Nigeria, various governments instituted various programs aimed at developing SMEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the economy. The Non-Governmental organization and Donor Agencies are currently involved in the promotion of SMEs in Nigeria as access to credit continues to pose a major problem to SMEs sector in Nigeria. While the traditional financial institutions have not been able to meet the credit needs of the SMEs. Since the introduction of economic reforms, more SMEs have been forced to the informal institutions for credit and the supply of credit from the informal institutions is often so limited to meet the credit needs of the SMEs.

The industrial development of Nigeria and other African countries particularly in the sub-region depends on the degree of attention given to the small and medium scale sector. In spite of the abundance of natural resources in these countries, many of its citizens are living under abject poverty with a slow economic development.

6. Recommendations

Most African Nations in general and Nigeria in particular are now realizing the importance of Small and Medium Scale Enterprises as being crucial to their economic development strategies. It is therefore, important to consider conditions that would ensure sustained growth in this sector. The SMEs should be seen as an important sector of the economy requiring specific incentives to assist its development. The problems of the SMEs are characteristic of the basic features of underdevelopment in the economy. From the findings of the research, the following recommendations are made to promote and develop a vibrant SMEs sub-sector in Nigeria:

a. Government should accelerate the development of markets for financial services suited to the special characteristics of SMEs by promoting product innovation and building institutional capacity. In financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable.

b. Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates.

c. The government should also assist by establishing a well-funded National Credit Guarantee Fund that will act as buffer for credit facilities from banks and other financial institutions over and above the equity provided under SMIEIS.

d. If SMEs are to increase their investments substantially, the question of risk capital for the sector becomes of utmost importance especially in the long term. The government should therefore stimulate the development of Venture Capital Market for SMEs through the provision of specific tax incentives for venture capitalists.

e. Above all, the government should have the political will to effectively and efficiently implement the above recommended measures in order to achieve the desired results for as long as the status quo remains we cannot achieve or expect any improvement in the crucial SME sector. If we want a change in the status quo as it relates to our SMEs, we must change the way and manner we manage affairs relating to SMEs.

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