The Role Financial Institutions in Financing Small and Medium Enterprises in Nigeria

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Abstract
The paper being a conceptual review highlighted the importance of finance in the development of small and medium enterprises (SMEs) in Nigeria with the objective to specifically examine the role financial institutions play in financing small and medium enterprises in Nigeria. The article methodologically discussed various policies adopted by the government to achieve the Small and Medium Enterprises Equity Investment Schemes aims and objectives, the Central Bank of Nigeria policy to the commercial banks on the scheme and the financial institutions strategies in implementing the policies and guidelines on the scheme. It was concluded that Small and medium enterprises equity investment scheme (SMEEIS) if properly managed considering the volume of funds dedicated, could provide the necessary impetus for growth in the economy.

Key Words: *Small and Medium, Enterprises, Finance, Equity, Institution*

Introduction

Finance is one of the major areas enterprises usually give attention to as an essential part of an organization. It even becomes an important when the case of small and medium scale enterprises is considered. This is because even though they need money to finance their activities, the source of getting these fund are extremely limited, quite unlike the large scale enterprises that get their monetary needs from various, many are which reliable (especially equity and debt sources). The banking industry lays a unique role in the financing of small and medium scale enterprises in most countries (either developed or developing).

The existence of effective banking industries is essential for small and medium scale enterprises (SMEs) because it creates the necessary environmental growth through its roles in intermediating fund from the surplus limits to the deficits units. The small and medium enterprises (SMEs) are considered to be one of the principal driving forces in economics development. They stimulate private ownership and entrepreneurial skills they are flexible and can adopt quickie to changing market demand and supply situation, they generate employment help diversify economic activity and make a significant contribution to export and trade. SMEs globally play critical roles in absorbing labour penetrating new market and generally expanding economics in creative and innovative ways. We are of the view that with the appropriate enabling environment, small and medium enterprises in the country can follow these examples and make an indelible marked on this economy on to a greater level.

One in which our economy is diversified productivity is enhance, investment is stimulated and entrepreneurship flourishes.

The consolidation of the Nigeria banking industry among other things has created a vintage opportunity to revamp and accelerated the development of SMEs in the economy. The large assets base, strong capital position and diversified competences of the surviving banks place them in a better position to engage and support SMEs through financing products that meet their needs in their growth maturity phases at reasonable cost.

However, the role of banks in financing SMEs in Nigeria has brought about the small and medium enterprises equity investment schemes (SMEEIS) which is a voluntary initiative of the banks in Nigeria approved at it 246th meeting held on 21st December, 1990. The initiative was in response to the federal government concern and policy measures for the promotion of small and medium enterprises (SMEs) as vehicle for rapid industrialization sustainable economic development, poverty alleviation and employment generation. The scheme requires all banks in Nigeria to set aside 10% of the earning before tax (PBT) annually for equity investment in small and medium scale enterprises and the scheme commenced on June 19th 2001. Every legal business activities are covered by the scheme with the exception of trading or merchandizing and financial service. Ten percent of the funds set aside have been embarked for lending to micro- finance.

Literature Review

Concept of Small and Medium Scale Enterprises (SMEs)

In spite of the absent of a universal definition for small and medium scale enterprises (SMEs) there is a general consensus regarding the variable used in identifying SMEs, the critical include capital investment fixed assets annual turnover gross output and employment.

According to CBN publication (2003), SMEs is defined small scale industries as those with annual turnover, SMEs defined enterprises with a maximum assets base of 200 million excluding land and working capital with number of staff employed by the enterprises of not less than 10 and not more than 300.

Ogechukwu et al (2013), were of the view that Small scale business, small scale industries and small scale entrepreneurship are used interchangeably to man a small scale industry firm. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development.

These features equally vary from one country to the other.

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

2. The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150,000 in manufacturing and equipment alone.

3. The small scale industries association of Nigeria (1973) defined small scale business as those having investment (i.e. capital, land, building, and equipment of up to N60,000 pre-SAP Value) and employing not more than fifty persons.

4. The Federal Ministry of Industries defined it as those enterprises that cost not more than N500,000 (pre-SAP Value) including working capital to set up.

5. The Centre for Management Development (CMD) view of small industry in the policy proposal submitted to the federal government in 1982, defined small scale industry as, "a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers.

Entrepreneurship

Ajayi (2000)and (Drucker 1985) states that entrepreneur is the process of creating new with value devoting necessary time and efforts assuming the accompanying financial physical and social risk and receiving resulting reward of monetary and personal satisfaction and independence.

Also it can be a dynamic process of creating incremental wealth. The wealth is created by individuals who assumed the major risk. It terms of equity, time and career commitment or provide service may not be new or unique but value most somehow be infused by the entrepreneurship by receiving and allocating the necessary skills and resources. The major contribution to the economic development process of the Nigeria economy has been well documented as plausible efforts stemming from the small business sector. The creation of more direct jobs per dollar of investment has been accredited to small and medium scale business than do big firms (Valantine, 2014).

Commercial Banks

These are financial institution in which they serve as financial intermediaries (middlemen) the obtain fund from the surplus units (that is by accepting deposit) and allocate these funds to the deficit unit (that is advanced) of loan in order to help promote efficient and dynamic economy.

Herper (1984) and (kitchen 1992), stated that problems that have surface in utilizing the equity fund provided by SMEEIS are not expected, it was viewed that specialized venture capital or equity financing scheme are unlikely to be appropriate for the financial needs of small and medium scale enterprises in developing countries. It is difficult enough for an unsophisticated entrepreneur to appreciate the differences between his own investment and loan they may have received. The addition of outside equity and the associated need for incorporation share responsibility and divided as opposed to drawing is unlikely to be manageable.

Obasan (2003), asserted that the ideal of giving medium term loans has been encourage by government in order to aid the development of the small and medium scale industries. This has led the floating of small and medium scale industries equity investment scheme by the bankers committee in Nigeria. This ideal require bank to contribute 10% of their pretext profit to finance SMEs in Nigeria. The scheme was launched on Tuesday 21st August, 2001 in Abuja. Another loan scheme which banks in Nigeria still package to help entrepreneurs is the new share purchase loan scheme. The scheme is the brain child of bureau of public enterprises.

The Role of Banks in Financing SMEs in Nigeria

Akingunola (2011) and (Easien, 2001) assesses specific financing options available to SMEs in Nigeria and contribution with economic growth via investment level. It was revealed in his study that there is significant positive relationship between SMEs financing and economic growth in Nigeria via investment level.

SMEs revised guideline (2001) and (Francis, 2009) said that fund from the banking systems can be extended to the SMEs either directly as normal credit `or as equity investment under the resent initiative of bankers committee funds to SMEs through the normal credit line have proven to be grossly inadequate especially since 1997 following government abrogation of the mandatory allocation of 20% of bank total credit to SMEs in Octobers 1996 and `financial SMEs through equity participation by licensed bank as proposed under the baker committee initiative `is not a vowel ideals because the devoting of 10% PBT of licensed bank equity participation in SMEs. Using the figure of profit before tax of bank in 1999 as base, the amount expected form the new scheme would be well over N2.1 billion annually

Areas Covered by SMEEIS

Real sector financing by individual banks under this initiative cover the following activities:

1. Agro allied industries
2. Information technology and telecommunication
3. Manufacturing
4. Educational establishment
5. Services
6. Tourism and leisure
7. Solid minerals exploitation
8. Constructions services (directly related to promotion in the real sector)
9. Any other business as may be determined from time to time by the bankers committee.

Eligibility for Funding SMEs under (SMEFIS)

The following are the qualifying criteria for equity investment in a company under SMEEIS

1. The company must have been register as a limited liability company with corporate affairs commission (CAC) and comply with all relevant regulations of the companies and allied matter Act (1990) such as filling or annual returns including audited financial accounts.

2. To comply with all applicable tax loans and regulations and render regular returns to the appropriate authorities.

3. Must have engaged or purpose to engage in areas of business to which the scheme applies.

Also the scheme stresses that the recommendation of industrial associations; particularly Manufacturer Association of Nigeria (MAN), National, Association of Chambers of Commerce Industry Mines and Agricultures, (NACCIMA), National Association of Small Scale Industries will he mandatory member of these association or memberships of recognized nongovernmental organization engaged in entrepreneurship development and promotion of small and medium scale enterprise will also be an advantage.

Conditions for Funding SMEs under SMEEIS

- The bank shall have a seat on the board of the SMELTS
- The bank will be involved in the appointment of a suitable qualified financial controller.
- The company will execute an equity investment agreement and domiciliation of scale proceeds agreement prior to disbursement.
- The fund should be tied to a project cause preferable acquisition of specific fixed assets and or working capital support
- Promotes of the companies should not be current directors or employers of banks.

Aims and Objectives of the Scheme

Small and medium scale enterprises equity investment scheme (SMEEIS) in 2001, like Oye Akinsulire (2005) states that the scheme is aimed among other things to assist in:

1. Facilitating the flow of funds for the establishment of new, viable small and medium enterprises project, reactivation, expansion and modernization or restructuring of on-going project.
2. Stimulating economic growth, develop local technology and generate employment for capable and suitable Nigerians.
3. Promoting indigenous entrepreneurship
4. Eliminating the burden of interest and other financial charges for the entrepreneurs
5. Provide financial advisory technical and managerial support to the entrepreneurs.

Modalities of the Scheme

SMEEIS (Revised guideline, 2006 pg 3-5 & Olagunju 2004 pg 210), asserted that modality for the scheme includes the following:
1. Funds invest by participating bank shall be in the form of loans or equity investment or a combination of both in eligible enterprises.
2. Interest on loan shall be single digit to a maximum of 9%
3. Eligible enterprises are free to approach any bank including those they presently have relationship with to seek funding under the scheme.
4. Prospective beneficiaries are to enjoy the scheme from the bank directly or through their wholly owned subsidiary venture capital companies or through capital companies floated by a consortium of bank through independent venture capital companies.
5. Prospective beneficiaries are also to seek expert opinion of third party Consultant such as lawyers, accounting and values in other to determine the value to be placed in their assets and capita. This will enable banks to determined fair price before or during negotiation with the banks.

Sanctions and Penalties

SMEEIS Revised guideline (2006) stipulated that there arc sanctions penalties for banks which do not comply with the rules of the scheme in which an expiry period of grace after date of setting a side of the funds

- ✓ The CBN shall debit the bank that have not invested and invest such funds in Treasury bill for six (6) months after the expiry of the dateline. The interest earned would be used to administer to scheme.
- ✓ Thereafter, existing venture capital companies and banks could bid to manage and invest the funds through proposals made to the bankers subcommittee on the SMEEIS for final approval by the bankers committee.

Benefits of the SMEEIS

Sanusi (2004) gave the various benefits which the scheme will confer on beneficiaries which include receipts of financial, technical and managerial support from the banking industries; opportunity to obtain more fund from the banks by participating business in addition to equity investment under the scheme; eligible business are free to approach any bank to seek funding under the scheme.
Ogechukwu (2013) stated that Small scale industries generate employment for a lot of Nigerians. A lot of unemployed people and youths have found employment in small scale industries. A lot of small retail shops, cottages, restaurants, poultry farms, and telecommunication/telephone shops have been established and managed profitably by Nigerians who would have been unemployed till date. The entrepreneurs have in turn provided jobs for other Nigerians, who serve as support, technical and administrative staffs for them.

• It has encouraged self-employment for many youths both in the rural and urban areas. The spirit of successful entrepreneurship has taken over the mind of Nigerians, who believe in themselves and in the goal of self-employment, instead relying on government jobs. In the telephone retail and rental jobs, a lot of youths and Nigerians have remained self-employed. Their businesses have expanded to the level of employing some other unemployed people.
• Through the establishment of manpower development support schemes, and their involvement in the training and retraining of entrepreneurs, small scale industries have provided a pool of potential entrepreneurs and business people who are well equipped to start and successfully manage industries, whether small or large, not only in Nigeria, but overseas. Successful business people in Nigeria like Aliko Dangote, the Ibrus, Mike Adenuga, Illodigwe and Dantata started as SMES, before the growth of their various businesses into conglomerates.
• It has reduced the dependence on government and large firms on salaried employment. This is evidenced from the liberalisation policy of the established to provide support staff and employment for Nigerians, (For example, MTN, GLOBACOM, CELTEL and many private universities).
• Small scale industries have stimulated rural development and the achievement of a meaningful level of broad economic and rural development. To reduce the migration from rural to the urban centres, some infrastructural facilities which promoted small scale industries were provided in the rural areas, such as the provision of access road, increased improvement in communication facilities like telephone, postal services and the internet facilities, construction of industrial layouts and estates, and the provision of electricity and water expansion schemes.
• It has uplifted the dignity of labour. There is the spirit of “ME TOO”, can do it attitude. People deriving joy in working for themselves and seeing their businesses grow and mature to conglomerates and deriving joy in being a source of employment to other Nigerians.
• It has upgraded the social status of Nigerian youths, by showcasing them as very successful entrepreneurs and operators of small scale industries. This is evidenced in the many success stories of small scale industries as recorded by the print and electronic media houses.

Impact of the Government in Financing SMEs in Nigeria

The Nigerian government policies accorded and gave priority to the country’s small scale enterprises. This has been in recognition that they constitute the fountain head of vitality for the National economy, and consequently their problems have been viewed as those of the nation, by virtue of their number, diversity, penetration in all sectors of production and marketing contribution to employment and to the prosperity of the particular areas in which they operate, (Ogechukwu, et al, 2013 & Easien, 2001).

Before the introduction of the small and medium enterprises equity investment scheme in 2001 it is mandatory for banks to finances SMEs sector, government has tried different policies at different times to increases the availability of long term funding to SMEs in Nigeria and there are established agencies and organization through which the state and federal government makes low interest loan available to SMEs which include:

1. Small scale industries credit guarantee scheme it was established in 1971. in the third national development plan, 1975 — 1980, the scheme which was operated as a matching grant arrangement between the federal and state government and designed to make credit available on liberal term to enterprises with capital investment outlay not exceeding N150,000. The scheme had maturing period ranging from 4 - 10 years, and the foreign exchange risk was borne by the federal government.

2. Nigerian Bank for commerce and industry established in 1973 was charged with responsibility of disbursement fund obtained from the federal government to SMEs. It approved a total of 797 projects with a credit value amounting to N965.5 million between 1973 and 1989, and disbursement N141.82 million between 1987 and 1988. Also the bank financed a total of 126 projects under the World Bank loan scheme.
3. the Central Bank of Nigeria (CBN) credit guideline which required banks to allocate varying amounts of stipulated minimum credit to be preferred sector of the economy; including small scale enterprises (1970) banks loan and advance to small scale enterprises rose from N113.4 million in 1980 to 5.900, N142.302 and N 146.824 million in 1990, 1996 and 1999 respectively.
4. National economic reconstruction fund was established in 1989 in order to provide medium to long term funds for wholly Nigerian owned SMEs. The resources were mainly contributions from the federal government while between 1996 and 1998, 87 project were approved.

Problems and Causes of Poor Financing of SMEs in Nigeria

Recent studies show that SMEs face serious problem in terms of working premises, the (ILO, 2001) study showed that as much as 60% of businesses in the informal sector operate along the streets. Particularly in Tanzania businesses are concentrated in the urban areas where it is difficult for SMEs to acquire plot for constructing businesses premises because of bureaucracy, corruption and very limited number of surveyed plots. Due to these reasons cause more SMEs to let business premises which are very expensive.

Valentine (2014) said the death of adequate source of finance has been a major problem that inhabited the emergency and growth of small and medium scale enterprises (SMEs) in Nigeria in the last couples of decade. The growth of sub sectors critically to the nations economic recovery growth and repositioning with the global economic setting various economic theories equally led credence to this observation. said that the basic problem which has resulted in the SMEs under- utilization in an economy like that of Nigeria which is beginning for growth to do with the Nigeria factor indeed a sincere analysis disbursement to companies who have God father and not to small companies those that are sincere in need of this capital. A major constrain most SMEs have is meeting up strongest collateral and other condition needed by these banks who are in charge of awarding these loans. Poor accounting record keeping is observed with many SMEs in Nigeria. Management Transparency and Accountability is another factors related factor which implies that the simple managerial structure of the average SMEs in Nigeria allowed the operators of such business to abuse managerial freedom and to be dubious in their managemer4 activities. Poor Government Structure prevents SMEs to access funds easily from banks and other specialize financial institutions.

Other obstacles and causes of small scale business failure as enumerated by Alawe 2004, in Ogechukwu (2013), includes sociocultural obstacles which includes the lack of entrepreneurship culture and education, Nigeria's social system limits opportunities for creative activities, and the limiting role of most relying beliefs which bars admission to initiatives and entrepreneurships. They preach perseverance, rather than risk taking, aggressiveness, necessary for business. Others includes technological backwardness of Nigeria which leads to labour and inefficiency, political instability occasioned by civil unrests, political sabotage, coup detats, local and youth restiveness, thuggery, and armed robbery. All these create insecurity in the minds of entrepreneurs. Some managerial problems as opined by Alawe (2004) includes the absence of strategic management skills and attitudes, the inability to respond to threatening environmental conditions, lack of clearly defined objectives, lack of delegation, inability to select appropriate equipment's and resources, and the faulty design, implementation and evaluation by small scale businesses, and their entrepreneurs.

Solution to Challenges in Financing SMEs

Tuned Lemo (2003) asserted that to gain access to finance, small and medium scale enterprises (SMEs) owner should learn to put relisted business plan supported with a financial projection, which highlight the profitability of the enterprises before the seek for funds, such companies should be duly and legally registered with appropriate authorities, maintain good financial record and put in place strong internal control mechanism. In general the operators should be knowledgeable about the kind of business want to venture into.

Also the meaning director, union bank plc Mr. Bart Lolomew Ebong proffers solution to SMEs challenges in which he suggested that improve entrepreneurial education, tax incentive and that promotion of micro economic stability will help resolved some of the challenges of small and medium scale enterprises financing in Nigeria.

Also the federal government should make the bank to contribute to the scheme to enjoy 100% investment allowances reduce tax pay by SMEs to 10% provide five years tax holding to the SMEs under the scheme and exempt divested funds under the scheme from capital gain tax.

Impacts of the Roles of Banks in Financing SMEs in Nigeria

Anyawu (2001) said some of the effects were manifested in which available evidence based on cross -.country studies indicate the important of SMEs in economic development. Report show that viable: SMEs can meaningfully contribute to the attainment of many socio - ; economic growth objective such as output expansion, employee generation, income redistribution, promotion of indigenous entrepreneurship and technology as well as production of intermediate good to strengthen inter industrial linkages. Valentine (2014) and (Akinsulure, 2005) affirms that the impact were manifested in the area of employment generation, rural development, economic growth and industrialization, better utilization of indigenous resources, other impacts include stimulation of indigenous entrepreneurship, development of local technology, provision of good value chain for poverty alleviation and mobilization and utilization of domestic saving. Anigbogu, et al (2014) opined that economic growth and development in Africa can be achieved through the emergence of strong SMEs, which will later grow to become major players in the developing economy. SMEs help to diversify economic activities that have significant contributions to imports and exports, they are flexible and can adapt quickly to changing market demands. Thus, SMEs contribute more and more to the national and international economies of the world.

Conclusion

The expectation of the banking institutions to implement small and medium enterprises equity investment scheme is in the mind of Nigeria given the past records as the funds sometime re-directed to an area different what is meant to achieved. Corruption on the other hand, poses serious threat to the schemes.

Small and medium enterprises equity investment scheme (SMEEIS) if properly managed considering the volume of funds dedicated through SMEDEN, could provide the necessary impetus for growth in the economy.

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