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FINANCING INITIATIVES FOR INDIGENOUS ENTREPRENEURS IN SMES: THE NIGERIAN EXPERIENCE

CHINONYE OKAFOR

ABSTRACT

Small and Medium Enterprises (SMEs) have been recognized by both developed and less developed countries as instruments for economic development. Their importance has been identified in the areas of employment generation, wealth creation, dispersal of industries and support for the growth of nations' GDP. However, some challenges retard their performance and among these, finance has been identified to be the major challenge facing this sub-sector. In solving this problem, efforts have been made by state government, federal government, and other international organizations in formulating different financing strategies. This study focuses on the evaluation of the various financing strategies available to Nigerian entrepreneurs in SMEs. Secondary data was used for the study. It was recommended that the government should device a means of monitoring the performance of the institutions established to advance funds to SMEs such as SMIEIS, BOI and NACRDB to ensure that they are actually giving out funds to SMEs operators.

Key Words: *Small and Medium Enterprises, Entrepreneurs, and Financial Initiatives*

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INTRODUCTION

Nigeria with the population of over 140 million people is endowed with various mineral resources such as petroleum, coal, uranium, granite, iron-ore and much more. In spite of these natural resources, the country has been numbered as one of the poorest in the world today. The poverty situation in Nigeria is so bad that it has been estimated that over 60% of the Nigerian population is rated to be living below the poverty line while the economic growth rate is only 1.8% of the GDP (Weller *et al,* 1999).

To reduce and alleviate the Nigerian poverty situation, an effective economic development polices have to be adopted over the years. Economic development policy as a process of improving the quality of all human lives usually focuses on three aspects which include; raising income for consumption, fostering self-esteem through institutions that promote human dignity and respect; and increasing people's freedom (Todaro,1994). This can only be achieved through the adoption and implementation of a comprehensive Small and Medium Enterprises (SMEs) policies. SMEs development has been identified as an important factor in every economic and development growth strategy as it accounts for more than 60% of the economic activity in Nigeria and 94% of the total share of the employment figure (Weller *et al,* 1999; Udechukwu, 2003; Ndubusi, 2004).

The importance of SMEs to economic development in Nigeria is increasingly becoming recognized by both local donors and international agencies. They have been acknowledged as the springboard for sustainable economic development (Olorunshola, 2003). The interest of nations in promoting SMEs especially the less developed countries according to Olorunshola (2003) is based on the failure of past industrial policies to generate efficient self-sustaining growth; increased emphasis on self-reliant approach to development and the recognition that dynamic and growing SMEs can contribute substantially to a wide range of developmental objectives.

Their importance includes employment generation, wealth creation, mobilization of domestic savings for investment (Ogunleye, 2004), poverty alleviation, conservation of foreign exchange to mention but few. Udechukwu (2003) and Ndubusi (2004) in their study listed the following as the areas where SMEs is mostly essential as a growth strategy to include improvement of standard of living; substantial local capital formation;

achievement of high levels of productivity and capability; means of achieving equitable and sustainable industrial diversification and dispersal; appreciable contribution to gross domestic product; increased harnessing of local raw material and technological and export diversification.

In spite of these, SMEs have been identified with several problems such as; inadequate and inefficient infrastructural facilities, lack of adequate credit for start up and expansion, bureaucratic bottlenecks, lack of education among SMEs operators, corruption, lack of access to information and inefficiency in the administration of incentives, weak demand of their products, incidence of multiplicity of regulatory agencies, unco-ordination of support system, unwillingness and inability of the financial institutions in extending credit to SMEs (NCI, 2001; Emmanuel, 2002; Beuns, 2004; Amijee, 2004; Udechukwu, 2003).

Among these problems, lack of adequate finance for the business has been identified as the most pressing one. To reduce this problem, several efforts have been made by different institutions (both local and international) in ensuring that there is enough funds for the operation of SMEs in LDCs. All past government have made provision for facilities and supportive services especially in terms of finance for assisting SMEs operations to enhance economic growth. These financing facilities are usually considered as the hallmark of an effective strategy for promoting the SMEs sectors (Udechukwu, 2003). This study therefore focuses on the evaluation of the various financing initiatives and their implications on Nigerian entrepreneur in SMEs.

SMALL AND MEDIUM SCALE ENTERPRISES

The concept of SMEs is dynamic and relative (Olorunshola, 2003; Ogunleye, 2004). Several institutions and agencies defined SMEs with different parameters such as employee's size, asset base, turnover, financial strength, working capital and size of the business. These definitions include; that of Nigerian Industrial Policy 1989 which defines SMEs as enterprise whose investment in working capital is between N100,000 and N2m excluding cost of land. CBN Monetary Policy Circular No. 22 of 1998 also defines SMEs as any enterprise whose investments (include land and working capital) is less than 300,000 and annual turnover is less than N5m. The Nigerian

Industrial Development Bank (NIDB) defines small enterprise as an enterprise that has investment and working capital not exceeding N750,000 and medium enterprise as one with N750,000 to N3m.

The Federal Ministry of Industry Guidelines to NBCI also defined SMEs as business with a total cost not exceeding N500, 000 (excluding cost of land but including working capital). Centre for Industrial Research and Development (CIRD) of the Obafemi Awolowo University, Ile-Ife defines SMEs as an enterprise with capital base not exceeding N25,000 and employing capital base not exceeding N250,000 and employing on full time basis fifty workers or less. Also according to NERFUND, SMEs is an enterprise that has its investment to be less N10m excluding the cost of land. Nigerian Bank for commerce and Industry (NBCI) defines SMEs as business with total capital not exceeding N750, 000 (excluding cost of land but including working capital).

Another definition of SMEs is that of National Council on Industry (NCI) which in 1992 streamlined the various definitions of SMEs and agreed to change it every 4 years. It defines SMEs as enterprises with fixed assets above N1m but not exceeding N10m, excluding working capital while medium scale as enterprises with fixed asset that is more than N10m and less than N40m including working capital but excluding cost of land in 1992.

In 1996, it defines small scale business as enterprises with more than N1m but less than N10m excluding cost of land and including working capital and a labour size of between 11 and 35 workers while medium scale enterprises should have over N40m and less than N150m as fixed asset including working capital and excluding cost of land and labour size should be 36 and 100 workings (Olorunshola, 2003). New Industrial Policy for Nigeria defines SMEs as enterprises with total investment of between N100,000 and N2m excluding cost of capital but including working capital (Guidelines for the Small- Scale Industries Investment Scheme 2001 cited in Ogunleye, 2004).

The National Council on Industry (NCI) in 2001 offered the following definitions for micro, small, medium and large scale enterprises in Nigeria.

Micro/Cottage Industry: An industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding cost of land, and /or, a workforce of not more than 10 workers.

Small-Scale Industry: An industry with a labour size of 11-100 workers or a total cost of not more thanN50 million, including working capital but excluding cost of land, and /or, a workforce of 11-100workers.

Medium Scale Industry: An industry with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land, and /or, a workforce of 101-300 workers.

Large Scale: An industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding cost of land, and/or, a workforce of over 300 workers. These definitions can be compared with the ones obtainable from developed countries which can be summarized in a table as below:

Table 1: Definition of SMEs in other Nations

Country	Investment Ceiling	Employment Ceiling
India	$170,000 (N23.8m)	No Restriction
Indonesia	$ 85, 000 (N11.9m)	< 100
Japan	$800,000 (N112m)	300 employees
South Korea	$730,000 (N102.2m)	300 employees
Malaysia	$106,000 (N14m)	No Restriction
Philippines	$45,000 (N6.3m)	99 employees
U.K	No Restriction	199 employees
USA	No Restriction	< 500
Tanzania	$1,000 - $50,000	No Restriction

Source: (i) Confederation of Asia Pacific Chamber of Commerce and Industry (1994)
(ii) Oyekanmi (2004) Concepts of Equity Financing and its implication SMIEIS.

The above definitions show that there is no universal definition of SMEs. However, for the purpose of this study, the definition of SMEs according to SMIEIS can be adopted which defined SMEs as establishment with less than N20m (excluding cost of land and working capital and has more than 10 employees and less than 300 employees). The adoption of this definition is based on the fact that it covers all the criteria used by other institutions and organizations.

CHARACTERISTICS OF SMES

The peculiar characteristics of SMEs have helped in enhancing their performance in the economy. By their nature, SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development. They possess common characteristics that enables the growth of an indigenous enterprise culture more than any other sub-sectors (Udechukwu, 2003).

Adeleja (2005) enumerates creativity, provision of inputs and or material components for large enterprises, mainly found everywhere especially in the local communities and fasted tools for job creation as the peculiar attributes of SMEs. Olorunshola (2003) in his study identifies simple management structure resulting from the fusion of ownership and management by one man as another characteristic of SMEs.

As Udechukwu (2003) opines SMEs are characterized by labour intensive production processes, centralized management, have limited access to long term capital, use local resources, and closely attached to the products that launched them. The peculiarity of SMEs in enhancing economic development can be best described in this statement;

> *SMEs constitute the most dynamic segment of many transition and developing economies. They are more innovative, faster growing, family/individual ownership and subjective in decision making and possibly more profitable as compared to larger sized enterprises (World Bank, 2001, Ogunleye, 2004).*

CONTRIBUTIONS OF SMES TO ECONOMIC DEVELOPMENT OF SELECTED COUNTRIES

The contributions of SMEs to economic development of both developed and less developed countries have been obvious in these nations' GDP, industrial output, employment, poverty alleviation and export promotion. Statistically, the Nigerian GDP by sector shows that agriculture contributes about 32%, industry 41% and 27% (Weller et al 1999). In most cases, of the industry figure, SMEs usually dominate all other sub-sectors. For instance, in Japan, 80% of the total industrial labour force belongs to SMEs sector, 50% in Germany and 46% in USA are employed in SMEs.

In USA, SMEs contribute nearly 39% to their national income (Udechukwu, 2003). Also in less developed countries such as Nigeria, India, Indonesia, Mali SMEs and others have been identified to constitute more than 95% of establishments in the organized manufacturing sector and have become a vibrant core sub-sector making substantial contribution in terms of employment generation and industrial output and export.

This means that SMEs play important role in the economies of both developing and developed countries. Ogunleye (2004) report revealed that in USA, statistically the total enterprises registered as SMEs account up to 22m of the total enterprises and they generate more than ½ of the country's GDP, employing more than 53% of the total private workforce.

In China, the number of SMEs increased from 1.52m in 1978 to 19m in 1991 and the number of people employed by them also increased from 28m to 96m. In Iran, SMEs contributed up to 6.2% of the nation's industrial output and more than 75% of total employment in 1996. In Israel, SMEs recorded for 9.7% of the nation's enterprises in 1996, employing up to 50% of the country's workforce. The country recently assisted over 50,000 people in establishing their own businesses.

India also experienced the contribution of SMEs in their economic development recording a total of 3.1m as enterprises classified under SMEs in the period of 1998-1999. The SMEs contribution in India can be classified as 95% of the total industrial units, 40% of the total industrial output, and 80% of employment in the industrial sector and 35% of the total export of the country (Ogunleye, 2004). The table below shows the contributions of SMEs of some of these countries including Nigeria.

Table 2: Contribution of SMEs in selected Economies (in Percentage)

Industrial Characteristics	Malaysia (1985)	Singapore (1990)	Korea Rep (1991)	India (1994)	Nigeria (1998)
Contribution to total number of industrial establishment	92.1	88	97	94	94
Contribution to total industrial employment	49.4	40	63.5	31	60
Contribution to total industrial production	46.7	26	44.5	40	54
Contribution to total industrial value addition	30	23	45.8	35	40

Sources: *(i) Confederation of Asia Pacific Chamber of Commerce and Industry-Journal of Commerce and Industry, Vol. 11, 1994. (ii)* Nigerian Agriculture/ Micro Enterprise Field Visit - A summary report designed to assist in implementation of the USAID/Nigeria Transition Strategy SO2.

Economy	% SMEs	Year	% Employed by SMEs	Year
Australia	95%	1991/92	50.6%	1991/92
Philippines	98.7%	1988	50.77%	1993
Canada	99.8%	1992	59.24%	1991
Hong Kong	97.95%	1993	63%	1993
Japan	99.1%	1991	79.2%	1991
Mexico	98.17%	1993	50.77%	1993
USA	99.72%	1990	53.67%	1990
South Korea	99.8%	1992	78.5%	1991
Nigeria	94%	1998	60%	1998

Source: Oyekanmi (2004) Concepts of Equity Financing and its implication for SMEs

The above performance of SMEs in these countries was identified as a result of the following reasons; well-defined and complementary roles of the private and public sectors in SME promotion, Structure of credit/capital provided to the SMEs, nature of the incentives directed at SMEs, and Identification and implementation of factors driving such programs (Oyekanmi, 2004).

Financing Strategies: Funding has been identified as a very important factor to the survival of SMEs (Jimoh, 2004). Every business operation is financed through owner's equity, debt equity or the combination of them. It is the sole responsibility of the owner to consider the features of the various sources of funds before taking the decision on the source or the mix of finance to be used for his business. Oyekanmi (2004) identifies the following as the different features of sources of funds;

Type	**Features**
Owner's Equity	*Commitment to the business.
Debt	*Lower cost of capital
	*Leverage the equity return
	*Enforce fiscal discipline
	*Preoccupation with collateral
Equity	*Patient capital promoting growth
	*Committed to the business
	*Funds expansion

Comparing debt as a source of finance with equity source of finance, Oyekanmi (2004) further listed the following as the major differences between debt and equity sources of finance.

Table 4: Debt versus Equity Comparison

Debt	Equity
*Fixed repayment (strain on cash flow)	*No fixed repayment (less strain on cash flow)
*Collateral/Security	*No collateral/security
*Interest is an expense	*Dividend is an appropriation
*Limited downside and upside	*Unlimited upside and downside (limited to zero)
*Takes finance risk	*Takes business risk
* Investments easier to analyze and monitor	*Investments more difficult to analyze and monitor

Source: *Oyekanmi (2004) Concepts of Equity Financing and its implication on SMIES.*

Critical analysis of the features of equity and debt sources of finance will enable SMEs operators to take appropriate decisions on the best mix of finance. This is to say that all the sources of finance for SMEs fall within owner's equity, debt and government funding schemes and institutions. Effort will be made in this subsection, to evaluate some of these sources of SMEs financing using the above classification.

FEATURES OF THE FINANCING STRATEGIES AVAILABLE TO ENTREPRENEURS IN SMES

Owner's Equity: Owner's equity as a source of finance includes personal savings, loan from friends and relations and ploughed back profit. One of the advantages of this type of finance is that the cost of raising them is usually low.

Personal Savings: This is the commonest means of financing a business venture. It usually results from the owners' past savings, windfall, and gifts from parents or well wishers. The amount realizable from this source of fund depends on the owner's saving ability.

Money from Friends and Relations: Depending on the business owner's relationship with friends and relations, they can help him in raising start-up and expansion capital for him. However, the amount realizable from this source of fund is usually limited by the relationship of the business owner with his or her friends and relations.

Ploughed Back Profit: This is also known as retained earnings. It is used in financing working and expansion capital.

Debt: Money borrowed from outside either formally or informally is classified as debt. The repayment period and transaction cost however depends on the term, source and the procedure involved in borrowing it. The following sources of funds fall under this categories:

Trade Credit: This is an arrangement with the goods seller by the business owner to buy goods on credit and pay later within the shortest period of time. The integrity and credibility of the business owner play important role as long as this source of finance is concerned.

Bank Loan: Depending on the relationship between the business owner and his banker, a credit facility can be extended to him. This can be short, medium or long term loan. In most cases, provision of collateral security and guarantor(s) will be required as conditions to be met before the loan is granted.

Bank Overdraft: Sometimes the business owner will be allowed by his banker to overdraw his account as long as his credibility is established by the bank.

Banker's Acceptance: This is a time whereby drafts are payable on or before the maturity date which is usually less than six months.

Accrual Accounts: These are outstanding payments such as rent, rate, and so on that usually occur as account payable to a business balance. The amount is expected to be settled within one year of a particular year.

Shares: This is used when the SME's operator want to go public. That is, he wants the business to be quoted in the capital market. This might be through initial public offer (IPO) or through the secondary market.

Others: Some other sources of finance under this category include; hire purchase, leasing, factoring of debtors, inventory financing and many others.

Apart from these financing strategies, Oyekanmi (2004) suggests the following strategies as a way of mitigating some of the problems facing entrepreneurs in SMEs.

Table 4: Strategies for Mitigating Some of The SMEs Problems;

S/N	CONSTRAINTS	STRATEGIES
i.	Micro-economic Instability	Financial discipline, prudent fiscal management, commitment to low inflation and free markets.
ii.	Capital Inadequacy	SME targeted loans (direct/guaranteed) Development of financial institutions Provision of tax incentives to encourage investments.
iii.	Inadequate Infrastructure	Private and public provision of infrastructure Shift of government spending to infrastructure provisi Encouragement of business clusters/incubators etc.
iv.	Limited Human Capital	Give education high priority in government spending (macro) Private technical training programs (micro) Joint Ventures/Arrangements with foreign firms
v.	Lack of Access to Foreign Markets	Membership of trading associations (example, WTO) Provision of information on foreign markets Organization of trade fairs and missions for export promotion.
vi.	Low technological Capabilities	Development of comprehensive financial infrastructure Development of viable capital markets

Source:*Oyekanmi(2004) Concepts of Equity Financing and its implication for SMIES.*

FINANCING INITIATIVES FOR SMES

Government Schemes and Institutions for Financing SMEs: To ensure that funds are available to SMEs, the federal government has since 1970s continued to play pioneering and active roles in financing and stimulating the Nigerian entrepreneurs in SMEs. Ogunleye (2004) identifies these roles to include provision of strong institutional support, ensuring easy access to credit facilities at reasonable rates, provision of industrial banks, provision of continuous training and research and provision of enabling monetary and fiscal policies. To harness these efforts, quite a number of institutions and schemes have been established to ensure that these objectives are fulfilled. These schemes include:

Central Bank of Nigeria's Support and Schemes for SMEs Financing: The SMEs as the bedrock of the industrial development have some many advantages which have been mentioned to include means of employment for both skilled and unskilled labour, serving as a training ground for entrepreneurs, provision of local materials for large scale industries. Moreover, if well managed, the SMEs can gradually can transform into a giant corporations of tomorrow. These contributions thus explain why Governments, local and International agencies mobilize efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the small-scale enterprises. However, the SMEs have had limited access to institutionalized credit facilities, due to factors such as; riskiness of the business, the biasness of the financial and other lending institutions in extending credit to small and medium entrepreneurs, inability to keep up to date accounting records for their businesses, inability to provide collateral security and so many other challenges.

In recognition of these constraints and in order to ensure the realization of the potential benefits of virile SMEs in the economy, the Central Bank of Nigeria has remained committed to the growth and development of the small and medium scale enterprises in Nigeria. This stance has been successively reflected in the Bank's policies over the years. In particular, the CBN has through its credit guidelines over the years, and until very recently, required that all commercial banks to serve stipulated minimum credit to the SMEs involved in agriculture and manufacturing activities.

For instance, in 1979/1980, the CBN stipulated 10% as a minimum total credit for indigenous borrowers in SMEs (in real sectors). This figure was increase to 16% and 20% of total loans and advances in 1980 and 1989, respectively (Oyekanmi 2004; Ogunleye 2004). Where any bank default, the same percentage figure will be deducted at source from the bank's deposits with the CBN and such amount will be given to the sector in question through one of the development banks.

Due to the CBN stringent measures on the defaulting banks, majority of the banks were forced to comply with the stipulation and this resulted in the improvement of the banks' lending to the SMEs sector. Evaluating the performance of the banks' lending to the SMEs, statistically, a total aggregate credit of N23.9 billion was disbursed to SMEs in 1992 which represents 45.1% of the total loans and advances, this figure rose to N41.5 in 1995 and to N177.1 billion in 1997 representing 24.2% and 16% of the total bank loans and advances in 1995 and 1997 respectively (Oyekanmi, 2004; Ogunleye, 2004).

In 1993, the liberalization of the financial sector as one conditions of the use of the open market operations as the major policy instrument for CBN financial control, also helped in making SMEs to remain the force in credit allocation till 1996. The CBN, apart from this also used the following financial support initiatives and schemes in their effort to ensure that SMEs receive a fair treatment as long credit allocation is concerned.

The National Economic Reconstruction Fund (NERFUND): The inception of SAP in 1986 which resulted to the devaluation of the Naira worsened the SMEs access to financial institutions credit for both start up capital and capital for expansion of their businesses. The Federal Government in collaboration with the CBN in January, 1990 established the National Economic Reconstruction Fund (NERFUND), purposely to bridge the resource gap between SMEs and the financial institutions.

The main purpose of establishing NERFUND is to provide relatively long term loans (of period between 5-10 years), to SMEs at a reduced rates of interest so as to enhance the SMEs development for economic growth and development. Record shows that by 1990 and 1998, NERFUND had disbursed US$144.9 million (Foreign Exchange) and N681.5million (Naira) to finance 218 projects.

However, since its inception, NERFUND activities have been constrained mainly by the devaluation of the Naira coupled by the inability to service the loan by the borrowers. By 2001, NERFUND, the Nigerian Bank for Commerce and Industry and the Nigerian Industrial Development Bank were merged to form the Bank of Industry (BOI).

World Bank – Assisted SME II Loan Project: In order to further expand credit allocation to SMEs, the Federal Government in collaboration with World Bank agreed in 1989 to complement other sources of funding the SMEs. In line with this, a loan facility of US$270 million was to be made available for lending to SMEs through eligible participating banks.

The CBN in order to administer the credit components and other related activities of the World Bank loan were administered in 1990 established an SME Apex unit so as to facilitate the project proper implementation. The SME apex unit before it stopped has approved a total of 211 projects valued at US$132.8 million between 1990 and 1994. As at June 1996, records show that a total of US$ 107.1 million has been disbursed resulting to the establishment and modernization of 102 projects.

Rural Banking Scheme: Rural Banking scheme was established in 1977 purposely to solve the rural underdevelopment and inadequacy of credit to the agricultural sector for the rural based small-scale industries. As a result of the establishment of this scheme the commercial banks in Nigeria were mandated to establish their branches in the rural areas in Nigeria. A total of 756 new rural bank branches were recorded which would have been established by 1989 with a total deposit in all the rural branches amounting to about N5.7 billion.

People's Bank of Nigeria: In October 1989, the federal Government commissioned the People's Bank of Nigeria (PBN) with the primary objective of ensuring that the credit needs of the micro and small enterprises are met. Evaluating the activities of the PBN, in the process of meeting up with its target of 170 branches, it was evidence that by 1993, the bank had already been extended to all the states of the federation. A strategy of lending to groups of entrepreneurs rather than individuals was adopted as a deliberate policy based on the "peer pressure" concept.

Community Banks/Micro-finance Institutions: Community Banks were established in 1991 by the CBN mainly to; the promotion of rural Development through the provision of financial and banking services to communities that have not been adequately supplied with such services. To ensure that the objective of the community bank is accomplished, it was meant to come under the surveillance activity of the Central Bank of Nigeria and their activities are therefore receiving adequate guidance from the CBN. The Community Bank reform of 2006 ensures that by December 2007, all community banks have been converted to microfinance bank and institutions.

Microfinance is an organized economic development strategy that offers several types of financial services aimed at assisting large numbers of low income people establish/grow their small and medium businesses in order to generate sustainable income for the reduction of poverty and achievement of quality life (Dsani, 2004). It is usually conducted through the intermediation of a financial institution with the specific objectives to enhance the economic capacity of the poor to access financial services that will enable them expand their businesses and increase their income to ensure a sustainable livelihood (Egwuatu, 2004).

The Nigerian Industrial Development Bank Ltd (NIDB): The Nigerian Industrial Development Bank was established to lend long-term loans for investments in industrial activities. To ensure that the SMEs benefit from the service of NIDB, special units were established which focused on rendering financial assistance to them. NIDB has a unique feature that it should have equity participation in the paid up share capital of the company which is financing. Nigerian Industrial Development Banks were able to disburse a total sum of N174.6m, to Small and Medium enterprises during the period of 1980 -1988. For the effectiveness of NIDB, it was merged with other financial institutions that operate in the same class with the bank to form bank of Industry (BOI).

The Nigerian Bank for Commerce and Industry (NBCI): In order to provide financial services to the indigenous business community in SMEs. The Nigerian Bank for Commerce and Industry (NBCI) was established in 1973. The NBCI administered the SMEs World Bank loan scheme as an apex financial body for SMEs and between 1973 and 1986, the NBCI approved 797 projects that valued at N965.5million and a total of N141.82 million was also disbursed between 1987 and 1988. The bank also financed projects under the World Bank loan scheme and a total of 126 projects were financed. Just like other financial institutions, the NBCI encountered administrative and operational problems, which frustrated its major objectives and led to restructuring of the bank to form part of the BOI.

Agricultural Credit Guarantee Scheme Fund (ACGSF): To facilitate the accessibility of credit to the agricultural sector, in 1978, the Agricultural Credit Guarantee Scheme was introduced. For the effective administrative of the scheme, a lump sum amount of N100 million was provided to be subscribed to by the Federal Government and the CBN at the ratio of 60% and 40% respectively. To ensure that there was enough coverage by the scheme, this figure was increased to N3.billion in 2001. The ACGSF was mainly for the provision of guarantee in respect of loans granted by the commercial and merchant banks with regard to agricultural purposes to increase the level of the bank credit to the agricultural sector.

To ensure that the money collected was not misused by the borrowers, it was agreed that the scheme should settle the suppliers directly where the loans are used to purchase livestock, machinery or farming equipment and the supplier will be made to send a document to the bank as evidence that the items for the borrower have been duly delivered. Since its inception, the scheme has made an impact as long as credit extension to the Agricultural sector is concerned and over N3.3billion had so far be granted to different beneficiaries.

Nigerian Export Import Bank (NEXIM): In order to provide finance, risk mitigating facilities and trade information as well as advisory services to Nigerian SMEs exporters, in 1991 the Nigerian Export-Import Bank (NEXIM) was established. The NEXIM's Rediscounting and Refinancing Facility was introduced, to assist banks to provide pre and post shipment finance in support of non-oil exporters.

In summary, though the schemes and programmes which were put in place to find solutions to the problems of credit delivery to the SME have achieved considerable successes, there still exists a huge gap which should be filled. The need to reduce the credit risks on loans to SMEs by the financial institutions has become more pronounced given the extremely slow rate of draw down on facilities like the World Bank- assisted SME 11 loan and NERFUND.

In its analysis, the technical committee for the establishment of a National Credit Guarantee Scheme for Small and Medium Enterprises (SMEs) in Nigeria established that not more than 50 percent of aggregate effective demand for investment loans in the manufacturing sector is currently being met. This therefore, necessitates further action aimed at enhancing the flow of financial resources to the SME sub - sector.

Other Financing Initiatives: In order to make the SMEs sector more vibrant, the Central Bank of Nigeria evolved new initiatives, which are geared towards improving accessibility and availability of credit to the SMEs through the following schemes:

(i) **The Small and Medium Industries Equity Investment Scheme (SMIEIS):** Bothered by the persistent decline in the performance of the industrial sector and with the realization of the fact that the small and medium scale industries hold the key to the revival of the manufacturing sector and other productive sectors of the economy, the Central Bank of Nigeria successfully persuaded the Bankers' Committee in 2000 to agree that each bank should set aside 10 percent of its annual profit before tax for equity investment in small and medium scale enterprises.

To ensure the effectiveness of the programme, banks are expected to identify, guide and nurture enterprises to be financed under the scheme. The activities targeted under the scheme include agro-allied, information technology, telecommunications, manufacturing, educational establishments, services, tourism and leisure, solid minerals and construction. The scheme was formally launched in August 2001. With the introduction of the scheme, it is expected that improved funding of the SMEs will facilitate the achievement of higher economic growth. As at August 2002, the sum of N11.572 billion had been set aside by 77 banks. Out of this amount, N1.692 billion had been invested in the small and medium scale enterprises.

(ii) **Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB):** Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) was established in October 2000 as an amalgamation of the Peoples Bank of Nigeria, Nigerian Agricultural and Cooperative Bank and the Family Economic Advancement Programme (FEAP). The primary aim for setting up this scheme is to finance agriculture as well as small and medium enterprises. It is structured to accept deposits and offer loans/advances in which the interest rates are usually in proportion to the reason for taking the loan mainly for to Nigerians and their business. Other services offers by the NACRDB include target savings; Loan for start – up ventures and smallholder loan schemes.

(iii) **The Bank of Industry (BOI):** The Bank of Industry (BOI) was set in 2000 as an amalgamation of the former Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry and the National Economic Reconstruction Fund (NERFUND). The main objective for setting up BOI is to provide credit to the industrial sector, including the SMEs.

(iv) **Refinancing and Rediscounting Facility:** This programme was introduced by the Central Bank of Nigeria in January 2002 to offer financial assistance at concessionary interest rate to support medium to long term bank lending to the real sectors of the economy. The primary objective of this programme is to provide liquidity to banks in support of their financing of the productive sector activities of

Nigerian economy. This was meant to bridge the gap in financing projects that are mainly long term since banks mainly gives short term loans and loans for commerce and trade. The medium and long term business operators, who are involved in productive sectors of the economy, are to be encouraged through this facility. Banks that are facing liquidity problems as a result of having committed their resources to long term financing to the specified productive sectors are relieved through the activities of RRF. The following sectors are included for the RRF loan schemes; agricultural production, semi manufacturing and manufacturing, solid minerals and information technology. Under the facility, banks shall have access up to 60 percent of qualifying loans. Qualifying loans must have been held for not less than one year.

CONCLUDING REMARKS

The importance of the SMEs to the economic development and growth had earned them world wide recognition in both developed and less developed economies. Several efforts from both government and international agencies have been directed towards enhancing the operations of SMEs especially in the area of financing.

The most current effort of the Nigerian government in financing SMEs is seen in the establishment of SMIES, BOI and NACRDB. Although these schemes are making much impact to ensure that the objectives of SMEs in job creation, poverty alleviation, infrastructure provision are achieved, efforts should be made to ensure that entrepreneurs in SMEs are trained for risks management, financial and emotional intelligence.

The financial institutions should also try and comply with the CBN stipulation in not only reserving 10% of their income for SMEs financing but should ensure that this fund is actually disbursed appropriately to entrepreneurs in SMEs. They should also device a means of evaluating and monitoring these entrepreneurs to ensure that the funds are not diverted to some other personal activities instead of using for their business growth and expansion.

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