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[Literature](#), [Russian Literature](#)



Small and Medium Scale Enterprises constitute essential ingredients in the lubrication and development of any economy. In Nigeria, the story makes no remarkable difference as Small and Medium Scale Enterprises dominate the economy. Government over the years has formulated a number of policies aimed at developing Small and Medium Scale Enterprises. While most policies actually failed due to poor implementation, others however, succeeded. Efforts have been made in the past to identify the role of Small and Medium Scale Enterprises to the development of Nigeria's economy, its problems and prospects which created a vacuum on the role of government and other financial institutions in the development of Small and Medium Scale Enterprises.

It is this vacuum created by previous researchers that prompted this write up. It is therefore the thrust of this paper to identify the role of government and other financial institutions particularly micro finance institutions in the development of small and medium scale enterprises in Nigeria. Relevant literatures were reviewed to bring out salient issues on the subject matter of this paper. The chief source of information for this write up is secondary method of data collection. It was discovered that financial institutions provide the necessary financial lubricant that facilitate the development of Small and Medium Scale Enterprises, but, a lot still need to be done by the government in terms of policy formulation in order to complement the efforts of financial institutions. This paper recommends among others, further establishment of micro finance institutions to serve the grass root financial needs, sensitization of the general public on how to access funds for SMEs development, public private partnership should also be encouraged, the

financial muscle of the financial institutions must be geared up to meet the financial need of SMEs in their respective locality.

## INTRODUCTION

Small and Medium Scale Enterprises are sub-sectors of the industrial sector which play crucial roles in industrial development (Ahmed S. 2006).

Following the adoption of Economic reform programme in Nigeria in 1981, there have been several decisions to switch from capital intensive and large scale industrial projects which was based on the philosophy of import development to Small and Medium Scale Enterprises which have better prospects for developing domestic economy, thereby generating the required goods and services that will propel the economy of Nigeria towards development. It is base on this premise that Ojo . O. (2009), argued that one of the responses to the challenges of development in developing countries particularly, in Nigeria, is the encouragement of entrepreneurial development scheme. Despite the abundant natural resources, the country still finds it very difficult to discover her developmental bearing since independence. Quality and adequate infrastructural provision has remained a night-mare, the real sector among others have witnessed downward performance while unemployment rate is on the increase.

Most of the poor and unemployed Nigerians in order to better their lots have resorted to the establishment of their own businesses. Consequently, Entrepreneurship is fast becoming a household name in Nigeria. This is as a result of the fact that the so called white collar jobs that people clamour for

are no longer there. Even, the touted sectors (Banks and companies) known to be the largest employer of labour are on the down-turn following the consolidation crisis and fraudulent practices of the high and mighty in the banking sector. The companies of course are folding up as a result of erratic power supply, insecurity and persistent increase in interest rate which has lead to high cost of production and undermines profit making potentials of companies operating in Nigeria. As a result of banking sector practices and continuous folding up of companies, a lot of Nigerians are thrown into unemployment which inevitably detriment the economic situation of the country. Since the office jobs that people desire are no longer there for the teeming population, and the few ones that succeeded in getting the jobs are thrown out as a result of the factors identified above, the need for the government and the people to have a rethink on the way-out of this mess became imperative.

Hence, the need for Small and Medium Scale Enterprises (SMEs) became a reality as a means of ensuring self independent, employment creation, import substitution, effective and efficient utilization of local raw materials and contribution to the economic development of our dear nation (Nigeria). All the aforesated benefits of Small and Medium Scale Enterprises cannot be achieved without the direct intervention of the government and financial institutions. Over the years a number of policies have been formulated by the government with a view to developing Small and Medium Scale Enterprises. The Nigerian government under the then leadership of Chief Olusegun Obasajo promulgated micro-finance policy and other regulatory

and supervisory frame work in 2005. This paper will therefore examines several policies aimed at developing Small and Medium Scale Enterprises vis-a-vis roles played by the government and financial institutions in achieving SMEs development in Nigeria.

REVIEW OF LITERATURE Overview of Small and Medium Scale Enterprises. According to allbusiness. com (2010), the abbreviation SMEs occurs commonly in the European Union and in International Organizations such as the World Bank, the United Nations and the World Trade Organization. Also the term Small and Medium Scale Businesses (SMEs) is predominantly used in the United States of America. The European Union states traditionally have their own definition of what constitutes SMEs. For instance, the traditional definition in Germany Limits Small and Medium Scale Enterprises to two hundred and fifty (250) employees while in Belgium, it is limited to one hundred (100) employees. Recently, the European Union has standardize the concept by categorizing enterprises with less than ten (10) employees as ‘ micro’, those with fewer than fifty (50) employees as ‘ Small’ and those with fewer than two hundred and fifty (250) employees as “ medium”. In the United States of America, any business with fewer than one hundred (100) employees is classified as “ small” while medium scale business refers to a business with fewer than five hundred (500) employees.

In India, Micro and Small Enterprises play a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector account for about 39% of the manufacturing output and about 33% of the total export of the country. Also in South Africa, the term Small, Medium

and Micro Enterprises (SMMEs) is usually used, while in Nigeria, the term Small and Medium Scale Enterprises (SMEs) is generally used. From the foregoing, it can be deduced that Small and Medium Scale Enterprises are enterprises that have the capacity to employ at most five hundred (500) employees at a time and it has been proved to be the back bone of every economy. The brain behind every successful Small and Medium Scale Enterprise is entrepreneurship which in the words of Olagunju Y. (2004) is an undertaking in which one is involved in the task of creating and managing an enterprise for a purpose. The purpose as further stated may be personal, social or developmental. One who is involved in this task is called an entrepreneur.

Also a line between an entrepreneur and business owners must be drawn. While business owners establish and manage their own enterprise for personal gains, entrepreneurs exploit ideas that create a business that benefit them, the society and act as developmental weapon. The growth of SMEs and the contributive schemes in Nigeria. Jimodu (1998), Kayode (2001) and Hassan (2003), mentioned various schemes that have contributed to the growth of Small and Medium Scale Enterprises in Nigeria. The industries credit scheme (ICS) was introduced in 1971 as a revolving grant by the federal and state governments in Nigeria to assist in meeting the credit needs of SMEs on a relatively more liberal condition than in private leading institutions

The Nigeria Bank for commerce and industry (NBCI). The Nigeria Bank for commerce and Industry was established jointly by the federal government of

Nigeria and the Central bank of Nigeria (CBN) in 1978 as the apex institution for financing Small and Medium Scale Enterprises. The rationale for establishing the bank was to bring financial discipline to bear and to hopefully ensure a more efficient utilization of scarce financial resources for the development of viable Small and Medium Scale Enterprises. Bank was also vested with the power to administer the federal ministry to commence and industry's special funds for small and medium scale Enterprises under a soft loan agreement. The Central Bank of Nigeria special credit programme for Small and Medium Scale Enterprises (SMEs).

The central bank of Nigeria is the principal agent for implementing government financial and monetary policies and has over the year introduced a number of schemes for promoting improved access to credit for industrial development particularly in Small and Medium Scale Enterprises. The thrust of the schemes according to Bullion and CBN (1992) can be grouped into three in line with Central Bank guidelines for Small and Medium Scale Enterprises under the bank's monetary policy guidelines of 1988. i. Credit guideline in respect of loans to Small and Medium Scale Industries: In 1970, the Central Bank of Nigeria expanded its credit guidelines to incorporate Small and Medium Scale Enterprises with effect from January 1971. With the directive, at least 10% of bank loans and advances were allocated to Small and Medium Scale Enterprises. ii. In April 1980, loans and advances available to Small and Medium Scale Enterprises rose from 10% to 20% in January, 1991. It was also clearly stated that stringent penalties await those who disregard the directive. iii. Central Bank rural banking programme

started in Nigeria in 1977 when the first phase (1977 – 1980) was introduced.

The essence of this programme is to reduce the problems of poor access to credit by rural sector operators of Small and Medium Scale Enterprises. At the initial stage, a total of two hundred (200) rural branches were to be established and at that time, there were only twenty one (21) commercial banks in the country. By the end of June, 1980, a total of one hundred and eighty eight (188) of such proposed branches were established. The second phase of the programme took off in January, 1981 to December 1984 during which two hundred and sixty six (266) rural branches were established and between 1985 to 1986. As more pressure came from the Central Bank, additional nineteen (19) branches were established. The third phase was cumulated to push the number of branches to seven hundred and fifty six (756) at the end of 1988. World Bank facilities for Small and Medium Scale Enterprises: In order to further promote the growth of Small and Medium Scale Enterprises in Nigeria the federal government of Nigeria also negotiated additional financial assistance from the world bank to complement other sources of funds available to small and medium scale Enterprises.

This resulted into a loan of \$270 million which was managed directly by Small and Medium Scale Enterprises apex unit within the Central Bank. Also the establishment and recapitalization of Micro Finance Banks further ease the provision of funds for Small and Medium Scale Enterprises particularly in villages. Objectives for which micro finance banks scheme was established



include the following according to Ana I. (2008). i. To enhance service delivery by micro finance institutions to Micro, Small and Medium Scale Enterprises (MSMEs). To contribute to rural transformation. ii. To make financial services accessible to a large segment of potentially productive Nigerians which otherwise would have little or no access to financial services. iii. To promote linkage programmes between universal banks specialized in financial institutions and micro finance banks. iv. v. To reduce unemployment and increase social mobility.

To enhance the implementation of the national economic empowerment and development strategy (NEEDs). Before the full take-off of micro finance institutions Entrepreneurs of Small and Medium Scale Enterprises did not have easy access to formal financial institutions to raise capital and it was on that notethat Ubon E. (2003), stated that one of the major hindrances to Small and Medium Scale Enterprises' development in Nigeria is finance. Micro finance is therefore primarily adopted as a means to overcome the acute problem of finance faced by Small and Medium Scale Enterprises. Review of past reforms aimed at rural development since late 1970s Successive governments in Nigeria were faced with the challenges of adverse international economic environment created by oil shocks and deteriorating terms of trade. Several programmes formulated to ameliorate Nigeria's economic problems according to Ogwumike F. (1995) include: i. Operation Feed the Nation (OFN)

This programme was introduced by General Olusegu Obasanjo in 1976 following the chronic inability of the agricultural sector of the economy to

satisfy the food need of the nation. The programme was able to create awareness on self reliance in food production among the Nigerian people. ii. National Directorate of Employment (NDE) The directorate was established by decree on the 24th October, 1986 and it commenced full operation in January 1987 with the primary aim of promoting skill acquisition, self employment and labour intensive work scheme. The scheme was targeted at school leavers, apprentice, graduates etc. The programme was to address four (4) major areas as itemized below: Small Scale Enterprises programme Vocational skill development programme Rural employment promotion programme Special public work programme Funding of the directorate between 1987 - 1989 rose from N70 million to N193. 31 million. It was reported also to have declined to N176. 82 million and to N100 million in 1994 and to N132. 90 million in 1995. iii The Family Support Programme (FSP)

This programme was set up by late General Sani Abacha in 1993. He alongside family Economic Advancement Programme (FEAP). Both programmes were aimed at granting soft loan or credit to the Nigerian families to enable them engage in small scale businesses that will enhance their living standard. Iv The national poverty eradication programme (NAPEP)

Ike D. (1996), explained that before the introduction of National Poverty Eradication Programme (NAPEP), a temporary poverty Alteration Programme (PEP) in year 2000 was put in place to cushion the effect of terrible economic hardship faced by large number of unemployed people I the country. The intent was to provide monthly stipends to 200, 000 unemployed people

across the country so that they could start up small businesses and be self reliant. The programme was structured to benefit three categories of people namely: Skilled unemployed

The skilled unemployed people were provided with a micro-credit to enable them establish and viable venture. The second category were trained for a period of 3-12 months or attached to a relevant construction and manufacturing companies for a period of 2 years to enable them acquire additional skills after which they will be provided with micro credit to enable start-up a businesses of their own. The third and final category were to either acquire formal education through Universal Basic Education(UBE) or be provided with permanent menial jobs in the areas of agriculture, road maintenance, tree planting etc. It was reported in Tell newspaper by Musa Y. (2002) that the National Poverty Eradication Programme (NAPEP) was designed to eradicate poverty absolutely among Nigerians through strategies that provide for the participation of all registered political parties, traditional rulers and community leaders. V The Youth Empowerment Scheme (YES) This scheme was exclusively designed to empower youths economically and it consist of three (3) programmes as follows i. ii. iii. Capacity Acquisition Programmme (CAP) Mandatory attachment Programme (MAP) and Credit Delivery Programme (CDP)

The Capacity Acquisition Programme (CAP) is to enable participants acquire skills and vocational capabilities while Mandatory Attachment programme (MAP) is to assist graduates who have completed their mandatory National Youth Service Corps (NYSC) and who are yet to secure full-time employment.

The Credit Delivery Programme (CDP) on the other hand is to provide micro-credit empowerment scheme and was to achieve the following objectives. i. ii. iii. iv. National Employment Rate 3% Graduate self-employment rate 50% Non-graduate self-employment rate 60% Skill acquisition rate for school leavers 60% 23

Annual growth rate replacement of traditional methods of production with improved technology in agricultural sector 15%

vii. Annual growth rate of development of relevant technologies 15% Vi National Economic Reconstruction Fund (NERFUND)

Sequel to the introduction of structural Adjustment programme (SAP) in 1986 and the subsequent devaluation of currency, coupled with sharp rise in interest rate, many small and medium scale Enterprises found it difficult to obtain loan to finance their investment. To bridge the gap, the federal government in 1990 set up the National Economic Reconstruction Fund to provide relatively long-term loans (5-10 years) to small and medium scale Enterprises at a very low interest rate. Vii Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) ) explained that the Small and Medium s Enterprises Development Agency of Nigeria was established by the SMEDAN Act of 2003 to promote the development of Micro, Small and Medium Scale Enterprises (MSMEs) sector of the Nigerian economy.

The agency position itself as a one-stop shop for MSMEs and Development. According to SMEDAN news billeting of 15, September, 2011 which was

powered by crafty Syntax, the Agency has industrial development centers in twenty two (22) states of the federation which include, Bauchi, Ogun, Lagos, Sokoto, Niger, Edo, Ondo, Kano, Abuja, Katsina, Enugu, Oyo, Yola, Jos, Ogoja, PortHarcourt, Kwara, Kaduna, Osun, Borno, Benue and Imo states respectively. According to Nigerian Tribune newspaper of 24th November, 2011, new opportunities abound for film makers as the Nigerian Film Corporation (NFC) in partnership with SMEDAN organized a maiden training programme in the city of Kano which began on the 17th of October, 2011. The workshop which was titled Entrepreneurial and business skills development. SMEDAN was partnered with in order to enhance funds for film production activities. Viii Small and Medium Industries Equity Investment Scheme (SMIEIS)

Inegbenebor U. (2006) opined that the SMIEIS is the latest of the schemes designed to tackle the problems of financing Small and Medium Industries in Nigeria which requires all banks to reserve 10 percent of their pre-tax profit for equity investment in SMEs. SMIEIS which is the recent development in SMEs financing was initiated by bankers committee of Nigerian Banks and was approved on the 21 st December, 1999. According to the bankers committee, SMIEIS was a response to the then president Obasanjo's concern and policy measure for promoting Small and Medium Scale Enterprises as a vehicle for rapid industrialization. In ensuring strict compliance with the objectives of SMIES, Ayodel A. (2005), reported in this Day newspaper that the central Bank of Nigeria has thrown a debt of about N4. 5 billion into accounts of Banks that have failed to invest their funds set aside for SMIEIS.

Despite this stringent measure by the Central Bank, Bamisile A. (2006) still argued that financial institutions have not been able to address the gap in terms of credit, savings and other financial services required by Small and Medium Scale Enterprises in Nigeria.

**METHODOLOGY** In writing this paper the researchers principally used existing literatures and record relevant to the subject matter of this paper. Using deductive approach, the researchers were able to draw conclusion having critically reviewed salient issues in existing literatures and records. This method was adopted because time would not permit the use of questionnaire which ordinarily has to be administered to a sizeable number of small and medium scale Enterprises, relevant government agencies, conventional banks, specialized banks as well as micro finance banks across the country. However, reviewing related works by other researchers gave a deeper insight to the researchers which enabled us to draw reasonable conclusion. **FINDINGS** Sequel to reviewed literatures with suspect to the subject matter of this paper, it is very clear that successive governments in Nigeria had strived to formulated various small and medium scale Enterprises. Friendly policy but most of this policy still did not leave much to be desired as most are just mare policies that never went beyond black and white where policy objectives were written.

For instance, the industries, credit scheme could not meet the objectives for which it was established due to poor financial resources (poor funding) coupled with several cases of financial mismanagement by the benefiting enterprises and the administrators of loans. This however, led to the federal

government withdrawal from the scheme to establish Nigerian Bank for Commence and Industry (NBCI) which has and is still doing well in SMEs development. Also central bank monetary policies as stated by Bullion and CBN (1992) remain the brain behind the establishment of community unit banks following the widespread criticisms that urban commercial banks were inappropriate strategies for providing financial facilities to the rural populace. The National Directorate of Employment could not achieve much of the desired objectives because of poor funding, lack of proper maintenance of training facilities, irregular payment of staff allowance as well as over-flooding the scheme “ ghost workers” (including name of people who are not worker in the payment to claim money by privileged individuals).

The establishment of micro finance banks to take care of financial needs of rural SMEs has become unreasonable competitive as interest rates are on the high side without consideration to the viability of the small and medium scale Enterprises. Consequently accessing funds for businesses become very difficult for existing and prospective SMEs operations. SMEDAN which would have been pragmatic in its operation does not have wider coverage particularly in rural areas where the need for SMEs development is very high. The recently introduced scheme (SMIEIS) by committee of Nigerian bank is quite fascinating since banks are made to set aside 10 percent of their profit before tax for equity investment in small and medium scale Enterprises. This scheme provides SMEs operators the peace of mind and the liberty to co-invest in with banks in small and medium scale Enterprises. SMIEIS also enables investors in SMEs to bring ideas together to efficiently and

effectively manage the business with the hope to maximize investor's returns on investment.

**CONCLUSION** There is absolutely no doubt that small and medium scale Enterprises contribute tremendously to the nation's economic development. Harnessing the economic potentials of SMEs in Nigeria is still a mirage since several policies aimed at small and medium scale Enterprises development did not stand the test of time due to poor implementation, erratic financing of schemes initiate by the government and other administrative bottle-necks. These have made it difficult to existing and prospective SMEs operators to have easy access to funds set aside for SMEs development.

Bank which are suppose to complement and implement government policies also clamour for huge collaterals which prospective poor borrowers usually do not have even borrowers who could afford to provide benefiting collateral are further discouraged by continuous increase in interest rate which make borrowers vulnerable to the risk of continuous indebtedness to rich lenders. The recent development by committee of bankers in Nigeria (SMIEIS) remains a vibrant scheme if the objective for which it was established is implemented to the letter. Of course SMEs will never thrive if government and financial institutions continue to pay lip services to schemes initiated by them.

**RECOMMENDATION** Base on the findings of this paper, the following recommendations are hereby put forward. 1. Government and financial institution should develop a holistic approach to schemes initiated by them.



2. The Central Bank of Nigeria (CBN) and other financial institutions should embark on extensive sensitization of entrepreneurs on the operations of the banks. 3. Interest which deters people with genuine business ideas should be reduced to a bearable level so as to make borrowing cheaper. 4. All administrative bottle necks which make funds inaccessible to small and medium scale Enterprises operators should be mitigated. 5. The Central Bank of Nigeria should as a matter of urgency compel all other commercial banks to adhere strictly to banking policies and regulations. 6. Government should engage professionally in the formulation of policies that will stand the test of time. 7. Government should develop a lasting solution to the state of infrastructural deterioration especially electricity. 8. The security situation of the country needs to be improved so as to make business doable in the country.

9. Policies initiated by the government should be funded efficiently. 10. Policies which are aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centers so as to reduce rural-urban migration. 11. Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures. 12. Finally, for entrepreneurs that may find it difficult to choose a line of business, the following have been recommended. Meat Retailing, Restaurant(“ Buka”) Service, Growing vegetable during dry season, Backyard Poultry Raising, Operating a Nursery for Children, Home Laundry Service, Arranging Foods for Parties, Raising of Pets, Charcoal Making, Sing Writing, Writing of Book for

Publication, Portrait of Flowers, Landscaping, Making Baskets and Cages from Palm Fronds, Making Brooms, Sand Blocks/Cocktail Sticks, Selling Food at Building Sites, Home Made Bread Cakes, Refuse Packing, Car Washing, Collecting Research Materials, Speech Writing, Editorial Work, Driving School, Clearing and Forwarding, Operating Grating and Grinding Machines, Coaching Classes, Renting Generator Sets, Operating a Barbing Saloon, Hair Weaving, Telephone Operation, Running a Catering Institute, Tailoring, Bricklaying, Plumbing, Rearing of Day Old Chicks to Three or Four Weeks, Weaving Traditional Clothes, GSM Business: Selling Recharge Cards and phone accessories, Palm Kernel oil Production, Soap Production, Aquaculture/fish farming, Chalk making, Nylon production, Concrete block production, Garri production/Cassava chips, Ice block production, Hair/ Body cream production, Big time rental services, professional practices etc.

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