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Small and Medium Scale Enterprises Financing and Development in Nigeria: A Critical Assessment

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Abstract

The study reviews the funding arrangements available to SMEs; assesses how far they have contributed to meeting the finance and development needs of the SMEs sub sector in Nigeria and make useful suggestions on the way forward. The study reveals that various programmes have been put in place by the Federal Government to enhance SMEs access to finance. Similarly, financial institutions, non-financial institution and NGOs have made considerable efforts to palliate the financial challenges confronting SMEs development yet, not much have been achieved in an attempt to position the sub-sector in the mainstream of economic development. The paper recommends, among others, that development of the informal sector becomes imperative in order to leverage on its perceived advantage over other means of financing SMEs. Also commercial banks should make more funds available to the sub sector and must imbibe the culture of real sector financing as in other emerging economies of the world.

Keywords: Funding, Assessment, SMEs development, Nigeria

Introduction

The need to promote a vibrant industrial sector has continued to be a major concern of most governments worldwide especially the developing countries like Nigeria. The reasons for this are centered on the prospects that a developed industrial sector will boost manufacturing production, increase employment generation and efficiency in the sector. The effect of this is that productivity level will be enhanced; a sustainable level of economic growth will be achieved with the prospect of economic diversification and increased exports. The economy will have the potential of being competitive in the global market (Olorunshola, 2002; Egbon, 2004). In recognition of this potential role of the sector, successive governments in Nigeria have continued to articulate policy measures and programs to achieve industrial growth and development, including direct participation, alone or jointly with the private sector, interest groups, assistance from external agencies, provision of industrial incentives and adequate finance as stated in the 1988 industrial policy of Nigeria (FRN, 1988). However, the poor performance of the industrial sector, especially when emphasis was on medium and large scale enterprises in the course of implementing the import substitution strategy of the Nigerian government, led to the renewed emphasis or focus on the small and medium enterprises (SMEs) as the driving force in the industrial sector. The importance of SMEs sub-sector cannot be overemphasized. The sub-sector contributes significantly in achieving various socioeconomic objectives, which include employment generation, contribution to national output and exports, fostering new entrepreneurships and providing a foundation for the industrial base of the economy (Inang and Ukpong, 1992). There has been an increasing financial need of SMEs which have attracted government attention in the last three decades in Nigeria. The government as a result put in place measures that will Facilitate credit availability to the SMEs sub-sector.

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The government had also sought collaborative effort with bilateral and multilateral agencies and non-governmental organizations (NGOs) in supporting SMEs in Nigeria.

Despite the laudable schemes and institutions established like Small Scale Credit Scheme, Peoples Bank Scheme, Community Banks Scheme, Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperative Bank (NACB), National Economic Reconstruction Fund (NERFUND) among others by the Federal Government of Nigeria from the inception of SAP to provide resources (credit in particular) for the development of SMEs, the subsector still suffers from shortage of funds either to begin or expand existing SMEs. Though some of the SMEs are credit worthy to attract loans, the high risk associated with SMEs sub-sector normally serve as an impediment. The provision of collateral for loans continues to pose serious problems. Most entrepreneurs of SMEs live in their own houses in rural communities or in rented properties in towns. Houses or estates in rural areas may not qualify for acceptance as collateral security (Iniodu and Udomesiet, 2004). The study reviews the funding arrangements available to SMEs; assesses how far they have contributed to meeting the finance and development needs of the SMEs sub sector in Nigeria and provide the way forward to the myriads of limitations confronting the suppliers of fund to SMEs development.

Conceptual Issues

A business may be described as either large, medium or small scale depending on the yardstick used to measure its size. Therefore, what is small depending on one's point of view may be considered a large enterprise in another person's point of view. For instance, most observers would argue that automobile manufacturing firm is a large business depending on their own reasonable judgment. These and many other issues raised the question as to what yardstick should be applied to determine what is to be described as small, medium or large businesses. In most cases, the number of employees in the firm's payroll is sometimes perhaps the most widely used criterion. Other criteria that draw a line of demarcation between a small, medium and large business are turnover, assets, investment and paid-up capital (SMEDAN, 2007)

Table 1: Classification of MSMEs in Nigeria

Size/Category	Employment	Asset (₦ Million) excluding land and building
Micro Enterprises	Less than 10	< 5
Small Enterprises	10 – 49	5- less than 50
Medium Enterprises	50 – 199	50 to less than 500

Source: Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Abuja, 2007

Ayegusi (2004) defines a small business as an enterprise which has an investment capital of up to one hundred and fifty thousand naira (N150, 000) and employs not more than fifty (50) persons or workers. In another view, Small business are those enterprises with total assets in capital, equipment, plant and working capital that does not exceed two hundred and fifty thousand naira (250,000) and employs not more than thirty (30) full-time workers (Julius 2004). These two definitions did not clearly differentiate micro, small and medium scale businesses. They only categorized business as small if workers are between 30-50 and investment capital N150, 000-N250,000. SMEs can be divided into micro, small and medium enterprises. The Federal Ministry of Industries defines a medium-scale enterprise as any company with operating assets less than N200 million, and employing less than 300 persons. A small-scale enterprise on the other hand, is one that has total assets of less than N50 million, with less than 100 employees. Annual turnover is not considered in the definition of SMEs. The National Economic Reconstruction Fund (NERFUND) defines SMEs as one whose total assets are less than N10 million, but makes no reference either to its annual turnover or the number of employees. Section 37(2) of the Companies and Allied Matters decree of 1990, defined a 'small company' as one with annual turnover of not more than N2 million, and net assets value of not more than ₦l million (Ekpenyong, 1997). In a similar manner, various organizations or institutions in Nigeria have at specific times, defined SMEs in different ways but the definitions have as common measures fixed assets, gross output, and number of employees.

In the 1979 Credit Guidelines to commercial and merchant banks, the Central Bank of Nigeria (CBN) defined small scale enterprises (excluding general commerce) as enterprises in which total investment (including land and working capital) does not exceed N500,000. In its monetary circular No. 22 of 1988, the CBN redefined small Scale enterprises (excluding commerce) as enterprises in which total investment (including land and capital) does not exceed N500,000 and/or annual turnover does not exceed N5 million. Following the persistence depreciation of the naira, capital investment was raised to N5 million and turnover to N25 million (FRN, 1988).

The International Finance Corporation (IFC), in Hamid (2004), defines SMEs as firms with less than 300 employees and total assets less than US One million. From this IFC"s definition, it can be seen that the majority of businesses in Nigeria are SMEs. In Cameroon, the center for Assistance to Small and Medium Scale Enterprises (CAPME) defined SME as a company that is wholly owned and managed by the Cameroonian, owned capital of at least 52 percent in the business, has a turn over equal to or less than 1,000 million CF A, total investment not exceeding 500 million CFA, and short term outstanding cash credit not exceeding 2 million CF A in 1989 (Enquobahrie, 1997, p.88). In Philippines, small industry is defined qualitatively, in terms of employment or asset size. Qualitatively, small scale industries are manufacturing and/or industrial service enterprises in which the owner manager(s) are not actively engaged in production but perform the varied range of tasks involved in guidance and leadership without the help of specialized staff. The employment size is 5 to 99 employees and the asset size of p250,000. In 1986, the definition was drastically changed to cover all enterprises except agricultural farms which have assets of p500,000 to p5million (US$25,000 to US$250,000) (Ekpenyong, 1995). The European Economic Commission (EEC) and the European Investment Bank generally used the following definitions; an SME is any firm with a workforce not exceeding 500, with net assets of less than ECU 75 million, and with more than one third of its capital held by a larger company. These three conditions are said to be cumulative. As such, more than two-third of total employment approximately 50 percent in industry and in excess of 75 percent in service is in the SME sub-sector (Aryeetey, 1995).

Theoretical Framework

Finance availability has been touted as one of the constraints of SMEs (Evbuomwan et al., 2012). A well functioning financial system is a key enabler of economic growth. SMEs are an important part of Nigeria's economic growth and development and bank lending is the primary source of external finance for SMEs. Therefore, it is important that the banking sector responds efficiently and effectively to the needs of SMEs. According to Ohanga (2005) there are a number of features of lending generally which potentially could affect the efficiency of the market for lending.

Pecking order Theory/Hypothesis of Lending

The theoretical basis for research on the SMEs finance originates from the corporate finance theory. The pecking order theory (POT) of financing hypothesizes the issue of information asymmetries whereby only the firm manager is aware of the true value of the firm and the fact that the market is unaware of the true distribution of the firm's income. Ohanga (2005) asserts that, from the borrower's perspective, if faced with a cost of lending that is above the true risk-adjusted cost, the borrower will have incentives to seek out alternative sources of funding. Bank lending theory suggests that, where information asymmetry and moral hazard are prevalent, firms are likely to fund themselves firstly from retained earnings and then from bank debt rather than issuing equity. This is referred to as the pecking order theory/hypothesis. The theory further suggests that the mix of debt and equity should be the cumulative result of hierarchical financing decisions over time. SMEs do not issue equity but this theory applies because if their retained earnings are not enough to fund them then debt is supposed to be the next option. Myers (1984) extends this theory and states that firms will meet investment and financing requirements of the firm in a hierarchical fashion, preferring internal funds first, external debt next and external equity as a last resort. The impact of all existing credit schemes to SMEs, in terms of providing funds for meaningful and sustained development among the SMEs, had hardly been noticeable. These credit schemes either have a direct or indirect link with banks. The banks by their nature and position in the economy, therefore, remain the known formal source of finance for enterprises (Agumagu, 2006). It is disheartening to know that a 2001 World Bank survey on Nigerian firms showed that although 85% of the firms had relationships with banks, most of them had no access to their credit. This explains why SMEs in Nigeria represent about 90% of firms in the Nigerian industrial sector on numerical basis but regrettably contribute as low as one percent to GDP in contrast to countries like Indonesia, Thailand and India where SMEs contribute almost 40% to GDP (HPACI, 2002).

The failure of most of the schemes and the need for a sustainable source of financing SMEs, therefore, necessitated the Central Bank of Nigeria (CBN) inspired Banker's Committee initiative which is aimed at committing the banking industry to the provision of finance and other ancillary support to the sub-sector via an equity participation scheme.

Literature Review

The problem of SME financing has received the most tremendous research efforts from researchers. Thus, it has been established in the literatures that small businesses are faced with the problem of scarcity of funds (Peel and Wilson, 1996; Ukpong 2002, Beck et al, 2006). Holmes et al., (1994), observed that they have limited debt funding opportunities and Gopinath (1995) raises the issue of limited access to capital markets as a major constraint. All these appear to confine the finance of small businesses to internally generated funds. Kimki (1997) argues that entrepreneurs do rely on personal savings, friends, and relatives as primary sources of capital at the start-up stage because of the limited ability of SMEs to acquire debt during the early stages. According to International Labour Organization (ILO) (2000), SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation, strengthening the industrial base and local production structure. However, the ability of SMEs to realize these economic and social objectives depend on the regulatory and policy environment within which they operate. Nigerian Institute of Social and Economic Research - NISER (1987) noted that as much as 70 per cent of SMEs obtain most of their investment funds from personal savings. This lack of access to formal credit from formal financial institutions is thought to drive SMEs to high interest charging moneylenders, and hinders their growth and development. Oyejide (1993) argues that the problem of high interest rates has often been used as the justification for establishing special financial agencies and programmes to provide credit for SSMEs. However, the banks are reluctant to lend money to them because they believed that lending to them is not commercially viable (Odife, 2002). It was even alleged that N11 billion accumulated by the Nigerian banks as SMEs reserves were not given to them. The Bank also regarded lending to SMEs as a high risk and unprofitable business due to unavailability of accurate and reliable information on the financial condition and performance of the enterprises; unconvinced and weak business plan; weakness in management and information technology. Other problems include banks‟‟ weaknesses in identifying characteristics of SMEs; availability of other profitable investment to banks; higher overhead cost to the bank due to a high number of customers with smaller loan size; and higher interest rate on the loans from the informal lending market (Rudjito, 2003). However, the semi formal financial institutions for instance, cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Ekpenyong, 1995; Aryeetey, 1995).

Assessing the Suppliers of Fund to Smes in Nigeria

(i) Few Schemes By the Government of Nigeria: In terms of direct intervention, laudable schemes and institutions established by the Federal Government of Nigeria as funding initiatives, both past and present, include Small Scale Credit Scheme, Peoples Bank Scheme, Community Banks Scheme, Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperative Bank (NACB), The Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND) among others. In Nigeria, government interventions through a multiplicity of credit institutions over the years have not resulted in significant improvement in rural financial intermediation. Apam (2008) noted that what has however been clear is that such schemes are hardly designed to address the real issues except as smokescreens or to create the impression that the leadership cares and is willing to attend to the people's needs hence a mere programme of impressionistic schemes. The programmes so designed are usually half-hearted, ill conceived and without touch with the reality and are only intended to create impressions.

(ii) Commercial bank: The commercial banks provide the formal sources of finance to SMEs. Commercial Banks specialize in short term lending, this is because most commercial banks' deposits are subject to withdrawal on demand by the customers and therefore should be risky to lend out for a very long term or permanent financing. Most commercial banks' interest on loans depends upon the level of interest rate in the economy, usually determined by the central Bank.

The financial system in Nigeria is not in short supply of liquidity, but banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sector. Most of the banks would rather pay the penalty imposed for not meeting the minimum exposure to preferred sectors of the economy than actually run the risk of being exposed to them. Although the banking sector is the largest and most important source of external financing for small scale enterprises, by and large, it is believed to be underserving the needs of this sector. Small scale enterprises alternatively draw financing from a variety of sources. Small firms rely proportionally more on non-bank services such as internal funds (savings, reformed earning family network) and the informal sector (money lender) as a result of their inability to produce the collateral needed by the commercial banks (Salta, 2003).

Table 2: Commercial Banks' Loans to Small Scale Enterprises

Period	Commercial Banks' Loan to SMEs (₦ Million)	Commercial Banks Total Credit to Private Sector (₦ Million)	Commercial Banks Loan SMEs as a % of Total Credit (%)
1992	20,400.0	75,456.3	27.04
1993	15,462.9	88,821.0	17.41
1994	20,552.5	143,516.8	14.32
1995	32,374.5	204,090.6	15.86
1996	42,302.1	254,853.1	16.60
1997	40,844.3	311,358.4	13.12
1998	42,260.7	366,544.1	11.53
1999	46,824.0	449,054.3	10.43
2000	44,542.3	587,999.9	7.58
2001	52,428.4	844,486.2	6.21
2002	82,368.4	948,486.1	8.68
2003	90,176.5	1,203,199.0	7.49
2004	54,981.2	1,519,242.7	3.62
2005	50,672.6	1,991,146.4	2.54
2006	25,713.7	2,609,289.4	0.99
2007	41,100.4	4,820,695.7	0.85
2008	13,512.2	7,799,400.1	0.17
2009	16,366.5	9,667,876.7	0.17
2010	14,259.5	9,571,942.3	0.15
2011	38,321.15	9,523,961.4	0.41
2012	14,699.95	10,071,002.60	0.15

Source: CBN Statistical Bulletin 2012.

The table above shows the commercial banks' credit to SMEs between the periods of 1992-2012. From the records of CBN, it is observed that though traditional commercial banks have been experiencing aggregate growth credit to the domestic economy, the ratio of commercial banks' total credit to loans of small-scale enterprises has continued to decrease over the years. It kept declining from 27% in 1992 to 0.15% in 2012. The bank distress era (1997-2003) recorded significant declines in small business lending from 17.0% in 1996 to 7.0% in 2003. The situation is not better off since then with the decline in the ratio of SMEs loans averaged 0.15% in 2012. Apparently, the consolidation of the Nigerian banking industry on or before 31st December 2005 seems to have worsened the financial constraints of SMEs in Nigeria. The aftermath of the consolidation exercise between 2006 and 2012 shows an average of 0.41% to small business lending.

(iii) Community/Microfinance Banks and Small Scale Enterprises Financing: According to Ogbunaka (2003), microfinance banks undertake credit assessment in similar ways that commercial bankers do but with more emphasis on activities than collateral. Most community banks could not create sufficient credit as a result of liquidity shortages. On the other hand, very low loan-to-deposit ratio coupled with rising non-performing loans portfolio could have also aggravated community banks' liquidity crisis. The emergence of community banks could have been explained by the disturbing level of financial exclusion in the rural and SME sectors in Nigeria.

According to CBN (2011), the liquidity ratio of microfinance banks declined drastically from 75.14% in 1992 to just 23.48% in 2000. It stood at 69.48% in 20011. However, the loan-to-deposit ratio improved marginally from 23.43% in 1992 to 60.14% in 2011. As a result, most microfinance banks could not create sufficient credit as a result of liquidity shortages. On the other hand, very low loan-to-deposit ratio coupled with rising non-performing loans portfolio could have also aggravated community banks' liquidity crisis. Consequent upon this stylized fact, there was no way the bank could sufficiently meet the credit need of the SMEs.

(iv) The Small and Medium Industries Equity Investment Scheme (SMIEIS): The Bankers Committee (a body constituted by representatives of banks in Nigeria) approved the scheme in 1999, as a policy measure for the promotion of SMEs. The Scheme was formerly launched on 21st August 2001.The scheme requires all banks in Nigeria to set aside 10% of their profit before tax (PBT) for equity investment in SMEs. The scheme aims, among other things to assist the establishment of new, viable SMEs projects, thereby stimulating economic growth, development of local technology, promote indigenous entrepreneurship and generate employment. The funds is to be used to finance projects in the real sectors like, agro-allied, information technology and telecommunications, manufacturing, educational establishments, services, tourism, solid minerals and construction. Available data as at February 2003 indicate that 80 banks have set aside N13.07 billion with 28 banks investing around N2.87 billion based on 67 investment in 47 enterprises.

(v) Non-Governmental Groups (NGOs): According a report in 2008 conducted by ICA in Nigeria, Non-governmental groups‟ microcredit programs in Nigeria date back at least as far as the late 1980s or early 1990s. There are currently five major microfinance NGOs in Nigeria and they include COWAN, LAPO, SEAP, DEC and FADU and they serve an approximate of 550,000 borrowers and manage a total loan portfolio of NGN 4.9 billion (US$ 40.6 million). Though the number of viable microcredit NGOs is small, these successful organizations play an important demonstration role in Nigeria. They are perceived to have developed a viable model of making very small loans to rural populations, particularly women. Most NGOs use a version of the Grameen solidarity model to provide small loans to SMEs groups.

(vi) Financial Cooperatives and Traditional Societies: These are indigenous grassroots institutions that have been contributing significantly to the establishment and development of micro and small scale enterprises that use savings, credit cooperatives and other informal mutual-aid institutions. In Nigeria, some of the traditional mutual-aid societies are "Esusu" and "Adashe". In the light of the scarcity of finance capital and the socio-economic crises prevailing in the country, the role of these societies in establishing especially micro and small scale enterprises is considerable. More specifically, in a country where there is no adequate banking service in the remote areas and, therefore the opportunity for grass roots business to have access to institutional credit is not available, they have served as alternative sources of funds for their members. It is estimated that 73% of Nigerians live in rural areas and the majority of the rural population uses the facilities of "Esusu" "Adashe" for the mobilization of investment funds to start up income generating activities (Ekpenyong).

However, most of the "Esusu" or "Adashe" are organized and operate informally, and the fact that they are not legally instituted creates problems in serving members particularly in terms of default and therefore, depend on selection of reliable members, social sanctions and their small size to control the use and repayment of borrowed funds (Enquobahrie, 1997). Thus, it could be important that the government helps them to institutionalize their operation so that they can gain legal recognition. Besides, their activities are limited to short term financing.

Problems Confronting SMEs Access to Fund

The poor state of infrastructure in Nigeria is a key excuse given by many banks for their inability to fund SMEs. According to Olanrewaju (2001), the low performance of public utilities such as electricity generation is unstable and inadequate; new roads are neither constructed nor old roads maintained; water supply is not sustainable etc, all make up factors that pose as threats for fund managers. For banks to extend credit to SMEs, all these factors must be considered. At the end, it is realized that the cost of doing business is so high that the ability of the banks to recoup their investment is uncertain. Despite the faults with the Nigerian macroeconomic environment and the SMEs internal issues, the banks also contribute to the problem of financing SMEs as most of them display apathy towards the SMEs, preferring to offer their services to larger multinational firms. The banks on their own part have at least two significant shortcomings.

Despite the potential importance of SMEs in any economy, high mortality rate among established SMEs is a matter of major concern in developing economies. International Finance Corporation (IFC) reported in 2002 that only 2 out of every 10 newly established businesses survive up to fifth year in Nigeria. The report was corroborated by Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) that only 15 % of newly established businesses survive first five years in Nigeria. This is a pointer to the fact that there is a problem. The poor performance of this sector has been attributed to their inability to access funds to finance their businesses. SMEs in Nigeria have not performed like their counterparts in Asia, Latin America and some other African countries (Oyelaran-Oyeyinka, 2007; Ojo, 2010; Elijah and Nsikak, 2011). In order to appreciate the problems militating against their effective performance, they were asked to list them in the questionnaire administered to them.

Analysis of their responses indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7%. This therefore means that access to credit is still a major problem militating against the effective performance of MSMEs in Nigeria despite all the funding programmes that have been put in place all over the years. A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995).

The reasons for SMEs failure to access funds successfully from the formal financing source have been summarized by Solola (2006). First, accessibility to bank loans is greatly hampered by inability to meet stringent conditions set by financial institutions especially banks .Second, banks generally consider SMEs as high risk and as such would demand for conditions that would put them in comfortable positions, Third, majority of the SMEs projects are not bankable projects and as such, SMEs are unable to convince lenders (banks) of the viability of such projects proposal. Fourth, cost of accessing funds (high interest rates) is another limiting factor. Promoters of SMEs do not provide sufficient information to accelerate the processing of their financial request. Fifth, experience has shown that basic information such as the market, the price of equipment and machinery etc. are not forth coming. These leads to delay in appraising the funding request, delay in funds injection and prolonged project implementation period. Similarly, merchant banks loans to SMEs as a percentage of total credits reduced from 31.2% in 1992 to 9.0% in 2000 (Akabueze, 2002). The continuous decrease in commercial and merchant bank's loans to small scale enterprises can be attributed to lack of collateral from the SMEs to secure the loans and the high lending rates from the banks. To corroborate the above, Anic and Paus (1998) identify major barriers to the development of SMEs as insufficient support by the Government, low access to loans, lack of information on new technological developments, and insufficient investment in education. Basically, the inherent structural defects of the SMEs make them high risk borrowers and this is the major contributing factor to their inability to access funds from the formal sources especially commercial banks. Hence, most of these financial institutions, banks for instance, prefer to ask for collateral in lending to SMEs because of the high transaction cost involved in the process of evaluating the financial statement and supporting documents of the SMEs. The aim is to minimize risk of loss of the funds when this requirement is strictly enforced (Adejoh, 2013).

Conclusion and Recommendations

From the study, it is obvious that various programmes have been put in place by the Federal Government to enhance SMEs access to finance. Similarly, financial institutions, non-financial institution and NGOs have made considerable efforts to palliate the financial challenges confronting SMEs development yet, not much have been achieved in an attempt to position the sub-sector in the mainstream of economic development like their counterparts in Asia, Latin America and some other African countries. The study also reveals that Commercial banks' provide finances to SMEs, but a decline has been recorded over the years. This shows that if drastic measure is not taken, the future of the small and medium scale firms in Nigeria is doubtful with the commercial banks remaining their major source of finance. On the other hand, the small businesses are able to source and obtain micro finance mostly from the informal sector like cooperative societies, "Esusu" and "Adashe". Reliable as it were, they have not been able to meet the medium and long term needs of the SMEs. The study therefore recommends the following: Government should see it as a task to increase the supply of credit facilities to the SME sector inorder to provide funding for its economic expansion.

Government support can be provided in the following forms: (i) promoting the granting of credit to SMEs through targeted guarantee schemes; and(ii) supporting commercial banks in a general sense (through tax incentives, legislation, subsidies, liquidity guarantees, etc.) and (iii) strategic partnership with financial institutions. Commercial banks should make more funds available to SMEs. Also the stringent conditions made by banks should be trimmed down for the SMEs. Interest rate can be reduced to the barest minimum. For instance, interest rate in Germany, Japan and some Asian countries is in the range of 1% to 5%. Our banks must imbibe the culture of real sector financing. The informal financing of SMEs in Nigeria are considered to be favoured over the formal financing for reasons which include reduced cost of finance, ease of accessibility, nature of collateral security and risk mitigation capacity.

Development of the informal sector therefore, becomes imperative in order to leverage on its perceived advantages over other financing means to SMEs. Proper recognition and integration into the formal financial institution will be helpful. Stringent conditions of SMEEIS which prevent SMEs from accessing the funds under the scheme should be relaxed e.g registration of business as Limited Liability Company. Access to financial services is but, one aspect of the support needed by entrepreneurs running SMEs and micro-enterprises. They also need training in business skills and access to marketing information so that they can expand to take advantage of both domestic and international markets and thereby create decent jobs. Operators of small scale business should operate in such a way that the commercial banks will be able improve their confidence in them and thereby see prospect in them. SMEs should keep more records, and be more transparent in their operations. In addition, there should be more financial service providers that are willing to take risk and be more innovative. Therefore, non banks financial institutions including insurance, Finance Companies, Bureau de Change, pensions, mutual fund, etc. should be encouraged and supported as a combination of both the commercial banks and the NBFIs will go a long way in aiding the development of the SMEs sector.

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