COMMERCIAL BANKS ROLE IN FINANCING SMALL SCALE INDUSTRIES IN NIGERIA (A STUDY OF FIRST BANK PLC. ADO-EKITI, EKITI STATE)

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ABSTRACT: *The research study examines the role of commercial banks in financing small scale enterprises in Ado Ekiti, Ekiti State. The primary purpose of the study is to examine how SMEs can be developed through the intervention of the banking sector. Descriptive research design was adopted. The population of the study is the entire SMEs in Ekiti state and United Bank for Africa (UBA). Questionnaires were used as an instrument of primary data collection. Purposive sampling technique was used to select the sample; correlation analysis was employed using chi-square. Findings revealed that there is a positive correlation between loans grants by banks and the growth and development of SMEs in Ekiti State also, that SMEs cannot be concentrated in Ekiti State if they are not effectively financed due to the relationship that exists between the banks and SMEs. It was recommended that guidelines/schemes by commercial banks to finance SMEs needs to be flexible to accommodate the small and medium scale entrepreneurs.*

KEYWORDS: Commercial Banks, Indigenization Decree, Industrial Development Centre, Small- scale industry, Small and Medium Scale Enterprises, Sole Proprietorship,

INTRODUCTION

There has been a lot work on the contribution of commercial banks in financing small scale industries in Nigeria, but the available few have given an in depth up-to-date, study of its operation. Most of the writers made immense contribution on topics related to this course of the study in wider horizon. In the Nigeria economy, attention has been drawn to the fact that small scale enterprises had received little attention where as they provide employment for approximately triple the number engaged large scale manufacturing as well as playing their roles of crucial importance to our developing economy. This is why it is important to reconsider the problem hindering the growth of this sector. There have been numerous opinions and commentaries on the role banks should pay in financing and advising the small scale enterprises since the federal government shift in policy with greater emphasis towards small scale business in the achievement of set-reliance.

Unfortunately, some of these opinions have tended to obscure the long standing relationship which the banks have enjoyed with the small business community and some misconceptions have arises and there is need to clarify some of these misconceptions. In Nigeria, small scale businesses constitute over ten percent of all registered companies. They are considered to have specific importance to the economic development of the country for a number of reasons.

These enterprises provide opportunity for employment on a large scale and therefore, make possibility of the equitable distribution of national income more realistic. The enterprises also provide the means of creating more opportunity at relatively low cost. Thus, in a labour abundance economy, like Nigeria, and in the present economic down-turn, they are even more relevant in the mobilization of capital and human resources that otherwise be left idle.

Small and medium scale enterprises (SMEs) are generally regarded as the engine of economic growth and equitable development in developing economies. They are labour intensive, capital saving and helping most of the one billion new jobs the world will need by the end of the century. They are also perceived as the key to Nigeria's economic growth, poverty alleviation and employment generation in recent years has generated a lot of research interest on their challenges and prospect. After Nigeria's independence in 1969, much emphasis has been laid on the growth of small and medium scale industry in reducing the rate of poverty and unemployment in the country. Since the adoption of economic reform programming in 1996, there has been a decisive shift from grandiose capital intensive and large scale industry project based on import substitution to small scale industry with immense potential for developing domestic linkage for industrial development.

Apart from SMEs potential for self reliant industrialization using local raw materials, they are in a better position to boost employment guarantees even distribution of industrial development and facilitate the growth of non-oil exports. Fabayo (1989) cross-section of the work force to young old part –time workers and the cyclically employed. . Kombo et.al submitted that SMEs have contributed greatly to Kenya economy accounting for 12-14% of GDP through creating job employment opportunities, training entrepreneurs, generating income and providing a source of lively hood for the majority of low income household in the country. Hence, promotion of such enterprises in developing economies like Nigeria will bring about great distribution of income and wealth, economic self dependence, entrepreneurial development and a host of other economic uplifting factors. Small and Medium Enterprises are veritable engines for the attainment of national

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objectives in terms of employment generation at low investment cost, development of entrepreneurial capabilities and indigenous technology. They reduce the flow of people from rural to urban and can easily be established with minimum skill. They also contribute substantially to the country's gross domestic product, export earnings and development of employment opportunities.

Statement of the Problem

There is dearth of financial institutions which cater for long and medium term credit needs of businesses operating in the economy. Small scale enterprises are no exceptions to these, and they suffer a great deal for want of capital for development and expansion of the economic survival of the country. It cannot be over emphasized that they have moved from the subsistence level of pre-indigenization period to a position of importance in the country's industrialization process. In an attempt to modernize many small scale enterprises, their standard of operation has moved into the capital intensive stage. The need in many cases is beyond the financial capability of the entrepreneurs who set up the business. The major alternative for the provision of such capital is the financial institutions and among the financial institutions operating in the country, commercial banks are the major sources of credit to the various sectors of the economy. However, it is common knowledge that getting financial support from commercial banks has been grossly inadequate for budding indigenous entrepreneurs and even for those who have been in the manufacturing business for a long term. Three types of credit are usually required by small scale enterprises. They include:

i. **Short Term Loan:** This type of credit is used to finance yearly operation until the product or proceeds from the industry are sold. The amount which is involved in this type of credit is usually small but lack of this type of credit is most accurately felt by small scale entrepreneurs who have little or no saving upon which to withdraw as they are mostly beginners.
ii. **Medium Term Loan:** This type of loan is for more than one year maturity period but not exceeding three to five years. This loan is mostly required for acquisition of inexpensive equipment with relatively short life span.
iii. **Long Term Loan:** This type of credit is necessary for acquisition of major industrial machines, improvement in industrial equipment, building and land: It is a type of loan that the maturity period is for quite a longer duration.

Small scale enterprises therefore can be a powerful instrument in bringing about a revolution in industrial practices and in firms productivity especially if supplied in sufficient quantity and used effectively. The study therefore identifies small scale entrepreneurial financing by commercial banks as a major role to entrepreneurial development because finance is just one of the major

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factors of production. The problem of credit to small scale industries may not necessarily be as a result of financing insufficiency but rather for some other reasons among which are.

i. Insufficient preparation on the part of small scale entrepreneurs in their request for credit assistance.

ii. Information gaps as to range of funding institutions and scope of services available in these institution

iii. Moreover, servicing of small business accounts is relatively experience, risky and difficult to monitor with low turn over of account.

However, the parishioners in the sector small scale industry do not display competence in preparing justification for their project. It is are to see most of them coming up with cash flow projections, projected balance sheets, among others. They are based on personal rudimentary in formation and speculation. At times when they seek the advice of consultants, the outcome that are made figures project based on assumptions which are most of their time unrealistic.

As a result such proposals are out rightly rejected by banks.

There are suitable when credit demands in this sector are not in compliance in this government monetary policy and credit guidelines which must be adhered to by banks.

The researcher identifies these problems and considers it necessary to carry our study on them.

Purpose of the Study

1. To examine the lending process to small scale industries and the attitude of the customers.
2. To examine the lending process of lending to small scale industries, economic recovery and self reliance of the economy.
3. To evaluate various measures introduced to boost industrial production and its financing and how this has affected realization of the set goals.

Research Questions

The critical appraisal to give answers to the following questions.

1. How does Commercial Banks lend to small scale industries and the attitude to customers?
2. How does the process of lending to small scale industries economic recovery and self reliance of the economy took place?
3. How does the various measures introduced to boost industrial production and its financing has affected realization of the set goals.

Research Hypothesis

1. There is no significant relationship between bank lending to small scale industries and the attitude of these customers
2. There is no significant relationship between lending to small scale industries, economic

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recovery and self-reliance of the economy.

LITERATURE REVIEW

There is hardly any unique, universally accepted definition of SMEs because the classification of business into small and large scale is a subjective judgment (Ekpeyong & Nyong, 1992). The 1992 Review by the National Council on Industrial Standards have defined Small and Medium Scale Enterprises (SMEs) as enterprises with total cost of (including working capital but excluding cost of land) above 31 million but not exceeding 50 million with a labour size of between 11 and 100 employees. It is clear that SMEs are usually small own or family managed business with its goods and services being basic. SMEs also tend to lack the organization and management structure, which characterize large-scale entrepreneur. Urban SMEs tend to be more structured than their rural counterpart. Small and Medium Scale Enterprises (SMEs) as defined by the National Council of Industries (2009) refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000.00) only. Although, there exists no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small or medium.

The United Nations Industrial Development Organization (UNIDO) identified fifty definitions of small scale business in seventy-five different countries based on parameters such as installed capacity utilization, output, employment, capital, type of country or other criteria, which have more relevance to the industrial policies of the specific country. However, it has been suggested that the SMEs sub-sector may comprise about 87 per cent of all firms operating in Nigeria, excluding informal - enterprises. USAID (2004) defined enterprises as informal businesses employing five or fewer workers including unpaid family labour; small enterprises as those operating in the formal sector with five to twenty employees; and medium enterprises as those employing 21 to 50 employees.

Egbuogu (2003) noted that definitions of SMEs vary both between countries and between continents. The major criteria use in the definitions according to Carpenter (2003) could include various combinations of the following: Number of employees, financial strength, Sales value, Relative size, Initial capital outlay and Types of industry. Iyang & Ukpong (1992) however, stressed the indicators prominent in most definitions namely, size of capital investment (fixed assets), value of annual turnover (gross output) and number of paid employees.

The Nigerian Government has used various definitions and criteria in identifying what is referred to as micro and small sized enterprises. At certain point in time, it used investment in machinery

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and equipment and working capital. At another time, the capital cost and turnover were used. However, the Federal Ministry of Industry, under whose jurisdiction the micro and small sized enterprises are, has adopted a somewhat flexible definition especially as to the values of installed fixed cost. Amidst several definitions provided by the Government and its attendant agency, the National Council on Industry (1991) defined micro enterprises as an industry whose total project cost excluding cost of land but including working capital is not more than N500,000:00 (i.e. US$50,000). Small scale enterprises on the other hand is defined by the council as an industry whose total project cost excluding cost of land and including working capital does not exceed N5m (i.e. US$500,000).

Furthermore, the National Council on Industry of Nigeria (1996) at its 9th Meeting adopted the report of its Sub-Committee on Classification of Industrial Enterprises in Nigeria and approved a new set of classifications and definitions of the cottage/micro and small scale enterprises. According to the Council, cottage/micro industry is an industry whose total cost, including working capital but excluding cost of land, is not more than N1 million and a labour size of not more than 10 workers; while small scale enterprises is an industry whose total cost, including working capital but excluding cost of land, is over N1 million but mot more than N40 million and a labour size of between 11 and 35 workers. Stanley and Morse (1965) classified industries into eight by size. They adopted the functional approach, and emphasized how small and medium sized industries differ from larger industries by bringing out clearly the differing characteristics which include little specialization, close personal contact of management with production workers and lack of access to capital. They argued that establishments employing not less than 100 workers should be defined as medium sized whereas those with less than 100 employees be defined as small sized. The UNDP/UNIDO Report (2000) noted that while the limit of 10 workers for Micro/Cottage Industries was flexible enough to capture about 95% of rural industries and micro enterprises in this category, the ceiling of N1.0 million may however exclude about 40% of such entrepreneurs with modest factory buildings and basic infrastructures which they require (e.g. access road, generator, bore-hole wells, storage facilities etc). In addition, while the ceilings of N40 million for Small Scale Industries and N150 million for Medium Industries are still substantially captive for these categories, the limits of 35 and 100 workers respectively were not based on the actual structure of manufacturing enterprises in the country.

The Nigeria bank for commerce and industries (NBCI) adopted a definition for the period 1985-1990 (current valid) in which it defined small scale industry as “an industry with capital not exceeding N750, 000 including working capital but excluding cost of land. Also Central Bank of Nigeria maintains that small scale enterprises shall include cottage industries and defined them as enterprises whose total cost excluding cost of land but including working capital does not exceed

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N10 million.

Okorie (1989:10) observes that small scale business is any business whose total assets in capital equipment plant and employing fewer than 50 employers and must be wholly indigenously owned. Ihenetu (1988:18) considered business they fall within the category of business with paid up capital of N750, 000 expect those businesses owned by the government or shareholders which in some cases are very few. Small forms range from the sole trader, small partnership to the privately owned industrial company. Ezeigbe (1987) defines a small scale business as one that operates under strict amount of capital that which its assets and liabilities cannot enable it obtain loan a assistance from any other financial institution. This may be its inability to mortgage its assets or having a reasonable asset that would guiltily it for a loan within the laid down rules for loan granting.

The Concept of Small Scale Industry

SME has a long history like every other part of the world. Historically, "small and medium enterprises has it origin in the eastern and Mediterranean", small and medium enterprises, all over the world is divergent arrays of business concerns involve in economic activities spanning from micro and rural enterprises to contemporary industrial organizations that uses sophisticated technologies. As a result of their relevance aid contribution i.e., small and medium enterprises to national economies, policy planners, academic and national government have shown interest in issues pertaining to small and medium scale enterprises (SMEs) all over the world. It was the means of survival for the people since ages, it has managed to save many poor homes that have the innovation to start a unique business but with different problems with establishment or survival. In Nigeria there is no generally acceptable definition of SMEs but it varies over time from organization to organization.

The NCI (national council of industry) in 2001 include the capital investment band of SMEs at between NGN 150 to 200 million, excluding land but including working capital and also the working force band between 11 and 300 inclusive. But on the other hand, the (NASME) national association of small and medium scale enterprises also defines a small scale enterprise as a business with less than fifty employed people by the enterprise and with an annual turnover of NGN 100 million. NASME came up with another definition, which states that small medium scale 13 enterprises is a business with less than 100 employees and an annual turnover of NGN 500 million.

The Central Bank of Nigeria (CBN) defines SME as an enterprise with a maxi-mum asset base of NGN 200 million, without land and working capital, also the number of employees is not less than 10 and not more than 300. Due to the flexible nature, SMEs are quite able to withstand

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economically diverse situations. SMEs in Nigeria can be categorized into urban and rural enterprises, but in a more formal way they can be called Organized and Unorganized enterprises. The organized enterprises have paid employees with a registered office while the unorganized enterprises are mainly made up of artisans who work in open spaces. Operating in temporary wooden workshop or structures, the unorganized enterprises rely mostly on apprentices or family members and mostly low rate or no salary paid workers. Rural enterprises are made up of family groups, women that are engaged in food production from local farm crops, and individual artisans. The major activity involved in this sector include; soap and detergents, fabrics, textile and leather, local blacksmith, tinsmith, ceramic, clothing and tailoring, timber and winning, bricks and cement, food processing, wood furniture, beverages, bakeries, electronic assembly, agro processing, chemical based products and mechanics. (Source: www.cenbank.org accessed online 20-05-09)

According to history, SMEs in Nigeria have existed since the country's independence in 1960, probably before independence but since independence Nigeria has had series of seminars, studies and workshops, each of which appraise the excellence, importance and need to facilitate the establishment and sustainability of SMEs. All the National four year development plans from 1962-63 to 1984-85 have laid strong emphasis on strategies of government-led industrialization mount on import as substitution. In addition the structural adjustment program (SAP) initiation in 1986, the state did not appreciate the structural adjustment program active involvement in industrialization by a process of commercialization and privatization. Special attention was then shifted from large scale industries to Small and Medium Scale Enterprises, which has a prominent potential for developing domestic linkages for effective growth, sustainable industrial development. Bigger and greater leaning were then placed on the organized private sector (OPS) to head previous industrialization programmes.

The sector was further actively encouraged by more incentives; these were directed at solving or at least alleviating the huge problems that were encountered by the industrialists in the country and therefore enabling them greater leeway towards increasing their contribution to the national economy.

Conceptual Framework

It is important to note that the development of entrepreneurs cannot be overemphasized and the role they play in economic development and how they are financed through both formal and informal sources. The development experience of many countries indicates that SMEs can meaningfully contribute to the attainment of many development objectives. These include output expansion, employment generation, even location of industries among regions of the countries, income redistribution, promotion of indigenous entrepreneurship and technology as well as

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production of intermediate goods to strengthen inter and intra industrial leakages (Nnanna, 2000)
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Never the less, the extent to which the opportunities offered by SMEs are exploited and their contributions maximize in any economy depends on the enabling environment created through the provision of requisite infrastructures facilities such as roads, telecommunication, power etc. and pursuit of policies such as concretionary financing that encourage and strengthen the growth of the sector. Although the recognition of the economic importance of SMEs to the Nigerian economy is only a recent development, today the contributions of the sector to the economy are no longer contestable.

The contribution of SMEs to manufacturing output and gross domestic product (GDP) is appreciable. In the area of employment generation, SMEs accounted for about 70 per cent of the industrial employment in 1987 and the situation has remained largely the same (Omwumere, 2000), the same is the case in other developing economy as it is estimated that SMEs employ 22 per cent of the adult population in those countries, specifically, the sector employs about 15.5 per cent and 13.9 per cent of the labour force, which is higher employment growth than micro and large scale enterprises (5 per cent and 11 per cent) in Ghana and Malawi respectively (Kayanula and Qaurtey, 2000).

However, importance of SMEs as catalyst to economic growth and national development has been long recognized and is obviously a basic reason for their promotion in developed economy. For instance, the Bolton committee of inquiry established in United Kingdom in 1968 to examine the role of small scale enterprise in the British economy ideally describes two important roles of these enterprises as breeding ground of new industries and source of dynamic competition, even in the most buoyant economy, such as the United states of America, SMEs have played an important role in the country's transition from the industrial age to the post-industrial technology era.

SMEs are divided into Medium Scale Enterprise (MSE), Small Scale Enterprise (SSE) and Micro Enterprises (ME).The federal ministry of industries defines a Medium Scale Enterprise as any company with operating assets less than 200 million and employing less than 200 persons. A Small Scale Enterprise on the other hand, is one that has total assets less than 50 million, with less than 100 employees. Annual turnover is not considered in its definition of a SME. The National Economic Reconstruction Fund(NERFUND) defines a SSE as one whose total assets is less than 10 million but made no reference to either its annual turnover or the number of employee(WORLD BANK,2010. Two fundamental financing concepts in the development of SMEs, the formal and informal forms of financing have been identified by the previous researcher, scholars and practitioners(Gelinas, 1998; Aruwa, 2004).The findings were that among the most popular of the

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formal sources of financing, the commercial banks and the development banks remains the formal sources of finance for enterprises.

The informal source comprising personal savings, borrowing from friends and relatives and comparative credits has also been identified as potential sources of financing SMEs. Research works have been conducted on SME financing policies and strategies for its development (Boiko, 1998) and SME credit delivery strategies in Nigeria (Inang and Ukpong, 1992). The World Bank (2001) conducted research survey on SME access to formal financing institutions credits and found that 85 per cent of Nigerian firms had relationship with banks, not all of them had access to external credit. Schneider- Bartholdi (2002) and others have on the hand confirmed the significant contribution of SMEs to macro-economic development of nations.

The problem of SME financing has received the most tremendous research efforts from researchers. Some recent works in these respects includes Arnold (1998), Dorn (1998), Inang and Ukpong (2002) and Aruwa(2004).In their findings four problems in financing SMEs have become recurrent: the cost of capital, risk, the inappropriate terms on bank loans and the shortage of equity capital. The research gap that still exists in spite of these research efforts is the capacity of other financing options to fill the vacuum created by the failure of the formal financial institutions to supply the financial needs of SMEs in Nigeria. Aruwa (2004) notes that since the banks have demonstrated their inability to assume and manage the interest of SMEs, the informal savings schemes not only do they fill the vacuum created but they also constitute a new form of capital accumulation based on solidarity and co-operation between communities and businesses. Golis (1998) identified financing opportunities in ventures capital for SMEs. The Small and Medium Industries Equity Investment Scheme (SMIEIS) designed by the federal government of Nigeria in 2001, is also an attempt at expanding the financing spectrum for SMEs in Nigeria.

THEORETICAL FRAMEWORK

The government in both industrialized and developing countries provides a wide variety of programs to assists SMEs. Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less satisfactory. Many countries both developed and developing have come to realize the role of SMEs in the economic development process. They are seen to be characterized by dynamism, witty innovations, efficiency, and their small size allows for faster decision making process. The government has formulated public policies to encourage, support and fund the establishment of SME's. Development in SMEs is a sin quo non for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. The SMEs operations are propelled by the dynamic theory, which makes them efficient and prone to constant change (Akabueze, 2002).

Empirical Literature Review

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

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. Similarly, modern manufacturing processes are characterized by high technological innovations, the development of managerial and entrepreneurial talents and improvement in technical skills which normally promote productivity and better living conditions of the people. 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 these 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 Small and Medium Enterprises play a critical role in both developing and developed countries. Stiglitz and Marilou (1996) argued that the East Asian countries miracle was partly as a result of a vibrant SMEs sub-sector, which triggered the up-surge in exports and subsequent development of the industrial sector. For example, the New Industrialized Countries (NICs) like Singapore, Taiwan, South Korea, Malaysia, Indonesia and China among others, were able to achieve economic growth through the activities of SMEs which later contributed to the transformation of the Large-Scale enterprises. The Republic of China over the years, despite her large population, has been able to generate employment and income for her teeming population through the activities of the SMEs.

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). In low income countries with Gross National Product (GNP) per capita of between US$100 and US$500, SMEs account for over 60 per cent of Gross Domestic Product (GDP) and 70 percent of total employment; in middle income countries, the SMEs produced close to 70 percent of GDP and 95 percent of total employment; and in Organization for Economic Cooperation and Development (OECD) countries, SMEs constitute the majority of firms and contribute over 55 percent of GDP and 65 percent of total employment (Basu, et. aI., 2005). In most developed countries, efforts to support SMEs growth are over a century and have helped to create an enabling environment for their operations (Sule, 1986). According to Sule, the experience of the developed countries suggests that the key environmental support for SMEs in creating a favorable operational environment through policy framework should include;

- Sophisticated or developed capital markets that offer the full range of financial products, ranging from seed capital to secured debt.
- Public policies that provide incentives to private financial institutions to lend directly to SMEs.
- Comprehensive public delivery system for business development services supplemented by innovative private and non-profit initiatives.
- Public policy that promotes the creation, analysis and dissemination of data on the SMEs sub-sector.
- Legal and regulatory protections that provide incentives for innovation, ease business entry and exit costs, and reduce business risk.
- Tax incentives for SMEs development and expansion.

There are two sources of finance available to SMEs. The internal and external sources (Chizea, 2002), with internal sources as the dominant source of finance for most small-scale businesses. A

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survey conducted by the World Bank (1995) on business environment in transitional economies showed that the share of internal funding is significantly lower in advanced reforming countries as follows: Estonia 33 percent; Poland 34 percent; and Lithuania 37 percent. In the United States of America, the SMEs of less than two years old, internal finance constitute 54 percent of total financing. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer. The external sources of financing constitute bank finance and other forms of institutional credit. World Bank (1995) asserts that in India, the sources of external finance include informal channels, credit unions, and commercial banks which play an equally important role in the provision of external finance. These sources are certainly not dissimilar to the complement of sources of external finance available to most businesses in Nigeria. External source of finance must also include public equity and debt sourced through the Nigerian Stock Exchange (NSE).

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. The government had also sought collaborative effort with bilateral and multilateral agencies and non- governmental organizations (NGOs) in supporting SMEs in Nigeria. For instance, the Federal Government of Nigeria negotiated and obtained the World Bank SME I loan scheme to the tune of US$42 million in 1984. After the adoption of Structural Adjustment Program (SAP) in mid 1986, the government again obtained World Bank SME II loan scheme of US$270 million for the development of SMEs. However, the loan was reduced to US$142 million in 1992. The scheme was said to have generated jobs for over 40,000 people, at the end of disbursement in 1996 (CBN, 2000). The loan was managed by the Central Bank of Nigeria (CBN) and disbursed through a number of participating banks comprising of commercial, merchant and development banks. 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 suffer 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).

Claims recovery and collateral realization are often very weak. The barrier to credit protection is aggravated by the fact that the issuance of titles is extremely slow, due to the absence of appropriate procedures for registration of properties and inadequate resources of property registration offices. Credit recovery is hampered by the malfunctioning and cumbersome legal and judicial procedures (Sacerdoti, 2005). In an attempt to reposition the SMEs sub-sector by having access to funding, the Agricultural Credit Guarantee Scheme Fun (ACGSF) was established and also government ensued a partnership with well-established financial institutions, to provide financial and technical services to SMEs through a well-developed investment scheme known as Small and Medium Industries Equity Investment Scheme (SMIEIS) which was launched in 2001. The scheme requires all banks to set aside ten (10) percent of their Profit after Tax (PAT) for equity investment and promotion of SMEs. The total amount set aside for the scheme as at December 2005 amounted to N40.7 billion (CBN, 2005).

The Small and Medium Enterprises Development Agencies of Nigeria (SMEDAN) was also formed with a view to facilitating access to credit, technology and market for the SMEs. The participating banks are expected to liaise with SMEDAN in executing SMIEIS scheme. This is in consonance with the economic development plan or strategy of adopting a private-sector led development strategy. It is therefore expected that the flow of funds to this vital sub-sector of the economy will increase (Egbon, 2004). However, revamping the SMEs sub-sector, goes beyond policy strategy as the past government effort has demonstrated (Egbon, 1995, 2004; Dangote, 2001). The availability, accessibility and affordability of credit are the major impediments to the development and sustainability of the SME sub-sector in Nigeria (World Bank, 1995, Sanusi, 2001; Essien 2001). It is on this context that the motivation of this study is drawn with a view to examine the alternative and sustainable source of finance for a vibrant small and medium scale business in Nigeria.

Types of Loan Facilities Granted

However, it is common knowledge that getting financial support from commercial banks has been grossly inadequate for budding indigenous entrepreneurs and even for those who have been in the manufacturing business for a long term. Three types of credit are usually required by small scale enterprises. They include:

i. **Short Term Loan:** This type of credit is used to finance yearly operation until the product or proceeds from the industry are sold. The amount which is involved in this type of credit is usually small but lack of this type of credit is most accurately felt by small scale entrepreneurs who have little or no saving upon which to withdraw as they are mostly beginners.

ii. **Medium Term Loan:** This type of loan is for more than one year maturity period but not exceeding three to five years. This loan is mostly required for acquisition of inexpensive equipment with relatively short life span.

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iii. **Long Term Loan:** This type of credit is necessary for acquisition of major industrial machines, improvement in industrial equipment, building and land: It is a type of loan that the maturity period is for quite a longer duration.

Small scale enterprises therefore can be a powerful instrument in bringing about a revolution in industrial practices and in firms productivity especially if supplied in sufficient quantity and used effectively. The study therefore identifies small scale entrepreneurial financing by commercial banks as a major role to entrepreneurial development because finance is just one of the major factors of production. The problem of credit to small scale industries may not necessarily be as a result of financing insufficiency but rather for some other reasons among which are.

i. Insufficient preparation on the part of small scale entrepreneurs in their request for credit assistance.

ii. Information gaps as to range of funding institutions and scope of services available in these institutions

iii. Moreover, servicing of small business accounts is relatively experience, risky and difficult to monitor with low turnover of account.

However, the parishioners in the sector small scale industry do not display competence in preparing justification for their project. It is are to see most of them coming up with cash flow projections, projected balance sheets, among others. They are based on personal rudimentary in formation and speculation. At times when they seek the advice of consultants, the outcome that are made figures project based on assumptions which are most of their time unrealistic.

As a result such proposals are out rightly rejected by banks.

There are suitable when credit demands in this sector are not in compliance in this government monetary policy and credit guidelines which must be adhered to by banks.

Benefits of Small Scale Enterprises

According to Ojo (1992) the benefits of small scale industry include:

i. Stimulation of indigenous entrepreneurship.

ii. Greater employment creation per unit of capital invested.

iii. Development of local technology.

iv. Enhancement of regional economic balance through industrial dispersal.

v. Production of intermediate products for use in large scale enterprises.

vii. Facilitation of managerial training for unskilled than large enterprises at making specialized goods such as embroidery. Mobilization and utilization of demos tic savings

The Role of Banking Sector in Financing SMES:

The banking sector- specifically commercial banks and specialized banks- have several

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ways to get involved in SMEs finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking Sector services provided to SMEs, take various from, such as:

• Short term loans compatible with SMEs business and income patterns
• Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow
• Very small loans, or bank overdraft facilities are also appropriate for meeting the day-to-day financial requirements of small businesses
• Factoring and invoice discounting, asset finance (including commercial mortgages), and equity finance, all being within the framework of a customer-friendly approach. In providing all these services, it is recommended that banks take into consideration
• That outlet is located close to entrepreneurs.
• To use extremely simple loan applications.
• To limit the time between application and disbursement to a few days
• As well as to develop a public image of being approachable to low-income people.

RESEARCH METHODOLOGY

This study is based upon data analyzed from primary and secondary sources of information. The researcher also employed personal interview and observation so as to give complete information. It required on ascertaining the validity of the respondents claims. The study population is made up of three hundred and sixty three (363) people comprises of both First Bank Plc Ado Ekiti bank officials and small scale industrialist (First Bank customers) with a sample size of 190 derived using bowleg's formula : $n = \frac{N}{1 + (Ne)^2}$

Where N = population size, n = sample size, e = the level of significance.
A simple percentage and the chi-square (x^2) statistical were employed in testing the hypothesis. The null hypothesis were tested using Chi-square (x^2) analysis which was tested at 5% or 0.05 level of significant.

Hypotheses Testing

Hypothesis One

There is no significant relationship between Bank lending to small scale industries and attitude of its customers.

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Table

OPTION	**RESPONDENTS**	**PERCENTAGE**
Bank Officials	80	53
Small Scale Industrialist	110	47
Total	**190**	**100**

Source: Researcher field survey, 2015

The degree of freedom is given (k-1_) where k = number of column

2-1=1

Using chi-square formular

$\frac{(O1-E1)^2}{E1}$

Where X^2 = chi-square

Oi = observed frequency

The critical value is given 5.991

Expected frequency = Total

= Total number of response

number of columns

$\frac{190}{2} = 95$

Statistical test = $x^2 = \frac{(O1-E1)}{E1}$

$X^2 = \frac{(80-95)^2}{95} + \frac{(110-95)^2}{95}$

$= \frac{(-15)^2}{95} + \frac{(15)^2}{95}$

$= \frac{225}{95} + \frac{225}{95}$

= 2.37 + 2.37

= 4.74

4.74< 5.99

Options	Oi	Ei	(Oi-Ei)	$(Oi-Ei)^2$	$(Oi-Ei)^2$
Bank officials	80	95	-15	225	2.37
Small scale industrialist	110	95	15	225	2.37
Total	**190**	**190**	**0**	**150**	**4.74**

Source: Researcher field survey, 2015

4.74<5.991

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Do not reject null (Ho) hypothesis and conclude that there is no relationship between lending to small scale industries and attitude of its customers and other influences.

Hypothesis Two

There is no significant relationship between lending to small scale industries and economic recovery and self reliance of the economy

OPTION	**RESPONDENTS**	**PERCENTAGE**
Bank Officials	100	53
Small Scale Industrialist	90	47
Total	190	100

Source: Researcher field survey,2015

Expected frequency

$$= \frac{\text{total frequency}}{\text{Number of column}}$$

$$= \frac{190}{2} = 95$$

But

Statistical test $X^2 = \frac{(Oi-Ei)^2}{Ei}$

Oi = observed frequency

Ei = expected frequency

Critical value is given as 5.991

$$X^2 = \frac{(100 - 95)^2}{95} + \frac{(90 - 95)^2}{95}$$

$$\frac{(5)^2}{95} + \frac{(-5)^2}{95}$$

$= 0.52 < 5.991$

Options	Oi	Ei	(Oi-Ei)	$(Oi-Ei)^2$	$(Oi-Ei)^2$:Ei
Bank Officials	100	95	5	25	0.26
Small scale industrialist	90	95	-5	25	0.26
Total	190	190	0	50	0.52

Source: Researcher field survey, 2015

Do not reject null (Ho) hypothesis and concluded that there is no significant relationship between lending to small scale industries and economic recovery and self reliance of the economy.

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DISCUSSION

From the study the extent to which First Bank of Nigeria Plc has helped to finance small scale industries was impressive during the period under review. This is because the average annual percentage loan and advances to small scale industries when compared with the average annual prescription by the government.

The problems uncounted by the small scale industrialist in obtaining financial from First bank of Nigeria Plc was that some of the small scale industrialist approached bankers with ill conceived projects in which they had no stake expect which the project were to be stood. The banks saw no degree of confidence in the project which the applicants demonstrated through the equity participation. Some of the applicants failed to include the feasibility study of their proposed project, while some did not possess enough assists or guarantors which would have served as securities other problems were lack of managerial experience on part of the small scale industrialists, non provision of adequate collateral security. on evaluation of the various measured to boost industrial production and its financing, from the study it was discovered that commercial banks have never been willing to meet the demands of small scale borrowers due to the relatively poor performance of many of integrity among the lack of financial has made loans made to small scale industries in the lending scheme which are ultimately the causes of variability in small scale industrial financing by First bank of Nigeria plc as the banks preferred to grant their loans and advances mostly on the otherwise secured security.

CONCLUSION

This research work makes useful contribution to knowledge by appraising the various means of financing SMEs in Nigeria in comparison with financing in other lands or countries. It explicates the importance of SMEs to economic development of Ekiti State. It gives a proper insight of what the banking sector entails of the economy. Banking sector globally are identified to be major key players in the financial industry that have positively affected individuals, business organization, other financial institution, the government and the economy at large through services they offer and the function they perform in the economy. Finally, despite the effectiveness of the sector, it still suffers some setbacks. This means that the banking sector and their activities still have a long way to go in providing new services for good customer relationship, better financing schemes and development in the Nigerian economy.

This research work exanimate the contribution of commercial banks in financing small scale industries in Nigeria. A case study First bank of Nigeria plc small scale enterprises re regarded as an organic part of a viable structure for the attainment of meaningful economic development in developing economics like Nigeria. They bring about development than larger enterprises because of the perceived linkage and multipliers effects which the small scale industries have on the performance of the economy and economic growth in general.

The optimism after years of persistent effort sing to achieve economic emancipation of the country by imported technology is that the only alternative is to adopt a more local and positive strategy. That best alternative industrialization strategy is the establishment and continues financial assistance to the small scale industries.
In essence, if the described objective of using SME as catalysts of development is to be achieved, then the contribution of commercial banks should be mutually supportive.

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