

The Role of Commercial Banks in the Development of Small Scale Businesses in Nigeria

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ABSTRACT

This research work study focuses its attention on the role of commercial banks in the development of Nigeria economy. The study is aimed at presenting small scale business owners with the survival strategy in a period of economic depression. Secondary data were collected from various recent journals and text books. The study shows that commercial banks have impacted positively on the development of biz scale businesses in Nigeria. Nevertheless, it was concluded that commercial banks should sustain their borrowing to small scale businesses and also recommended among other things that commercial banks should introduce measures to encourage small business owners to have access to long term loan.

Keywords: Enterprise, Small Scale, Capital, Loan, Banks

INTRODUCTION

Commercial banks are institutions established to accept deposits from public and also to minimize profits by lending money to the public with certain percentages. Generally, they perform their functions such as deposit acceptance, safe guiding and lending of deposits and they also keep valuable items for their customers. Commercial banks can also be defined as financial institutions that help to channel funds from surplus sectors of the economy to the deficit sectors. The small scale businesses are very important to Nigeria economy and have been the focus of general interest in recent time. The medium and large scale industry varies from country to country and there is no unique and universally accepted definition of these terms. It is also important to admit the fact that definition changes much often and depend to a very large extent on parameters such as capital, investment and number of enterprises. Small scale business is a business that employs a small numbers of workers and does not have high volume of sales; such business or enterprises are generally privately owned and manage by the proprietor corporations or partners. Financing of any operation or activities of any business is very important, it has been discovered that most of Nigeria entrepreneurs under estimate the capital required for their business to be operational and profit yielding. This has eventually been the reason for some small scale business failure.

Most small scale business enterprises lack sufficient Funds by self supporting from the scratch; others would only need external assistance few years after the business had already taken off. Commercial banks had from the evolution of banking in Nigeria assist both the establishment of small scale business and financing of their capital project to enhance document un productive and industry sectors of the economy.

OBJECTIVES

The objectives of this paper are stated below;

1. To review the important of commercial banks to the development of small scale enterprises in Nigeria.
2. To draw conclusion and make recommendation from the review

METHODOLOGY

in writing this paper, the researcher use secondary materials as the objectives is to review different but few literature on importance of commercial banks and development of small scale enterprises in Nigeria.

REVIEW OF LITERATURE

Conceptual Exploration on the Role of Commercial Banks in the Development of Small Scale Enterprises in Nigeria

According to business dictionary and investors guide page 55 new editions 2006, by J.P mark. A commercial bank is defined as an institution which accepts deposit, makes business loan and offer other related services. Commercial banks allow for a variety of deposits accounts such as current, savings and time deposits. These institutions are run to make profit and group of individuals own them. These institutions are primarily concern with deposit and lending business. Example of commercial bank is first bank, ecobank, union bank, keystone bank, main street bank, zenith bank etc. According to oshigbami (1983), small scale business is one that is actively local in its area of operation relatively small in size within the industry and is largely dependent upon internal sources of capital for finance and eventual growth and development of the business.

Small scale enterprises, share common features like small scale enterprises are generally low in terms of persons employed, amount of investment. The man criteria used throughout the world to identify a small scale enterprise are as follows:

- a. Numbers of employee
- b. Financial strength
- c. Initial capital outlay
- d. Related size
- e. Independent ownership

Many eminent scholars and highly placed people in the society that are in both developed and developing countries have written much about small scale enterprises but yet, there is no consensus agreement as to what constitute a small scale enterprise.

The Role of Government in the Development of Small Scale Enterprise in Nigeria

According to ashigbami (1985), over the years government has made favorable policies and has also provided incentives for the growth and development of small and medium scale enterprise e.g. The federal government through the central bank of Nigeria (CBN) has given credit guidelines to commercial banks and merchants banks, stipulating that 10% of all loans should be extended to small scale enterprises industry subsector of Nigeria economy. Another policy of federal government towards the growth and development of small scale enterprises is the small and medium enterprises equity investment scheme (SIWES) in this scheme every commercial banks is to contribute

10% of its profit before tax (PBT) to enable small scale business owners obtain loan at low interest rate. The federal government through the central bank of Nigeria has set aside N50 billion to assist small scale and medium enterprises to finance their operation in collaboration with participating banks. The fund is being supervised by the central bank of Nigeria. Another ways by which federal government provide incentive to small scale enterprises is the provision of tax holidays, where small scale business are exempted for while for paying tax to the government.

Problems of Financing Small Scale Enterprises

According to Pome (1993), large well established public limited companies usually have no difference in meaning the stock exchange rule and company law requirement necessary to raise large amount of capital on the open market, by comparison, small and medium size enterprise suffer financial disadvantage which in the absence of government assistance can often act as a major constraint on the business expansion.

Characteristics of Small Scale Enterprises in Nigeria

The industries are mostly weak, poorly equipped which is one of the elementary and always reluctant to request or accept assistance for reasons of ignorant or fear of information leakage to competitors. A great percentage of these industries are sole entrepreneur with a few percent in partnership cooperation and registered companies. Very few of these enterprises keep books of account and expenditure, also only few of these enterprises maintain any bank account for this reason most of them have no access to bank loan and other financial assistance, but rely mostly on personal savings. The rate of failure is usually high because of the dominance of sole proprietorship since it is relatively easy to start a small scale industry the manager of such industries tend to multiply as each apprentice product turn into a sole proprietor. Most of these industries are service industries rather than manufacturing except for a few electrical works and black smiting.

Forms of Small Scale Enterprises

- Small Retail shops – These are typically inform of small family shop hotel bar restaurant it normally makes a living for owners rather than for a turn.
- The purchase business – here it is not the business that is not but the owner. This means that new owner need to have sufficient fund to buy out or to purchase the old business the buyer also must be able to negotiate a sensible price. Many of the startup problems of the business are the business and its weakness until it has been bought.
- The purchase franchise – This is the of small scale business that has just been spread to Africa from America. It is a central operation which develop a market service or product which is then sold through large outlet.

Very few of this expenditure have hand of any formal education most of them have no knowledge of accessing marketing condition.

Enabling Environment for Small Scale Industries

To diversify the economy, there is need to restructure and strength policy in favour of the rapid growth and development of (SSIS) so that they could serve as the hub for

industrial transformation. Small scale industries are expected to champion local sourcing of raw material and export drive so that the balance of payment problem faced by Nigeria could be eased with the dismantling of trade barriers as part of globalization in Nigeria. The organized manufacturing sector is made up of over 95% (SSIS). Therefore more than ever before the country needs to fine tune its industrial policy and align it with other development strategies so that small scale industries could compete favourably with the products of developed world.

The Role of Commercial Banks in Financing Small Scale Industries in Nigeria: General Challenges.

A number of problems are being faced by small scale industries in Nigeria, even when commercial banks extend their financial assistance to them. The challenges being faced are in fine fold.

Firstly, inadequate provision of essential services such as telecommunication, access to roads, electricity and water supply constitute one of the greatest constraints to small scale industries.

Secondly, insufficient demand for the products of the small scale industries also imposes constraints on their growth, although many small scale industries produce some inputs for larger industrial enterprises the non standardization of their products, the problem of quality assurance as small as weak purchasing power, arising from consumers dwindling real incomes restricted their market access.

Thirdly some scale industries deliberately loans obtained for projects support to other expenditures. Others refuse to pay back as and when due, the interest rate and the principal and the misconceived notion of sharing the so called national cake. There are however genuine cases of loan defaults arising from operational difficulties and macroeconomic shocks.

Fourthly, inadequate financial resources as well as desire to operate with limited openness on the part of proprietors had many (SSIS) to employ semi – skilled or unskilled labour. This of course, affects productivity, restrains expansion and hinders competitiveness.

Lastly, many small scale industries do not keep proper accounts of transaction. This hinders effective control and planning. More over lack of relevant educational background and thorough exposure constraints their ability to seize business opportunities that may lead to growth.

Benefits of Financing Small Scale Industries

Small scale industries comprises diversely of organized activities according to Omoradion (1989:8) these activities include household production, handcraft small maintenance and repair etc. According to osaza (1986:p3) Small scale industries form an important sector of employment in the present situation of the country. Small scale industries aim at alleviating the problem of unemployment. They are said to have employ over 30% of the labour force. They offer productive outlet for the enterprising and independent minded people. According to olumn (1985:14) it is believed that through promotion of small medium scale enterprises, it will be possible.

- a. Generate substantial indigenous entrepreneurship
- b. Facilitate effective mobilization of local resources such as land, labour and capital
- c. They contribute to diversification of our economic structure. This point was also supported by Omoradion (1989:9) that it has been fully recognized that small scale industries splay a role in expanding and diversifying industrial production.
- d. Flexibility and adaptability are virtues of many small scale industries, contrasting sharply with the cumbersome procedure of large organization Brown and longreter (1971:10)
They promote the training of indigenous man power for local industry and thus reduce the nation's absolute dependence on foreign personnel. This was supported by omorodion (1989:9) when he stated that small and medium industries provide a training ground for the creation of indigenous enterprises in terms of technical, managerial and mastering know – how
- e. Reduce regional disparities, brain drain and rural – urban migration. These are some of the benefit of small scale industries, omorodion (1969:8)also stated that small scale industries contributes in particular to value added, employment generation accelerating rural development.

CONCLUSION AND RECOMMENDATION

It is affirmed that training and entrepreneurship programmes and seminars should be introduced to educate the small scale business owners and enlighten them on how to obtain loan from commercial banks. However as a way of contributing to knowledge we wish to make following recommendation. First, commercial banks should introduce method of motivating the small scale business owners so as to encourage them and help them on how to obtain loan. Secondly, government must intervene by way of reducing high interest charged by banks in other to enhance loan repayments

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