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## **The Role of Government and Financial Institutions in Small and Medium Scale Enterprises in Nigeria**

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### **ABSTRACT**

Small and Medium Scale Enterprises constitute essential ingredients in the lubrication and development of any economy. In Nigeria, the story makes no remarkable difference as Small and Medium Scale Enterprises dominate the economy. Government over the years has formulated a number of policies aimed at developing Small and Medium Scale Enterprises. While most policies actually failed due to poor implementation, others however, succeeded. It is therefore the thrust of this paper to identify the role of government and other financial institutions particularly micro finance institutions in the development of small and medium scale enterprises in Nigeria. Relevant literatures were reviewed to bring out salient issues on the subject matter of this paper. The chief source of information for this write up is secondary method of data collection. It concludes that financial institutions provide the necessary financial lubricants that facilitate the development of Small and Medium Scale Enterprises, but, a lot still need to be done by the government in terms of policy formulation in order to complement the efforts of financial institutions. This paper recommends among others, further establishment of micro finance institutions to serve the grass root financial needs, sensitization of the general public on how to access funds for SMEs development, public private partnership should also be encouraged, the financial muscle of the financial institutions must be geared up to meet the financial need of SME5 in their respective locality.

**Keywords: Enterprises, Development, Economy, Financial Institutions**

### **Introduction**

Small and Medium Scale Enterprises are sub-sectors of the industrial sector which play crucial roles in industrial development (Ahmed 2006). Following the adoption of Economic reform programme in Nigeria in 1981, there have been several decisions to switch from capital intensive and large scale industrial projects which was based on the philosophy of import development to Small and Medium Scale Enterprises which have better prospects for developing domestic economy, thereby generating the required goods and services that will propel the economy of Nigeria towards development. It is base on this premise that Ojo (2009), argued

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that one of the responses to the challenges of development in developing countries particularly, in Nigeria, is the encouragement of entrepreneurial development scheme. Despite the abundant natural resources, the country still finds it very difficult to discover her developmental bearing since independence. Quality and adequate infrastructural provision has remained a night-mare, the real sector among others have witnessed downward performance while unemployment rate is on the increase. Most of the poor and unemployed Nigerians in order to better their lots have resorted to the establishment of their own businesses. Consequently, Entrepreneurship is fast becoming a household name in Nigeria. This is as a result of the fact that the so called white collar jobs that people clamor for are no longer there. Even, the touted sectors (Banks and companies) known to be the largest employers of Labour are on the down-turn following the consolidation crisis and fraudulent practices of the high and mighty in the banking sector. The companies of course are folding up as a result of erratic power supply, insecurity and persistent increase in interest rate which has led to high cost of production and undermines profit making potentials of companies operating in Nigeria. As a result of banking sector practices and continuous folding up of companies, a lot of Nigerians are thrown into unemployment which inevitably detriment the economic situation of the country. Since the office jobs that people desire are no longer there for the teeming population, and the few ones that succeeded in getting the jobs are thrown out as a result of the factors identified above, the need for the government and the people to have a rethink on the way-out of this mess became imperative. Hence, the need for Small and Medium Scale Enterprises (SMEs) became a reality as a means of ensuring self independent, employment creation, import substitution, effective and efficient utilization of local raw materials and contribution to the economic development of our dear nation (Nigeria). All the foretasted benefits of Small and Medium Scale Enterprises cannot be achieved without the direct intervention of the government and financial institutions. Over the years a number of policies have been formulated by the government with a view to developing Small and Medium Scale Enterprises. The Nigerian government under the leadership of Chief Olusegun Obasanjo promulgated micro-finance policy and other regulatory and supervisory frame work in 2005. This paper will therefore examine several policies aimed at developing Small and Medium Scale Enterprises vis-a-vis roles played by the government and financial institutions in achieving SMEs development in Nigeria. In writing this paper the researchers principally used existing literatures and record relevant to the subject matter of this paper.

### **Overview of Small and Medium Scale Enterprises**

According to allbusiness.com (2010), the abbreviation SMEs occurs commonly in the European Union and in International Organizations such as the World Bank, the United Nations and the World Trade Organization.

Also the term Small and Medium Scale Businesses (SMEs) is predominantly used in the United States of America. The European Union states traditionally have their own definition of what constitutes SMEs. For instance, the traditional definition in Germany Limits Small and Medium Scale Enterprises to two hundred and fifty (250) employees while in Belgium, it is limited to one hundred (100) employees. Recently, the European Union has standardized the concept by categorizing enterprises with less than ten (10) employees as 'micro', those with fewer than fifty (50) employees as 'Small' and those with fewer than two hundred and fifty (250) employees as "medium". In the United States of America, any business with fewer than one hundred (100) employees is classified as "small" while medium scale business refers to a business with fewer than five hundred (500) employees. In India, Micro and Small Enterprises play a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector account for about 39% of the manufacturing output and about 33% of the total export of the country. Also in South Africa, the term Small, Medium and Micro Enterprises (SMMEs) is usually used, while in Nigeria, the term Small and Medium Scale Enterprises (SME5) is generally used. From the foregoing, it can be deduced that Small and Medium Scale Enterprises are enterprises that have the capacity to employ at most five hundred (500) employees at a time and it has been proved to be the back bone of every economy. The brain behind every successful Small and Medium Scale Enterprise is entrepreneurship which in the words of Olagunju (2004) is an undertaking in which one is involved in the task of creating and managing an enterprise for a purpose. The purpose as further stated may be personal, social or developmental. One who is involved in this task is called an entrepreneur. Also a line between an entrepreneur and business owners must be drawn. While business owners establish and manage their own enterprise for personal gains, entrepreneurs exploit ideas that create a business that benefit them, the society and act as developmental weapon.

### **The Role of Government in Developing Small-Scale Businesses in Nigeria**

The government has great role to play in the development of small-scale business. Some of Which are:

#### **Providing Enabling Environment for Small-scale Businesses to Thrive**

The need for creating environment for business success by the government cannot be overemphasized. As important as the small-scale businesses for triggering economic development and industrialization for the nation, government should provide the infrastructure facilities like electricity. The epileptic power supply in the county is a serious constraint to rapid development. It is a good as nothing if government should reduce interest rate, give other incentives, like tax holidays, etc but the profit

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generated is only used to power plants. Other infrastructural facilities which are necessary for small scale industries to thrive include Good road network and Potable water supply.

### **Telecommunication Network Policy Reform**

The government should go back to the drawing board and study different policies that were introduced at a particular time in the past for a particular situation. Now that the country is clamoring to change from over-dependent on oil revenue to industrialization, therefore it becomes imperative to introduce a policy reform agenda that will be a working formula to accelerate entrepreneurial development.

### **Regulatory Control**

This has to do with the introduction of different regulatory control through the Central Bank of Nigeria (CBN) that will favour the development of small scale industries in the country.

### **Giving of Incentive to the Small-Scale Industries**

Government by way of encouraging small-scale industries gives incentive to the small-scale industries. The incentives include from reduction in taxes, granting of tax holidays to infant industries and a host of others. - Other ways government gives incentives to small-scale industries is by establishing some organizations for manpower training and development. Such establishment includes:

- Industrial Development Centers (IDCs)
- The Industrial Training Fund (ITF)
- National Directorate of Employment (NDE)
- National Youth Employment and Vocational Skills Development Programme
- Center for Management Development (CDM). (Olagunju, 2004)

### **The growth of Small and Medium Scale Enterprises and the Contributive Schemes in Nigeria**

Jimodu (1998), Kayode (2001) and Hassan (2003), mentioned various schemes that have contributed to the growth of Small and Medium Scale Enterprises in Nigeria. The industries credit scheme (ICS) was introduced in 1971 as a revolving grant by the federal and state governments in Nigeria to assist in meeting the credit needs of SME5 on a relatively more liberal condition than in private leading institutions.

### **Bank of Industry (BOI)**

The Nigeria Bank for commerce and Industry was established jointly by the federal government of Nigeria and the Central bank of Nigeria (CBN) in 1978 as the apex institution for financing Small and Medium Scale Enterprises. The rationale for establishing the bank was to bring financial discipline to bear and to hopefully ensure a more efficient utilization of

scarce financial resources for the development of viable Small and Medium Scale Enterprises. Bank was also vested with the power to administer the federal ministry to commence and industry's special funds for small and medium scale Enterprises under a soft loan agreement. The Bank of Industry was formally inaugurated by the president on 17<sup>th</sup> May, 2002 and empowered to engage in the following:

1. Agricultural finance
2. Industrial and commercial exploitation finance
3. National resources exploitation
4. Long-term investment financing and equity funding of small and medium scale enterprises
5. Supporting small and medium enterprises through lending funds to commercial and merchant banks

### **The Central Bank of Nigeria Special Credit Programme for Small and Medium Scale Enterprises (SMEs)**

The central bank of Nigeria is the principal agent for implementing government financial and monetary policies and has over the year introduced a number of schemes for promoting improved access to credit for industrial development particularly in Small and Medium Scale Enterprises. The thrust of the schemes according to Bullion and CBN (1992) can be grouped into three in line with Central Bank guidelines for Small and Medium Scale Enterprises under the bank's monetary policy guidelines of 1988.

- i. Credit guideline in respect of loans to Small and Medium Scale Industries: In 1970, the Central Bank of Nigeria expanded its credit guidelines to incorporate Small and Medium Scale Enterprises with effect from January 1971. With the directive, at least 10% of bank loans and advances were allocated to Small and Medium Scale Enterprises.
- ii. In April 1980, loans and advances available to Small and Medium Scale Enterprises rose from 10% to 20% in January, 1991. It was also clearly stated that stringent penalties await those who disregard the directive.
- iii. Central Bank rural banking programme started in Nigeria in 1977 when the first phase (1977 - 1980) was introduced. The essence of this programme is to reduce the problems of poor access to credit by rural sector operators of Small and Medium Scale Enterprises.

### **Conclusion**

There is absolutely no doubt that small and medium scale Enterprises contribute tremendously to the nation's economic development. Harnessing the economic potentials of SMEs in Nigeria is still a mirage since several policies aimed at small and medium scale Enterprises development did not stand the test of time due to poor implementation,

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erratic financing of schemes initiated by the government and other administrative bottle-necks. These have made it difficult to existing and prospective SMEs operators to have easy access to funds set aside for SMEs development. Banks which are supposed to complement and implement government policies also clamor for huge collaterals which prospective poor borrowers usually do not have even borrowers who could afford to provide benefiting collateral are further discouraged by continuous increase in interest rate which make borrowers vulnerable to the risk of continuous indebtedness to rich lenders. The recent development by committee of bankers in Nigeria remains a vibrant scheme if the objective for which it was established is implemented to the letter. Of course SMEs will never thrive if government and financial institutions continue to pay lip services to schemes initiated by them.

### **Recommendations**

Base on the findings of this paper, the following recommendations are hereby put forward.

- Government and financial institution should develop a holistic approach to schemes initiated by them.
- The Central Bank of Nigeria (CBN) and other financial institutions should embark on extensive sensitization of entrepreneurs on the operations of the banks.
- Interest which deters people with genuine business ideas should be reduced to a bearable level so as to make borrowing cheaper.
- All administrative bottle necks which make funds inaccessible to small and medium scale Enterprises operators should be mitigated.
- The Central Bank of Nigeria should as a matter of urgency compel all other commercial banks to adhere strictly to banking policies and regulations.
- Government should engage professionally in the formulation of policies that will stand the test of time.
- Government should develop a lasting solution to the state of infrastructural deterioration especially electricity.
- The security situation of the country needs to be improved so as to make business doable in the country.
- Policies initiated by the government should be funded efficiently.
- Policies which are aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centres so as to reduce rural-urban migration.
- Finally, prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures.

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