AN ASSESSMENT OF THE CONTRIBUTION OF COMMERCIAL BANKS TO THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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ABSTRACT

This paper examined the contribution of Commercial banks to the growth of Small and Medium scale enterprises in Nigeria between the period of 1980 and 2009. The paper employed descriptive method of analysis. An inductive methodology involving observation, collection of secondary data and the analysis of such data was employed. To complement this approach, ratio analysis and trend analysis was also used. To this end, a lot was devoted to the presentation and analysis of data obtained from Central Bank of Nigeria’s publications such as Annual Reports, Statistical Bulletins, Journals, internet materials and text books. The work therefore, discussed the contribution of commercial banks to providing funds to small and medium enterprises as revealed in these data. It was discovered that commercial banks contribute to financing small and medium scale enterprises but their contribution has declined as the government through CBN directives abolished the mandatory bank’s credit allocations. Among other recommendations, the paper recommends that commercial banks should trim down its stringent requirements so that SMEs can benefit from loan advances as large corporations do.

Keywords: Commercial Bank, SME, ratio and trend analysis

INTRODUCTION

Small and medium scale enterprises (SMEs) are seen as instruments for reducing the poverty level affecting the country and improving the economy of Nigeria. Therefore the need for SMEs growth in Nigeria is beyond question. Studies by the International Finance Corporation (IFC) show that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in Europe, they contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in the US or Europe (Oyelaran-Oyeyinka, 2007)¹⁵. The question as to why the SMEs in Nigeria, are not contributing to the growth of the economy as they should like in other countries now arises.

Small and medium scale enterprises earn their funds from various sources like personal savings, family and friends, loans and professional money lender such as commercial banks and institutions like National Directorate of Employment, National Economic Reconstruction Fund and other Small and medium scale enterprise schemes. Despite all the above mentioned sources of finance, financial constraint is still put as the major problem of SMEs. Nwoye (2008)¹³ identified the problems of SMEs as financial constraints to the present and potential investors, inadequate manpower, dearth of infrastructural facilities, lack of data, imperfect knowledge of market and general slump in the economy with its attendant social and political consequences.

However, the financial structures in the world today play a key part in the expansion and growth of the economy, although the aptitude to play this role effectively and efficiently largely depends on the degree of development of the financial system. The traditional commercial banks which are main players in the financial systems of nearly every economy, have the potential to pull financial resources together to meet the credit needs of SMEs, therefore, there is still a huge gap between supply abilities of the banks and the challenging needs of SMEs. In Nigeria, the situation is even more predominant as noted by Olutunla and Obamuyi (2008)¹⁴.
Also, it has been observed that SMEs do not use formal means of financing as much as the large scale enterprises do. The World Development Report indicated that small-scale business firms obtain only 19 percent of their financing needs as against 44 percent by medium and large scale enterprises from external sources in developing countries (World Bank, 2000). SMEs are often discouraged in sourcing for funds from the commercial banks as they find accessing bank credit difficult. Aberejo and Fayomi (2005) note that the majority of commercial bank loans who offered to SMEs are often restricted to a period far too short to pay off any considerable investment. In addition, banks in many developing countries choose to lend to the government rather than private sector borrowers because the risk involved is smaller and higher returns are accessible (Levitsky, 1997).

This trend is of concern to the researcher who aimed to find answers to the following questions:

i. To what extent has commercial banks contributed to the financing of the SME sector?

ii. To what extent do SMEs encounter problems in sourcing for funds from the commercial banks?

iii. Do commercial banks play any significant role to the development of SMEs in Nigeria?

This study therefore, aims at assess the roles and contributions of the commercial banks to financing the SMEs in Nigeria for the period 1980-2002 and also to identify problems SMEs encounter in sourcing for funds from the commercial banks. The study employed a descriptive method of analysis. The data is secondary source relying mainly on publications from the Central Bank of Nigeria, Federal office of statistics, journals, textbooks and the internet.

The rest of the paper is organized in five sections. The first section looks into the concept of small and medium scale enterprises, looking into the various yardsticks used in defining the concept. The second section reviews some literature on commercial banks as a source of fund providers to SMEs, the problems confronting SMEs when sourcing for funds from formal institutions (Banks) and the third section comprise of the theoretical framework. The fourth section analyzes data on loans and advances to small and medium scale enterprises by the commercial banking sector in Nigeria, contribution of SMEs to the GDP and compared the commercial banks’ total credit and commercial banks’ loans to SMEs. The fifth section offers conclusion and recommendations.

The Concept of Small and Medium Scale Enterprises.

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).

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. The Small and Medium Enterprise development agency SMEDAN (2007) gave a better definition by drawing a line of demarcation between Small, medium and large enterprises.

Table 1: Demarcation between Small, Medium and Large Enterprises

<table>
<thead>
<tr>
<th>SIZE CATEGORY</th>
<th>EMPLOYMENT</th>
<th>ASSETS (Nm excluding land and buildings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Micro Enterprises</td>
<td>Less than 10</td>
<td>Less than 5</td>
</tr>
<tr>
<td>2 Small Enterprises</td>
<td>10-49</td>
<td>5 less than 50</td>
</tr>
<tr>
<td>3 Medium Enterprises</td>
<td>50-199</td>
<td>50- less than 500</td>
</tr>
</tbody>
</table>

Source: SMEDAN, 2007

This classification was adopted by National Policy on Micro, Small and Medium Enterprises (MSMEs).
The most economical source of borrowed capital available to SMEs is commercial banks (Nwoye, 2008). It is not debatable that the commercial banks form the largest source of funding for small SMEs. Because of the nature of funds available to them, commercial banks specialize in the short term lending and working capital funding in form of overdraft. Before a loan is granted the bank requires a well formulated business proposal to convince them as to financial needs of the business and how the loans can be serviced and repaid if granted. The purpose of borrowing determines the type of loan to be granted. If the potential borrowing is a credit risk, or if the amount of fund being applied for exceeds the amount that the bank manager considers reasonable on unsecured basis, then security is required.

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. However, in 2007, the Central Bank’s controls on interest rate were removed by the Federal government in line with emphasis on deregulation of the economy (CBN Annual Report, 2007). It is clear that commercial loans, equipment financing and leasing are the most common and are for short-term seasonal needs. They mature 90-180 days and they may not be backed with collateral. Term loans normally are loans which are paid within 5 years and are secured. The principal amount is paid installmentally and the business must abide by certain stipulated conditions entered in the loan agreement. With equipment financing and leasing, banks will loan on equipment as collateral and can arrange for small business to lease equipment for negotiated periods of time. Bank loans can be for short, medium and long terms.

Banks use the following criteria in evaluating requests for loans, character, capacity, capital, condition and collateral. Character is associated with the reputation which is a sum of personal attributes revealed indirectly. A borrowers’ reputation is really the opinion held by others about him. His business conduct such as prompt payment of obligations and speculative tendencies are all manifested by his character. To banks, character means the ability of a borrower to conserve the assets of his business and to ensure prompt repayment of his loans. Character is therefore very important in the evaluation of credit worthiness of business and individuals. 

Capacity narrowly means the ability of a borrower to pay his monetary obligations when they fall due. The borrower, in addition to being capable must also be willing to upset his liabilities. The customers’ net worth in the business assures the bank that the borrower will be able to meet his obligations. Borrowers should have strong capital base. Banks prefer to collect back their loans from anticipated income or profit rather than from the proceeds of liquidities pledged collateral.

Some factors over which the small businessman has no control may inhibit the granting of bank loans to him. Seasonal characters of the business, long run business activities are some of the inhibiting factors. New businessmen must provide collateral for bank loans. Old timers with high credit standing do not necessarily secure loans. Property, life insurance policy and marketable securities are among the collateral provided. There is a greater risk in expanding business, hence long term loans have to be protected by directly pledging assets.

Lipsey (2003) observes that commercial banks in Nigeria could not significantly contribute to the development of small business because of the low rate of returns of entrepreneurial development. The cash holdings of the commercial banks are mostly made up of demand deposits. These deposits are liabilities to the banks and are payable on demand. Thus, short term loans, cash and advances are the major consumers of commercial bank funds in this country. Many projects are financed by commercial banks, which include ventures such as flour milling and bakeries, footwear’s printing and publishing, soap, oils and detergents. The banks hardly finance projects requiring medium and long term loans because current deposits constitute their main source of funds. This was confirmed in the study carried out by Manufacturers’ Association of Nigeria (MAN) in a survey aimed at determining funding requirement of the manufacturing sector as well as existing constraints in accessing bank credit. It revealed the nature of banks operating in Nigeria favors short-term credit financing as against medium to long term financing (SMEDAN,2007).

Problems Confronting SMEs Access to Fund
Since 1975 when the government changed its industrialization policy to give focus and pre-eminence to SMEs away from import substitution and large scale industrialization, there have been series of incentives financial institutional and otherwise by successive government to promote SMEs. The private initiatives are also legendary; the achievements recorded cannot be said to commensurate with the efforts put into it. 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
the The bank capital channel views a change in interest rate as affecting lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement. Thus, an increase in interest rates will raise the cost of banks’ external funding, but reduce banks’ profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition. This condition as purported by this model, is clearly seen in the relationship between banks and SMEs as the SMEs suffer through lack of financial assistance as a result of this situation. Hence this model underpins this research study.

**Trends of Commercial Banks Credit to SMEs in Nigeria**

The role of SMEs to industrial and economic development of any nation has been globally recognized, the same is the case for a nation like Nigeria. In Nigeria however, one would have expected a progressive increase in credit allocation to the SMEs. As shown in table 1, the aggregate loans and advances commercial banks extended to SMEs between 1980 and 1999 as a percentage of credit allocated to the private sector shows that between 1980 and 1986, the percentage credit allocated arises from 1.5% to 9.3%. This period falls within the time government has not mandated commercial banks to assign a given percentage of credit to SMEs witnessed a sporadic increased to the SMEs went up as high as 48.80% and 32.20% in 1992 and 1993 respective. This period also witnessed the period the government directed commercial banks to mandatorily allocate 20% of their total credit to SMEs. The mandatory credit allocation was abolished in 1996 and this explained the downward trend of credit allocation to the SMEs from 16.96% in 1997 to 15.30% in 1998, 13.30% in 1990, 8.76% in 2000, 6.59% in 2001 and 8.63% in 2002. Therefore, there is need to check this downward trend in the percentage credit allocation to the SMEs. The major reasons adduced for this poor credit given to SMEs apart from government policy includes lack of collateral asset, high administrative costs of processing small loans, delay in the disbursement of approved funds, distress in banking sector coupled with volatile exchange rate regime and prohibitive interest rate (Cookey, 2000).

The above poor credits reflect the contribution of the SMEs (proxies by manufacturing sector) to the total Gross Domestic Product (GDP) of the country. As shown in the table 2, SMEs contribution to the total Domestic Production (GDP) of the country rises from 9.89% in 1981 to a low level of 6.02% in 2002. However, there is a steady increase in the percentage contribution to the GDP in the period between 1985

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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.

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.

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). 

**Bank Capital Channel Model**

This model considers the lending behaviors of bank to SMEs to be affected by a capital adequacy requirement. According to Obamuyi (2007).
and 1990 which is a reflection of the increase in commercial bank credits among other factors allocated to the SMEs sector. This trend suggested that an increase contribution of the SMEs to the total GDP includes lack of credit facilities, inability of small and medium industrialist to transform ideas into reality, poor demand for finished goods, restricted access to land, difficulties in input procurement and lack of continuity after the death of their owners (Anyanwu, 2003).

Table 2: Loans and Advances to Small and Medium Scale Enterprises by the Commercial Banking Sector in Nigeria (1980-2002)

<table>
<thead>
<tr>
<th>Period</th>
<th>Commercial Bank aggregate loans and advances to the private Sector N'000</th>
<th>Commercial Bank aggregate loans and advances to the SMEs. N'000</th>
<th>Commercial Bank loans and advances as percentage of total credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>6334.00</td>
<td>102.00</td>
<td>1.5</td>
</tr>
<tr>
<td>1981</td>
<td>8604.80</td>
<td>185.00</td>
<td>2.1</td>
</tr>
<tr>
<td>1982</td>
<td>10277.00</td>
<td>206.70</td>
<td>2.0</td>
</tr>
<tr>
<td>1983</td>
<td>11100.00</td>
<td>351.30</td>
<td>3.2</td>
</tr>
<tr>
<td>1984</td>
<td>11550.60</td>
<td>705.70</td>
<td>6.1</td>
</tr>
<tr>
<td>1985</td>
<td>12170.30</td>
<td>927.20</td>
<td>8.0</td>
</tr>
<tr>
<td>1986</td>
<td>15701.00</td>
<td>3587.30</td>
<td>9.3</td>
</tr>
<tr>
<td>1987</td>
<td>17531.90</td>
<td>1445.30</td>
<td>20.46</td>
</tr>
<tr>
<td>1988</td>
<td>24602.30</td>
<td>5090.00</td>
<td>20.69</td>
</tr>
<tr>
<td>1989</td>
<td>28108.80</td>
<td>5789.50</td>
<td>20.60</td>
</tr>
<tr>
<td>1990</td>
<td>28640.80</td>
<td>5900.00</td>
<td>22.90</td>
</tr>
<tr>
<td>1991</td>
<td>32912.40</td>
<td>7572.30</td>
<td>23.80</td>
</tr>
<tr>
<td>1992</td>
<td>41870.00</td>
<td>20400.00</td>
<td>48.80</td>
</tr>
<tr>
<td>1993</td>
<td>48056.00</td>
<td>15462.90</td>
<td>32.20</td>
</tr>
<tr>
<td>1994</td>
<td>92624.00</td>
<td>20552.50</td>
<td>22.20</td>
</tr>
<tr>
<td>1995</td>
<td>14146.00</td>
<td>32374.50</td>
<td>22.90</td>
</tr>
<tr>
<td>1996</td>
<td>169242.00</td>
<td>42302.10</td>
<td>25.00</td>
</tr>
<tr>
<td>1997</td>
<td>240782.00</td>
<td>40844.30</td>
<td>16.96</td>
</tr>
<tr>
<td>1998</td>
<td>272895.50</td>
<td>42260.70</td>
<td>15.30</td>
</tr>
<tr>
<td>1999</td>
<td>353081.10</td>
<td>46824.00</td>
<td>13.30</td>
</tr>
<tr>
<td>2000</td>
<td>508302.20</td>
<td>44524.30</td>
<td>8.76</td>
</tr>
<tr>
<td>2001</td>
<td>796164.80</td>
<td>52428.40</td>
<td>6.59</td>
</tr>
<tr>
<td>2002</td>
<td>194628.80</td>
<td>82368.40</td>
<td>8.63</td>
</tr>
</tbody>
</table>

Source: (1 and 2) CBN Statistical Bulletin, 2002. (3) Author’s Computation
Table 3: Contributions of SMEs to Total Gross Domestic Product (GDP) in Nigeria (1981-2002)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Gross Domestic Product (GDP) N'000</th>
<th>Contribution of SMEs to Total Gross Domestic (GDP) N'000</th>
<th>Total GDP to SMI GDP as Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>70395.90</td>
<td>6964.20</td>
<td>9.89</td>
</tr>
<tr>
<td>1982</td>
<td>71157.00</td>
<td>7890.70</td>
<td>11.20</td>
</tr>
<tr>
<td>1983</td>
<td>66389.50</td>
<td>5549.40</td>
<td>8.36</td>
</tr>
<tr>
<td>1984</td>
<td>63006.40</td>
<td>4926.20</td>
<td>7.82</td>
</tr>
<tr>
<td>1985</td>
<td>68916.30</td>
<td>5903.50</td>
<td>8.57</td>
</tr>
<tr>
<td>1986</td>
<td>71075.90</td>
<td>5673.90</td>
<td>7.89</td>
</tr>
<tr>
<td>1987</td>
<td>70741.40</td>
<td>5963.20</td>
<td>8.43</td>
</tr>
<tr>
<td>1988</td>
<td>77752.50</td>
<td>6729.50</td>
<td>8.66</td>
</tr>
<tr>
<td>1989</td>
<td>83495.20</td>
<td>6840.20</td>
<td>8.19</td>
</tr>
<tr>
<td>1990</td>
<td>90342.10</td>
<td>7371.40</td>
<td>8.15</td>
</tr>
<tr>
<td>1991</td>
<td>94614.10</td>
<td>8046.00</td>
<td>8.50</td>
</tr>
<tr>
<td>1992</td>
<td>97431.10</td>
<td>7657.20</td>
<td>7.86</td>
</tr>
<tr>
<td>1993</td>
<td>110015.10</td>
<td>7341.00</td>
<td>6.67</td>
</tr>
<tr>
<td>1994</td>
<td>101040.10</td>
<td>7280.00</td>
<td>7.21</td>
</tr>
<tr>
<td>1995</td>
<td>103502.90</td>
<td>6880.00</td>
<td>6.65</td>
</tr>
<tr>
<td>1996</td>
<td>107020.90</td>
<td>6940.00</td>
<td>6.48</td>
</tr>
<tr>
<td>1997</td>
<td>110400.00</td>
<td>6960.00</td>
<td>6.30</td>
</tr>
<tr>
<td>1998</td>
<td>113000.00</td>
<td>6980.00</td>
<td>6.18</td>
</tr>
<tr>
<td>1999</td>
<td>116400.00</td>
<td>7330.00</td>
<td>6.30</td>
</tr>
<tr>
<td>2000</td>
<td>120640.00</td>
<td>7180.00</td>
<td>5.95</td>
</tr>
<tr>
<td>2001</td>
<td>125720.00</td>
<td>7480.00</td>
<td>5.95</td>
</tr>
<tr>
<td>2002</td>
<td>129820.00</td>
<td>7820.00</td>
<td>6.02</td>
</tr>
</tbody>
</table>

Source: (1 and 2) CBN Statistical Bulletin, 2002. (3) Author’s Computation

Having looked at the contribution of SMEs to GDP and the loan and advances of commercial banks to SMEs, it is therefore imperative to analyze the commercial banks’ total credit and commercial banks’ loans to SMEs. The table shows the ratio of Commercial Banks’ Loan to Small Scale Enterprises in Nigeria.
Table 4: Ratio of Commercial Banks’ Loans to Small Scale Enterprises

<table>
<thead>
<tr>
<th>Period</th>
<th>Commercial Bank loans to Small scale enterprises (N million)</th>
<th>Commercial Banks’ Total credit (N million)</th>
<th>Commercial Bank loans to Small scale enterprises as percentage to Total Credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>20,400.0</td>
<td>41,810.0</td>
<td>48.79</td>
</tr>
<tr>
<td>1993</td>
<td>13,462.9</td>
<td>48,056.0</td>
<td>32.18</td>
</tr>
<tr>
<td>1994</td>
<td>20,552.5</td>
<td>92,625.0</td>
<td>22.19</td>
</tr>
<tr>
<td>1995</td>
<td>32,374.5</td>
<td>141,146.0</td>
<td>22.94</td>
</tr>
<tr>
<td>1996</td>
<td>42,302.1</td>
<td>169,242.0</td>
<td>25.00</td>
</tr>
<tr>
<td>1997</td>
<td>40,844.3</td>
<td>240,782.0</td>
<td>16.96</td>
</tr>
<tr>
<td>1998</td>
<td>42,260.7</td>
<td>272,895.5</td>
<td>15.49</td>
</tr>
<tr>
<td>1999</td>
<td>46,824.0</td>
<td>353,081.1</td>
<td>13.26</td>
</tr>
<tr>
<td>2000</td>
<td>44,542.3</td>
<td>508,302.2</td>
<td>8.76</td>
</tr>
<tr>
<td>2001</td>
<td>52,428.4</td>
<td>796,164.8</td>
<td>6.59</td>
</tr>
<tr>
<td>2002</td>
<td>82,368.4</td>
<td>954,628.8</td>
<td>8.63</td>
</tr>
<tr>
<td>2003</td>
<td>90,176.5</td>
<td>1,210,033.1</td>
<td>7.45</td>
</tr>
<tr>
<td>2004</td>
<td>54,981.2</td>
<td>1,519,242.7</td>
<td>3.62</td>
</tr>
<tr>
<td>2005</td>
<td>50,672.6</td>
<td>1,899,346.4</td>
<td>2.67</td>
</tr>
<tr>
<td>2006</td>
<td>25,713.7</td>
<td>2,524,297.9</td>
<td>1.02</td>
</tr>
<tr>
<td>2007</td>
<td>41,100.4</td>
<td>4,813,488.8</td>
<td>0.85</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>18,523.3</td>
<td>5,815,297.4</td>
<td>0.32</td>
</tr>
<tr>
<td>Q2</td>
<td>21,667.6</td>
<td>6,659,367.1</td>
<td>0.33</td>
</tr>
<tr>
<td>Q3</td>
<td>22,862.2</td>
<td>7,286,418.8</td>
<td>0.31</td>
</tr>
<tr>
<td>Q4</td>
<td>13,512.2</td>
<td>7,806,751.4</td>
<td>0.17</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>12,687.1</td>
<td>7,912,830.9</td>
<td>0.16</td>
</tr>
<tr>
<td>Q2</td>
<td>16,949.8</td>
<td>8,220,819.7</td>
<td>0.21</td>
</tr>
<tr>
<td>Q3</td>
<td>17,297.3</td>
<td>9,365,676.4</td>
<td>0.18</td>
</tr>
<tr>
<td>Q4</td>
<td>16,366.5</td>
<td>9,667,876.7</td>
<td>0.17</td>
</tr>
</tbody>
</table>


The abolition of mandatory banks’ credit allocations of 20% of its total credit to small scale enterprises wholly owned by Nigerians took effect from October 1, 1996.

The table above shows the commercial banks’ credit to SMEs between the periods of 1992-2002. 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 25% in 1996 to 0.17% in 2009 when the mandatory bank’s credit allocations of 20% of the total credit from commercial banks to small scale enterprises wholly owned by Nigerians was abolished by the government through CBN directives.
Conclusion and Recommendation

The study investigated the contributions of commercial banks to small and medium enterprise’s growth, survival, productivity and performance in Nigeria. From the data analysis, it revealed that commercial banks have contributed to financing SMEs in Nigeria to a certain extent and their contribution has been declining over the years. Moreover, the study also identified the problems encountered by SMEs in sourcing for funds from the commercial banks.

According to our findings, the survival small and medium enterprise (SMEs) to some extent depends on whether the commercial banks adequately supply the needed funds to them or not.

From the foregoing analysis we conclude that:

i. Commercial banks’ provide finances to SMEs, but a decline has been recorded over the years when the mandatory bank’s credit allocations of 20% of the total credit from commercial banks to small scale enterprises wholly owned by Nigerians was abolished by the government through CBN directives.

ii. SMEs encounter problems in sourcing for fund from the Commercial Banks.

iii. SMEs themselves have inherited problems that hinder them from getting assistance.

iv. Commercial Banks play significant roles in survival of SMEs in Nigeria.

To this end we recommend that:

i. Commercial banks should make more funds available to the development of SMEs in Nigeria not only to large Corporations . The Central Bank of Nigeria should introduce stern measures against any bank that failed or refused to follow the stipulated guidelines for the financing of small scale businesses. This implies that it is not just enough to make the policies but there should be certain forms of checks and balancing. This should be made known to the institutions.

ii. The stringent conditions made by banks should be trimmed down for the SMEs for instance, interest rate can be reduced. The mandated credit institutions should be persuaded to change their policies in such a way that will now favors the small-scale businesses more that the large-scale ones. This is something the Federal Government of Nigeria can achieve for its citizens by partnering with these institutions.

iii. Commercial Banks should consider loan proposals of SMEs as urgent as that of larger corporations or industrial sector in the country. There is the need for reducing time lag between loan application, processing and approval for disbursement. To reduce the lag, there is the need to remove cumbersome administration procedures, simplifying of application forms, standardization of documentation and open policy in credit appraisals are required. The problems of equity contributions and collateral requirement must be addressed.

iv. SME operators 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.

v. Government should do everything possible to encourage the development of small-scale businesses. It can do this by providing financial assistance in the form of soft loans and favorable legislation. Other way government can assist is through the provision of basic amenities such motor- able roads, electricity, water etc . It can also open skill acquisition institutions and train small-scale owners in entrepreneurship.
REFERENCES


