

**FINANCING SMALL AND MEDIUM SCALE ENTERPRISES
(SMEs) BY COMMERCIAL BANKS IN NIGERIA.
A CASE STUDY OF UNION BANK OF NIGERIA.**

BY

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MBA/ADMIN/42358/2004-2005
(G04BAMF7042)**

**BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF
AHMADU BELLO UNIVERSITY, ZARIA.**

**DEPARTMENT OF BUSINESS ADMINISTRATION,
FACULTY OF ADMINISTRATION,
AHMADU BELLO UNIVERSITY**

OCTOBER, 2005

CERTIFICATION

This is to certify that this project titled “Financing Small and Medium Scale Enterprises (SMEs) by Commercial Banks in Nigeria, a case study of Union Bank of Nigeria plc” by GARBA, ISA meets the regulations governing the award of the degree of master of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contribution to knowledge, and literary presentation.

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DECLARATION

I hereby declare that this project work has been written by me based on my research findings.

All errors of omission in this work are entirely mine and all materials consulted in the course of this research work are duly acknowledged.

GARBA ISA

Date

DEDICATION

This project is dedicated to the memory of my father Late Alhaji Garba Bakori (Dallatun Katsina) may his soul continue to rest in perfect peace, Amen.

ACKNOWLEDGEMENT

In the name of Allah most Gracious most Merciful. All thanks and praises be to Allah (SWT), who has seen me through successfully not only on this project work but also through my life endeavours.

I am most grateful to my major supervisor Dr. B.U. Kurfi who despite his tight academic schedule, his national and international engagement still attended to my work by offering useful advice and contributing immensely towards the timely completion of this research work. I am also most grateful to my minor supervisor Alhaji S.M. Gegu for his contribution.

To my beloved wife Sa'adah, I want to express my sincere appreciation, my profound gratitude for all that you have been doing for me and your contribution, support and encouragement in this work are not excluded. Of utmost important, I want to seize this opportunity to express my profound gratitude and appreciation to my humble mother Hajiya Khadija for love and support throughout my life, may the Almighty reward you abundantly, Amen.

My special appreciation also goes to my brother Ahmed Garba Bakori for his concern and contribution in this work. I also want to thank all my colleagues, all those who contributed in one way or the other in the cause of this work as time and space will not allow me write names, may the almighty reward you all, Amen.

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ABSTRACT

The critical causes on why financing small and medium scale industries by commercial banks in Nigeria have not been very effective were evaluated. Not only are the SMEs starved with financial back-up, they are also faced with other external problems such as high interest rates, inconsistency in government industrial policies, lack of infrastructural facilities and internally; poor management practices, high rate of business failure, poor accounting standards, shortage of skilled manpower and financial indiscipline.

In view of these numerous problems, this research work was conducted so as to come out with solutions as this will pave way for banks to have more confidence in financing these SMEs efficiently and effectively as against hitherto , their stringent lending policies and the risk averse behavior of funding. This has become necessary as it is a well known fact that the survival, growth and development of SMEs of any country depend largely on funding with other factors put in place.

In the light of the findings in this research work, some recommendations and suggestions were made to the government, commercial banks and the small and medium scale entrepreneurs themselves which if implemented will not only sustain the survival, growth and development of this sector, it will also provide employment opportunities and improve the economic situation of Nigeria.

CHAPTER ONE

1.1 GENERAL OVERVIEW

For both developing and developed countries, small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic and growth.

However, the seminal role played by SMEs notwithstanding its development is everywhere constrained by inadequate funding and poor management. The unfavourable macro economic environment has also been identified as one of the major constraints which most times encourage financial institutions which most times encourage financial institutions to be risk-averse in funding small and medium scale businesses.

The manufacturing sector (Including Micro, Small and Medium Enterprises) is acknowledged to have huge potential for employment generation and wealth creation in any economy, yet in Nigeria, the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sector is also quite limited dominated by import dependent processes and factors. Although there is no reliable data, imprecise indicators show that capacity utilization in the sector has improved perceptibly in the period since 1999, but the sector is still faced with a number of constraints

with lack of credit availability as the principal constraint. Credit is the largest element of risk in the books of most banks and failures in the management of credit risk, by weakening individual banks and in some cases, the banking system as a whole, have contributed to many episodes of financial instability. A greater understanding of the nature of credit risk, leading to improved measurement and international financial system vis-a-vis the small and medium enterprises in the long run.

Generally, the stage of development and, thus the efficiency of the system varies among countries and changes over time in the same country. The more developed and sophisticated financial systems tend to be associated with the nature economies, while underdeveloped financial systems feature in developing economies. As a process, the financial system adjusts to changes in the real economy just as the economy responds to developments in the financial sector. All over the world, size had become an important ingredient for success, the banking sector included.

In Nigeria every known regime recognizes the importance of promoting SMEs as the basis of economic growth. As a result, several micro-lending institutions were established to enhance the development of SMEs. Such micro credit institutions include the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (Nerfund), the people's Bank of Nigeria (PBN), the community Banks (CB) and the Nigerian Export and Import Bank (NEXIM), and the Liberalization of the banking Sector.

This study attempts to find out how Commercial Banks finance small and medium scale Enterprises taking Union Bank of Nigeria Plc as a case study.

1.2 STATEMENT OF THE RESEARCH PROBLEM

One of the main obligations of commercial Banks in Nigeria and else where in the maximum contribution to the economic development of the nation. Others are maximum profitability owned to the shareholders and maximum liquidity owned to the depositors.

This research work will concentrate on the maximum contribution to the economic development of the nation, i.e. through financing SMEs by commercial Banks. The analysis of the research problem will thus pose some questions like.

Do commercial Banks finance small and medium scale enterprises adequately, if not what are the limitations.

1.3 OBJECTIVE OF THE STUDY

Since the importance of SMEs forwards the development of any country's economy, as already discussed in chapter one cannot be overemphasized, this write-up is aimed at achieving the following objectives:

- i. To highlight the different sources of finance available to small and medium scale industries in Nigeria.
- ii. To examine the role of Commercial Banks in satisfying the financial needs of SMEs in Nigeria taking Union Bank of Nigeria Plc as a case study.

- iii. To improve the financial assistance to the entrepreneurs by commercial Banks.

1.4 FORMULATION OF HYPOTHESIS

H₁: That financing small and medium scale Enterprise by Commercial Banks has been a failure.

H₂: That obtaining financial assistance by small and medium scale Enterprises from Commercial Banks is very difficult and that most of the assistance is obtained through savings and borrowing from other sources.

1.5 JUSTIFICATION OF THE STUDY

In the modern times, industrial production requires the procurement of equipment, machineries and other inputs. The capital required in procuring the requirements is limited in supply and very few industrialists have access to it considering the type of collateral security required by the banks which must be fulfilled before granting loans.

Since Commercial Banks act as intermediaries between surplus and deficit or as a bridge between scattered pockets of savers and the business community desirous of loans for investment, at the end of this research work the following will be attained;

- SMEs industrialist will be able to know some sources of finance and choose amongst them the best.
- Commercial Banks will know how effective and efficient they have been towards economic development.

- Commercial Banks will be able to make some adjustments in their lending processes.

1.6 RESEARCH METHODOLOGY

As it is fully aware, the significance, reliability and validity of any research work to a great extent depends on the methodology used.

There are two methods of data collection; the primary and secondary methods. The primary method consist of structural questionnaire and personal interview, while the secondary method include published government documents and journals, periodicals notable from Central Bank of Nigeria's publications like bulletins, financial and economic review text books, magazines, budget speech and so on. This research work will not be exceptional.

- There will be two sets of questionnaires; one set will be for some top management and employees of UBN, Plc. The other set will go to some small and medium scale industrialist through the chairman of NASSIS.
- There will also be personal interview with some staff in the credit department of UBN, Plc and also some staff of industrial development centre.
- The secondary method will also be consulted as this will give room to obtaining financial data easily. Also data will be obtained from manuals, reports and handbooks of UBN, Plc. IDC inclusive.

1.7 SCOPE OF THE STUDY

This research work is intended to examine the financing of SMEs by Commercial Banks with emphasis on UBN, Plc. As seen in the earlier part of this chapter, the importance of SMEs towards economic development of a nation cannot be overemphasized, the study covers all kinds of industries, production, processing, servicing, e.t.c.

1.8 LIMITATIONS OF THE STUDY

One of the major limitations in carrying out this work is time. There is time constraint in carrying out this research work due to the fact that there are other academic engagements like attending lectures, writing assignments, tests, e.t.c. Another limitation of this study is that only UBN, Plc is used. The operation in this bank will certainly not represent the genuine situation obtainable in other banks. This can be as a result of different policies or the financial capabilities in lending.

However, UBN, Plc is chosen because of its financial backing and thus represent Commercial Banks that can fulfill their obligations as seen in the earlier part of this chapter.

1.9 DEFINITION OF TERMS

1. COMMERCIAL BANKS:

Commercial Banks are generally referred to as those banking institutions that create money in the form of demand deposits. Simply put, a Commercial

Bank in an institution engaged in all aspect of the commerce of its own country and its business relations with other countries with a view f making profit.

2. SMALL AND MEDIUM SCALE INDUSTRIES (ENTERPRISES) SME:

Small and medium scale enterprises are defined as those enterprises with fixed assets other than loan but including the cost of new investments not exceeding N36Million.

3. ENTREPRENEUR:

This can be defined as a person who set and start his own new and small business enterprise.

4. ECONOMIC GROWTH:

This is defined as a sustained increase in a nation's gross national income per capital over a long time period.

5. ECONOMIC DEVELOPMENT:

This is defined as the st5ructural transformation of all the economic indexes from a low to the high strata.

6. FINANCING:

This is the process of sourcing for fund or acquisition of funds for financial purpose.

7. CAPITAL:

This can be defined as wealth or property in form of money or property, sometimes the basic sum in an investment enterprise.

8. COLLATERAL SECURITY:

Property or something valuable which is used as guarantee that someone will repay such a landed property, insurance policy e.t.c., which the bank is authorized to take in the event of a customer defaulting in the loan agreement.

9. LOAN:

The sum of money borrowed at an agreed rate of interest. It can be of long term or short term.

10. OVERDRAFT

This is a financial assistance granted by way of allowing customers withdraw in excess of the balance in their accounts.

11. ASSETS:

Resources or things of value owned by an economic nit, such as a firm, individual or household as cash property and rights to property.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Banking has to do with people and their money or their lack of it, either temporary or permanent. The people who use banks are called 'customers', a term which implies something slightly different from a 'client'. Perhaps the term 'customer' emphasizes the need for service, as in a shop and certainly in the present age banking is thought of as a service industry rather than as a profession.

A banker is 'anybody' of persons whether incorporated or not, who carry on the business of banking. "Bank" means any firm, incorporated company or society, carrying on banking business as approved by the minister.

J.W Gilbat defined a banker "as a dealer in capital, or more properly, a dealer in money. He is an intermediate party between the borrower and the lender. He borrows of one party and lends to another".

In Nigeria, banking is rather described rather than defined in our statute books. The banking act of 1969 defined banking as "the business of receiving monies from outside source as deposits irrespective of the payment of interest, and the granting of money, loan and acceptance of credits or the purchase of bills and cheques or the purchase and sales of securities for account holders or the incurring of the obligation to acquired claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others or the

effecting of transfers and clearings, and such other transactions as the commissioner may, on the recommendation of the Central Bank, by order published in the federal Gazette designate as banking business.

From the above context of definition, any person who carries on banking business as above can be called a bank. This can include a commercial bank, an acceptance house, discount house and a financial institution. A commercial bank is described as a bank whose business includes the acceptance of deposits withdrawable by cheque.

At one time it was assumed that the existence of an account was an essential feature of the banker-customer relationship and in *Great Western Railway Co. V. London and County Banking Co. Ltd* (1901), it was said that there must be some sort of accounts, either a deposit or current account or some relation, to make a man a customer of a bank. It may be said therefore that a person becomes a customer as soon as an account is opened, and probably as soon as a business relationship is established.

The basic and perhaps most common relationship between a banker and his customer is that of debtor and creditor, as was demonstrated in *Foley V. Hill* (1848). The range of banking services is now more extensive, however, and indeed is expanding all the time, so it must be expected that other relationships will arise beside that of debtor and creditor.

It is paramount important to note that in banker-customer relationship is that unlike in ordinary debtor – creditor relationship where the acceptance rule is

that the debtor must seek out his creditor and settle his debt, the bank is not obliged to seek his customer in order to pay his debt. Instead, the customer is required to make a demand on the banker by issuing this cheque whenever he wants part or all his money.

When money is paid into the bank, it ceases to be the money of the principal. It is the banker's money to do with it as he pleases; to repay to the principal when demanded a sum equivalent to that is paid to him.

When the customer deposits money in his account, such transaction meets offer and acceptance condition of contract. However, the relationship is not restricted to debtor and creditor alone but provided a number of functions and services. A relationship of principal and agent exists when a banker is acting as collecting banker for cheques paid in by customer. Bailor-Bailee relationship exists when a customer keeps valuables with his banker for safe custody. Mortgager- Mortgagee exists when an estate or tangible assets are mortgaged to the bank when granting an advance on loan.

2.1 HISTORICAL BACKGROUND AND DEVELOPMENT IN COMMERCIAL BANKS

The end of the barter system due to its attendant problems led to the introduction of medium of exchange called money to facilitate trade. The use of many different commodity or coin money did not help the early establishment of banking companies.

Metal coins from France, America, Spain and Mexico circulated freely with cowries, brass, copper bracelets and Manilla as money especially in the southern part of Nigeria.

This multiplicity of coins and commodity money that circulated freely prior to 1885 did not help in the valuation of goods and services.

To eradicate the problem of multiplicity of coins and commodity money, the British government in exerting its influence in the interior of Nigeria, demonetize the foreign coins and community money in 1880 and replace them with the British silver coins. It must be made clear at this point that the demonetizing was not an easy task since they operated in Nigeria till 1948.

However, both demonetization in 1880 a conducive environment was prepared for banking services in Nigeria, hence the British colonial masters were able to bring banking business into Nigeria as far as 1892.

In Nigeria the earliest banking activities was carried out by Elder Dempster and company, and the African Banking Corporation in 1892. in 1894, the bank of the British West Africa took over the banking business of these concerns and remained as the same bank in the country until 1917, when the colonial bank opened offices in Jos, Kano, Lagos and Port-Harcourt. The Bank of British West Africa (BBWA) is now the First Bank of Nigeria Plc (formerly Standard Bank of Nigeria Ltd.) and the colonial bank is now union bank of Nigeria Plc.

2.2 GENERAL OPERATIONS OF THE BANK AND SERVICES OFFERED

The bank witnessed major political events with profound impact on the lives of Nigerians and the entire economy. The institution of a democratically elected government on May 29, 1999, was the peak of these events, and once again the nation began another attempt at building a society with the protection of civil liberty as the focus. Simultaneously, the economy began a re-alignment towards private sector orientation and sensitivity to market forces. During the years government sought to combine political and economic changes with a foreign policy designed to greatly improve the nations image and gain international acceptance.

However, the foundations of the new dispensation are only being established and real-positive impact on the economy may be expected only in the years ahead. The banking industry generally operated in an environment of instability, concretionary monetary polices in a strictly regulated market, and increased competition, all of which have combined to adversely affect the performance of Banks in varying degrees. Union Bank of Nigeria Plc has recorded a commendable improvement in all key performance indicators. The bank has become much bigger, more profitable and safer.

Notwithstanding the harsh business environment, the Bank was able to post impressive results for the period ended 31st March, 2003. Gross earnings from the Group was N44.0 billion representing an increase of 11.8% over the figure of N39.4 billion in 2002. total deposits for the Group grew by 13% from N222.7

billion in the preceding year to N251.6 billion as at 31st March 2003 the figures for the Bank were N204.4 billion and N224.4 billion, respectively, for the some period, representing a positive variance of 9.8%.

Loans ad Advances for the Group and Bank were N60.6 billion and N54.6 Billion in 2003 compared with N49.4 billion and N45.5 billion, respectively for the year 2002.

Balance sheet grew by 22.3% and 19.8 for the Group and Bank respectively over the preceding year's figures from N299.8 billion and N275.2 billion to N366.7 billion and N329. 6 billion respectively. Similarly, the current Shareholders' funds stand at N35.9 billion reflecting an increase of 11.3% over the N32.7 billion for the year ended 31st March 2002.

A dividend of one Naira and thirty-five Kobo for every fifty Kobo share held, representing an increase of 8% over the amount paid in the financial year 2002. In addition, a bonus of one share for every three shares held is being proposed for your approval.

SERVICES OFFERED BY UNION BANK OF NIGERIA PLC

Union Bank of Nigerian Plc offers a comprehensive range of whole sales banking which include:

1. MOBILIZATION OF SAVINGS AND OTHER DEPOSITS

Union bank of Nigerian Plc act as saving institutions and a financial intermediaries.

The bank provide facilities for the mobilization of savings and the making of funds available for investment purposes by the process of granting credit facilities to customers.

The bank accept three of deposits, they include:

(a) Saving Account Deposits

Savings account is an account opened by a customer to earn interest.

Union Bank of Nigeria Plc does not use passbook, it only uses withdrawal and deposits form. Interest is paid at the rate determined by the bank.

(b) Current Account Deposit

The normal banking account is the current account. It is an account withdrawable by means of a cheque. The balance is shown at the end of any day on which there has been a debit or credit entry.

On opening of an account, a customer is required to provide two referees who must be of satisfactory status. Interest is now allowed in Nigeria on this type of account but the interest rate is very low compared to savings or fixed deposits account.

The customer is expected to maintain credit balance in his account except where he has been granted overdraft facilities. When the bank grants a customer an overdraft facility a limit is usually set, up to which a customer can draw. Security may be required to support the overdraft.

Bank also charge fees for the services rendered to current account holder.

(c) Fixed Deposit Account

The account is operated by customers who want to earn interest on their money. It is relatively easy to open a deposit account since no referees or cheques books are needed to operate the account. An agreement is made between the bank official and the customer as regards the amount to be deposited, interest rate and the length of time for which deposits is kept. The account is for which deposits is kept. The account is opened for either 3 months, 6 months, 9 months or 1 year.

2. LENDING

The primary function of Union Bank of Nigeria Plc is the extension of credit of worthy borrowers. The types of credit facilities include:

- a. Asset based financing
- b. Development finance
- c. Equipment leasing
- d. Export financing and development
- e. Loan syndication
- f. Long term loans
- g. Short and medium terms loans
- h. Overdraft

3. ACCOUNT

The account department of the bank is responsible for the following:

- a. Safe keeping of records and assets.

- b. Preparation of reliable financial statement for management on a regular basis.
- c. Payment of both local and foreign currencies to customers.
- d. Providing reliable and accurate information to the regulatory body example NDIC and CBN.
- e. Payment of staff salaries
- f. Coordination of branch activities with head office.

4. TREASURY

The treasury perform the following services:

- a. banker's acceptance
- b. Call deposits
- c. Commercial papers
- d. Domiciliary accounts
- e. Foreign exchange transaction
- f. Money market and funds management
- g. Time and current deposits

5. OPERATION

Operation include:

- a. Correspondent banking
- b. Documentary collections
- c. Inward and outward remittances
- d. Letters of the credit

- e. Performance bid advance
- f. Payment guarantees

6. INVESTMENT MANAGEMENT

- a. Investment advisory services
- b. Mutual funds
- c. Personal and corporate trustee services
- d. Portfolio and funds management

7. FINANCIAL ADVISORY SERVICES

- a. Capital reconstruction
- b. Private and public dept equity issues
- c. Stock exchange quotation
- d. Market capitalization

8. CAPITAL MARKET

- a. Company flotation
- b. Private and public dept equity issues
- c. Stock exchange quotation
- d. Market capitalization

9. SAFE KEEPING OF VALUABLES

Union Bank of Nigeria Plc strong rooms are one the safest places to keep valuable articles, such valuable articles include wills, jewellery, certificates of

occupancy, government stocks, share certificates, life assurance policies and deeds of conveyance.

In safe deposits, the customer is allocated a box in the strong room. He is taken to the strong room where he personally puts his valuable articles in the box himself. He alone has the key to his box. Although the bank keeps duplicate keys in case of emergency, but does not use them except in the presence of the customer or by his express authority.

2.3 CONCEPT OF SMIS

It is important to note that the definition of small and medium scale industries is relative, implying that there is no clear cut definition of SMI universally. Industries that are regarded as small or medium in the developed countries could be large in developing country. Therefore, each country has tried to define small and medium scale industries to suit its environment and the purpose, considering the level of industrial development in the country, and also designed to meet the administrative and other needs of the country. The definition is usually based on criteria such as number of employees capital investment, sales volume (turnover) motive, power and total assets.

In Indonesia, small scale industries are defined as all enterprises whether household or cottage employing less than 10 full-time workers and not using motive power or machinery. While medium scale industries as enterprises employing between 10 and 50 workers.

The Centre for Management Sciences Delf University Netherlands define small scale industries as establishment employing 10 - 99 employees and medium scale industries as those employing 100 -249 employees. The Centre also defines small scale as “an industry in which the manager personally performs all functions of management without taking actual part in production”.

Here in Nigeria, small and medium scale industries have been defined in many ways. The industrial research and development unit of Ife in 1973 defines a small-scale industry as “one whose total assets in capital equipment, plant and working capital are not less than ₦50,00, and not more than ₦500,000 employing no fewer than 50 and not more than 250 employees.”

The Federal Ministry of Industries define small-scale industries as those with total capital of up to ₦60,000 and employs up to 50 persons in 1973, ₦250,000 in 1979 and ₦500,000 in 1986 that is just prior to Structural Adjustment Programme (SAP). The capital investment includes building, machinery, land, equipment and working capital. The third national development plan (1975 - 80) put capital investment of a small-scale industry at ₦150, 000. The CBN defines a small-scale industry as one that has an annual turnover not exceeding ₦500, 000.

The World Bank on the other hand says that small scale industry is one with total capital outlay. (Excluding land) of ₦100000 to ₦2 million and a medium scale industry as one with a total capital (excluding land) of ₦2 million to ₦5 million.

The most recent definitions are from National economic reconstruction fund (NERFUND) and World Bank small and medium scale enterprises II scheme.

NERFUND defines small and medium industries as firms with total capital outlay of below ₦5 million at 1989 constant price and medium scale industry of N5 million bellow ₦10 million same 1989 constant price.

While the World Bank scheme defines small and medium scale enterprises as enterprises whose total fixed assts (excluding land) plus cost of investment do not exceed ₦10 million in 1988 constant prices.

However, for the purpose of this research the Federal Ministry of Trade and Industry's definition will be adopted.

The word industries has been used interchangeable with enterprises, firms, companies and businesses in this project which can be assumed for purpose of this project to mean same thing.

2.4 FEATURES OF SMALL AND MEDIUM SCALE INDUSTRIES

According to Watts, the features of small and medium scale industries are illustrated below:

- (i) The manager performs all functions of management himself, that is he handles financial, production, marketing and personnel decision of the enterprises.
- (ii) The manager finds it difficult to borrow short and long term finance from organized financial institutions and therefore rely so

much on personal savings, relations, money lenders or profit of the enterprise for finance.

- (iii) The business enterprises cater or meet only the immediate demands of the local community where the business is carried out without knowledge of wider or distant markets.
- (iv) The managers are usually conservative and suspicious and unwillingly divulge information regarding their business from fear of inviting unwelcome tax investigations.
- (v) Low level of management skills, poor marketing information and technical condition of production due to low level of education among managers weaken their establishment and also the proprietors are reluctant to combine in partnership or limited liability companies due to mutual distrust. All these lead to high mortality rate among them.
- (vi) Little or no proper record keeping and they do not utilize banking services. Some of these features enumerated by watts are still applicable to these categories of enterprises but some are not.

Due to level of literacy now in the society and awareness of division of labour which will eventually lead to specialization, many proprietors or managers of small and medium scale industries whom themselves are not capable of carrying out managers duties do employ trained personnel to handle or run the business for them.

The trained or skilled manager who is aware of the importance of keeping and maintaining records to keep correct records of the affair of the business. He also utilizes bank services by keeping the company's money in the bank and most of the company's transactions are done through the bank by means of cheques. This will even aid the company to secure credit facility from the bank easily.

2.5 SOURCES OF FINANCE TO SMALL AND MEDIUM SCALE INDUSTRIES

Finance sourcing refers to the various ways through which capital is raised for business enterprises. The sourcing could be done either internally or externally. Internal sourcing requires sourcing involves a third party. Funds could be provided by entrepreneur by introducing capital or providing assets for the business. As for the third party, government, financial institutions like banks and individuals provide loans, grants and subsidies for the enterprise.

2.5.1 INTERNAL SOURCES

(i) PERSONAL SAVINGS

Personal savings is defined by Bullion as "fund accumulated from personal saving." It forms the primary part of fund to most enterprises or entrepreneurs setting up small and medium scale business.

It is very cheap source of fund but when business commence operations, the expansion will depend on increase in personal savings of the owner and the

profit of the organization. When this source is depended upon, limited rate of expansion will be experienced.

(ii) RETAINED EARNINGS

Bullion defined retained earnings as “undistributable profit of the company which is plough bank to the business.” The individual(s) (owner) will therefore wish to maximize the value of his consumption overtime and in terms of cash. In order to do this, he may wish to differ the consumption of part of his income or wealth in order to be in a position to consume more at a later date, or may wish to spend more than he has now anticipating future income or wealth by borrowing on the strength of what he has. When part of profit is not used or is reserved. The enterprise always resort to it when the need for finance arises. This is also called potential cash flow trading operations.

(iii) DISPOSAL OF ASSET

Assets are disposed when they become absolute and this is a source of fund to the organization. Also, liquidation, surplus asset, it represent a once-off (overtime) internal sources of fund which becomes available from time to time. Examples are outright sales of building, plant, machinery equipment, or other investments, the on going performance of which no longer justifies the continued employment of the liquidation value of finance locked up in them.

(iv) DEPRECIATION

It is a reserve of costless source. It is another cheap source of fund to small and medium scale enterprises. It is a secret reserve because when it is changed to

profit and loss as an expensed, no actual cash movement out of the business is involved. It can also be defined as part of the cost of asset consumed during its period of use by the organization.

Most small and medium scale industries stucked to internal source because they are good for planning, flexibility, no incumberances attached, less bureaucracy involved, from risk of relaying on external sources. However, if additional financing is required. There is often an irresistible desire to look outside the firm immediately. But internal sources should be considered especially to small and medium scale industries because they are normally cheaper than external sources. In addition, financing from within provides the opportunity to redeploy existing funds so as to achieve a more efficient utilization of capital.

2.5.1 EXTERNAL SOURCES

As stated above, the external sources of finance are sources of fund which the firm resort to through the third parties. This is as a result of inadequacy of internal sources, that is where internal sources fail to provide the needed finance for business organization and also fail to meet the seasonal demand of the business. These sources are further divided into short and long term sources.

I. THE SHORT TERM SOURCES OF FINANCE

a. DEPOSIT FROM CUSTOMERS

This is a system in which payment is made awaiting the provision of goods or services as another time. According to Nua “deposit represents funds

received by a firm to supply goods and services at agreed future date. This receipt increases the enterprises liquidity on form of cash which is a source of short term finance to small and medium scale industries.

It is always due to shortage in of supply of the product or services or when the demand of the product has gone up. It could also be as a result of lack of working capital hence need for additional money for operation and production. This source is costless as it is a deposit in advance.

b. TRADE CREDIT

Trade credit refers to transactions which allows for the cash settlement to be done at a different period. It is based on conditions called credit terms which include the credit period, the size of the cash discount, the discounting cash period and credit begins. The advantage here is that it is easily detained and an excellent source of short-term finance to small and medium scale enterprises.

c. EQUIPMENT LEASING

As known “a penny saved is a penny earned.” Also “capital that doesn’t have to be spent or used is capital that does not have to be raised.” This philosophy is what makes equipment leasing such an attractive way to modernize and improve you establishments, without going over board in undertaking heavy capital outlays.

In this system, the company instead of buying and owing assets, the company enters into an agreement with a leasing firm whereby the borrower is

allowed to withdraw funds in excess of the balance in his account. They also grant loans (mostly short-term) to small and medium scale industries.

e. HIRE PURCHASE

Hire purchase according to Watts (1975) is “a financial arrangement between a hire-purchase company (hirer) and its customers whereby the later (hiree) is allowed to take possession of an equipment or any goods without immediate cash payment.” The legal title of the equipment remains with the owner until the hiree exercises his right of option to purchase, then the ownership passes to him.

Some of the long-term sources of finance are debenture, preference shares, ordinary shares, development banks and Esusu. I will dwell more on Esusu and development banks.

a. ‘ESUSU’

Esusu, susu or isusu are the different names given in Nigeria to the arrangement under which people contribute money at periodic intervals and distribute themselves in agreed succession. The number of people jointly contributing in equal or in unequal sums differs from group to group. Usually all involve are, at least, acquaintances or workmates. Esusu is basically a method of saving but because it has always been useful on the finance of business by individuals in Nigeria, it is worthy mentioning here. Many Nigerians have either started off their businesses or expanded them with collections from this kind of organization.

The Esusu arrangement is helpful in business finance as it provides members or contributors with a lump sum that can be employed in their business. As most of the contributors are friends and workmates, it is usually easy to obtain one's collection well in advance of one's turn if there is an urgent need for business investment or other expenditure. The flexibility and informality about the process of obtaining and using money from Esusu provide added advantage that few other sources of business finance offer.

b. DEVELOPMENT BANKS

Small and medium scale enterprises obtain financial assistance from development banks such as:-

(i) NIGERIAN BANK FOR COMMERCE AND INDUSTRY (NBCI)

It was established in 1973 to ensure successful implementation of the indigenization decree promulgated in 1973. The bank has contributed in financing small and medium scale enterprises as it introduced special scheme for them. In 1991, the bank approved a total of ₦700 million to small and medium scale of industries and ₦300 m were disbursed to beneficiaries by the end of the year.

(ii) NIGERIAN INDUSTRIAL DEVELOPMENT (NIDB)

NIDB was founded in 1964 to promote the development of new industries and expansion of existing ones among other functions but does not finance small scale industries individually due to its limit of ₦20,000 financial participation. Its operation was later reviewed and the limit lowered to cover financing of small

and medium scale industries and the Federal government in 1990 directed the bank to henceforth grant no less than 80% of this loan to indigenous industries.

(iii) NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK (NACB)

NACB was established in 1973 to specifically finance the agricultural sector through provision of loan to individual farmers, co-operative organizations and agro-allied industries. It operates other scheme such as lending, small holder direct loan scheme, workers scheme and market loans.

III. OTHER SOURCES

(i) NATIONAL ECONOMIC RECONSTRUCTION FUND (NERFUND)

NERFUND was introduced by the federal government in 1989 aimed at financing small and medium scale industries. The objective is to provide finance on both enterprise especially to those in manufacturing, industrial, mining, quarrying and wholly owned by Nigerians.

(ii) NATIONAL DIRECTORATE OF EMPLOYMENT (NDE)

Established in 1987 to minimize the high unemployment rate in the country. It operates under four main schemes, the youth employment and skills, small scale industries and graduate employment programme and a special public works programmes.

(iii) SMALL AND MEDIUM-SCALE II SCHEME (SME II SCHEME)

It was established in 1989 when the World Bank provided some huge amount of money through the apex unit of central bank of Nigeria (CBN) to promote small and medium scale enterprises in Nigeria.

2.6 NIGERIAN BANKS AND THE PROBLEM OF FINANCING SMEs

NIGERIAN BANKS AND THE PROBLEMS OF FINANCING SMEs

Countries all over the world, no matter the stage of their development recognize the importance of promoting small and medium scale firms as the engine of growth and industrialization. Past studies of SME development and their problems have concluded that they suffer from identical weaknesses in developing countries. There are three major problems effecting the growth of SMEs: namely: inadequate access to finance; unfavourable macroeconomic environment and poor infrastructure facilities:

Banks in Nigeria are known to be highly liquid and report that they would like to make loans available to SMEs but they are put off by the very risky nature of SMEs in Nigeria. Because banks do not provide the required credit to SMEs in Nigeria. Because banks do not provide the required credit to SMEs, they rely on personal assets for working capital thus making it difficult to operate at fully capacity and increase output and sales. The shortage of finance also limits investment to improve technology and to expand operations. The source of major risk according to banks in Nigeria are lack of information on the SMEs true financial conditions and performance, the judicial system is reportedly inefficient, banks cannot easily enforce contracts, the business environment is generally risk prone and uncertain and firms are not able to service debts. As a result of the foregoing banks resort to heavily asset-based lending rules.

2.6.1 ASSET-BASED LENDING RULE: AN ASSESSMENT

The predominant facility available to small and medium scale businesses in Nigeria is bank overdrafts, and short-term loans (asset-based loans).

Banks prefer overdrafts and short term loans for the simple reason that:

- (i) They are easily rolled over
- (ii) They attract almost market interest rates
- (iii) They are fully collateralized

These points are clearly brought out by a summary of a survey of Nigerian firms' access to finance conducted by World Bank in 2001.

See tables below for further illustrations in respect of external financing

Percentage of Firms Having Access to External Credit.

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
80.3	51.7	81.8	89.8	100.0	93.1	93.6	70.1

Source: World Bank Report 2001

Table 2.1 presents the percentage of firms that ordinarily have access to external funding. About 52% of the micro firms have access to external finance, while 82% of small and 89% of medium scale firms also have access. It is interesting to note that large firms have almost 100 percent access to external financé. We must note that having access to external financé does not translate into

procuring the loan and the important point to note is that large firms that require large amounts of capital may crowd out smaller firms in the credit market.

Percentage of Firms Reporting Being Credit Constrained.

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
38.5	48.2	38.6	36.7	36.1	25.0	33.3	42.5

Source: World Bank Report 2001

In table 2.2 almost 50% of the micro, 39% and 37% of the small and medium scale firms sampled respectively, report being credit constrained, as opposed to 25% of the very large firms. This suggests that small and medium scale firms are discriminated against in the credit market. Another implication of this result is that the stringent conditions attached to loan availability may scare small firms away from applying for such facilities. Since most SMEs rely heavily on bank loans this can frustrate their growth.

Interest Rates on Over Drafts:

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
23.5	25.1	25.2	23.2	23.2	20.8	21.8	25.4

Source: World Bank Report 2001

Table 2.3 presents percentage of firms that are constrained because of the interest rates charged on both overdrafts and short-term loans. 25.2% of the small

business and 23.2% of medium scale businesses sampled complained of high interest charges and claimed that because of this they could not secure loans. This against 20.8% of very large firms. This suggests that high interest charges do not constrain big businesses in Nigeria. Because short-term loans are usually rolled over, there is effectively little difference between them and overdrafts in terms of interest charges.

Another interesting point highlighted by the survey is that the average level of collateral for the firms in the sample was in excess of 151% of the value of the loan. This has serious implications for accessing external finance especially for the majority of Nigerian SMEs because of their weak asset base.

Firms Receiving Long Term Loans:

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
15.6	12.1	11.4	20.4	20.5	10.3	21.3	11.3

Source: World Bank, Report 2001 (Nigeria) Business Day 05/09/2001

The above confirms that Nigeria banks do not provide long-term loans to SMEs. Banks prefer to give short term loans in the forms of overdrafts where they charge market interest rates on the amount they borrow.

For instance, 20.4% of medium scale firms sampled reported being constrained in receiving long-term loans as against 10.3% of very large firms. Short-term facilities accompanied by high interest rates and high collateral can

hardly aid the growth of small and medium enterprises. They cannot make long term plans because of the shortness of the facilities available to them.

The lack of long-term credit facilities forces small and medium scale businesses to finance investment with internal finance, which is highly unsustainable. SME's are often forced to delay investment until they have built up the necessary capital. Some managers of SMEs reported that since they had to rely on short-term funds, they were hesitant to undertake major investments because they could not be certain that they would have the funds to complete them. This might engender cost overruns and the eventual collapse of the projects.

2.7 THE ROLE AND IMPORTANCE OF SMIS IN THE ECONOMIC DEVELOPMENT OF NIGERIA.

The manufacturing (including micro, small and medium enterprises) sector is acknowledged to have huge potential for employment generation and wealth creation in any economy.

According to Philip (1989) at a national conference on small industries and development held at Ibadan "small scale enterprises are said to be bedrock of any national industrial development especially in a typical developing country like ours."

The role small and medium scale industries play in a developing economy is so vast and enormous that they cannot ordinarily be relegated to the background. This was noticed in countries in counties like India, Pakistan,

Indonesia, Japan, Taiwan and South Korea to mention just a few, where small and medium scale industries (SMIS) abound in the agro-based sub-sector, textile manufacturing, leather and leather products work etc. in some of these countries, small scale industries are funded and operated by single family employing more than 60 percent of the population. The role and importance of these firms according to Philip, in any nation are as follows:

- (i) They form starting point for industrialization which calls for the establishment of industries of all types and sizes.
- (ii) Small and medium scale industries provide more employment per unit of capital invested because they are generally labour intensive.
- (iii) They aid large-scale industries by manufacturing raw material inputs and generally acts as a catalyst to them, therefore generating the desire to build a healthy industry base.
- (iv) They are often the sources of new ideas and invention that is, they will help to form technological base where they start operating as small unit innovating indigenous goods and services to suit our particular needs using local resources, product, equipment and manpower.
- (v) They serve as a training ground for managerial and labour training.

- (vi) Their promotion leads to the building up new indigenous undertaking in major economic activities so far dominated by foreign interest.
- (vii) They generally source their raw materials locally thereby conserving foreign exchange.
- (viii) They are less vulnerable in period of depression and this have greater degree of flexibility than large scale industries.
- (ix) The promotion leads to industrial decentralization and tapping of resources which other wise would remain untapped.
- (x) Their establishment provides an increase in the revenue to the state and local government areas which may be used to provide social amenities.

At an international symposium of small businesses in Washington D.C in 1977, Kishida states that “out of thirty-nine million people employed in a private sector in 1972, those employed by small business enterprises number thirty millions. And in the field of manufacturing industry like automobile, electronics, ships and cameras, smaller enterprises play an indispensable supporting role either as parts suppliers or as subcontractors on the machinery.

According to Okubanjo, a former President of Lagos Chamber of Commerce and Industries at a seminar organized by the United Nations Development Programmes at the Nigerian Institute of International Affairs Victoria Island, he advocated for the needs of development. He reiterated that,

that would pave the way for coordinating and mobilizing potential and existing entrepreneurs throughout the country towards the promotion of economic growth and development. It will enhance them to adequately utilize local raw material, provide employment and develop local technology.

As at present the contribution of our small and medium scale industries to the nation's development is immense. They have contributed greatly to the gross domestic production of the country over the year. To build a truly indigenized economy, Nigeria will lean to rely on her enterprises. The government has actually realized the importance of those forms of business enterprises by previous policies being made but the implementation of these policies is a thing of great concern.

Due to the importance of these small and medium scale industries in a developing nation, viable avenues for financing these companies therefore have to be sought to keep them liquid all time to prevent them from being insolvent and subsequent winding up

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION:

Academic research is often undertaken to maintain, further and promote knowledge. In doing so, research seeks to delve into the unknown, seeking answers to questions and solutions to problems. In-so-far as this involves circumstances, ideas and at times guesses, gut feelings and definitions all of which must be submitted to scrutiny and subsequently, agreement. A research consequently opens the door for a debate, especially about claims on contribution to knowledge as well as about methods and meanings.

Research, according to Dr. Osuala (1982) is “the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data”.

In the process of providing an understanding to this situation, research again inevitably raises philosophical questions, fundamental among which are; How do you choose a topic for research? How do you define the research problem? How do you put that definition into operation? What philosophy of science should it adopt? What is the definition of knowledge? Given an agreed philosophy, what methodology is appropriate?

In this research work, the methodology is geared towards studying the financing of small and medium scale enterprises/industries by Commercial Banks using Union Bank of Nigeria, Plc as a case study.

3.2 DATA COLLECTION TECHNIQUES

with the hindsight of a thorough literature review that has been influenced by the research philosophy of the researcher, it would have been clear that different researchers have adopted varying techniques in studying apparently similar projects what any research tries to do is to remove bias in his data collection and analytical approach such that inferences and conclusions drawn from the research work will be a true reflection of the population.

The main techniques used in this research work are discussed below:

3.3.1 THE QUESTIONNAIRE

The questionnaire is a sequence of questions designed to collect data on a specified subject, usually from respondents. In this case, the respondents fill the questionnaire which covers many areas especially the protocol observed before loan is granted to small and medium scale industries, duration of such loans, recovery of such loans in case of defaulters and problem encountered during this loan processing.

3.3.2 PERSONAL INTERVIEW

This technique involves one to one interview of respondents or persons considered particularly relevant to the topic of research interest. Personal interview was made at Union Bank Plc and IDC offices where discussions concerning the activities of the bank regarding loan granting to small and medium scale industries with the staff and management of the two organizations. The major difference between the personal interview and

questionnaire is that in addition to the gains of the use of questionnaire, the interview schedule allows the researcher to “probe” further specific areas where original questions as designed failed to bring out the desired information. This was done by asking the respondents to expantiate, give opinion, what would you add e.t.c.

3.3.3 STUDY OF DOCUMENTS

These are usually very good sources of published data for research. This involves existing records and documents which relate to the subject under study. Data were extracted from financial statements and other related documents such as Journals, Newspapers, Balloting and Annual Reports. These will serve as back-up to the information collection through oral interview.

3.3.4 TECHNIQUES OF DATA ANALYSIS

The collected data will be sorted out and represented in a tabular form. This will make all collected data easy to understand and analyzed in the next chapter.

The statistical tools, frequency and percentage of the population will be used for analysis and interpretation. After analysis, all relevant information obtained will be compared with that from other sources of information to ensure a good research.

3.4 POPULATION SIZE

The population comprises of the entire group that contains all the sources of the information that are being examine. In other words, population deals with the volume of sample dement being considered in a particular situation.

Although a lot of Commercial Banks in Nigeria today are involved in financing small and scale industries, in this research only Union Bank Plc has been considered to serve as a representative of the entire population.

3.5 SAMPLING TECHNIQUE

Random sampling technique was employed in this research because of the large population size, taking constraints such as time and money into consideration. One advantage of this technique is that everyone in the population has an equal chance of being selected or drawn.

In this research, the management staff and lending officers of the bank selected at random and also the small and medium scale industrialists who are duly registered members of NASSIS were analyzed.

3.6 JUSTIFICATION OF TECHNIQUES

Considering the large population size involved in this study, the employment of questionnaires, personal interviews and study of existing literature is justified.

The questionnaire was drawn up purposely with the objective of finding out the underlying problems associated with obtaining funds or financial assistance for setting up or improving small and medium scale enterprises from

Commercial Banks. The personal interviews covers up the lapses of the questionnaire because it provides one on one contact with the individuals concerned.

The researcher gets a chance to talk to some of the bank staff and entrepreneurs, opinion of professionals and analysts in the field is also sought. The interviews give first hand information regarding the subject under study.

Study of documents from literature is important because the sources used can provide very useful data on which the research can be hinged. Those three methods of collecting data are used because of their efficiency in providing relevant information in a short period of time.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 HISTORICAL BACKGROUND OF UNION BANK OF NIGERIA PLC

The history of union bank of goes as far as back as 1016. at that time it was operating as the “Colonial bank was brought to Nigeria by the British Colonials who were in power in Nigeria at the time.

The first three (3) offices of the bank were opened in 1917 in Lagos, Jos and Zaria. Between 1917 and 1920, the bank had opened a total of twenty branches in West Africa.

In 1925, Barclays bank acquired the Colonial bank and this resulted in a change of name from colonial bank to Barclays Bank DCO (Dominion Colonial and Overseas). The bank grew rapidly so that by 1957, branches had been opened in almost every part of the country.

Following the enactment of the company’s and Allied Matters Act - CAMA 1968 and the legal requirements fro all foreign subsidiaries to be incorporated locally, Barclays Bank (DCO) in 1969 was incorporated as “Barclays Bank Nig. Ltd;” a private limited liability company. It was converted to a public limited company the next year 1970 with its shares being quoted on the Nigerian Stock Exchange with its registered head office at Marina, Lagos. By the enactment of 1972 and 1977 i.e. the Nigerian Enterprises promotion Act, the Nigerian government acquired 52% of the bank’s shares leaving 40% for Barclays

Bank international Limited while the remaining 8% was held by members of the Nigerian public.

In 1979, Barclays bank Int. Ltd. In line with its global policy of withdrawing from minority shareholding positions sold its remaining shares. To reflect its new ownership structure, the bank was renamed Union Bank of Nigeria Ltd. It assumed the name, Union Bank of Nigeria Plc in compliance with CAMD 1989. Even though Barclays Bank is no longer a shareholder in Union Bank, it still continues to offer technical and correspondent services as it has always done.

Presently the bank has a total of 360 branches spread throughout the country. Union Bank has staff strength of over 7600. It has five training centers, two in Lagos - Yaba and Ijora, one each in Jos, Zaria and Port Harcourt. The bank has come a long way and is without doubt trying its best to live up to the standard set by its mission statement which is "To be the foremost financial institution with the most satisfied customers."

4.1 ORGANIZATIONAL AND MANAGEMENT STRUCTURE OF UNION BANK NIGERIA PLC

Presently, at the time of collection of data for this thesis, Union Bank of Nigeria Plc has 360 branches scattered all over the country, to facilitate the activities of the bank. There is also one branch outside the country in London which serves as a representative of the bank of Nigeria to carry out its foreign services. The staff strength of the bank is over seven thousand six hundred constituting managerial, senior and junior staff.

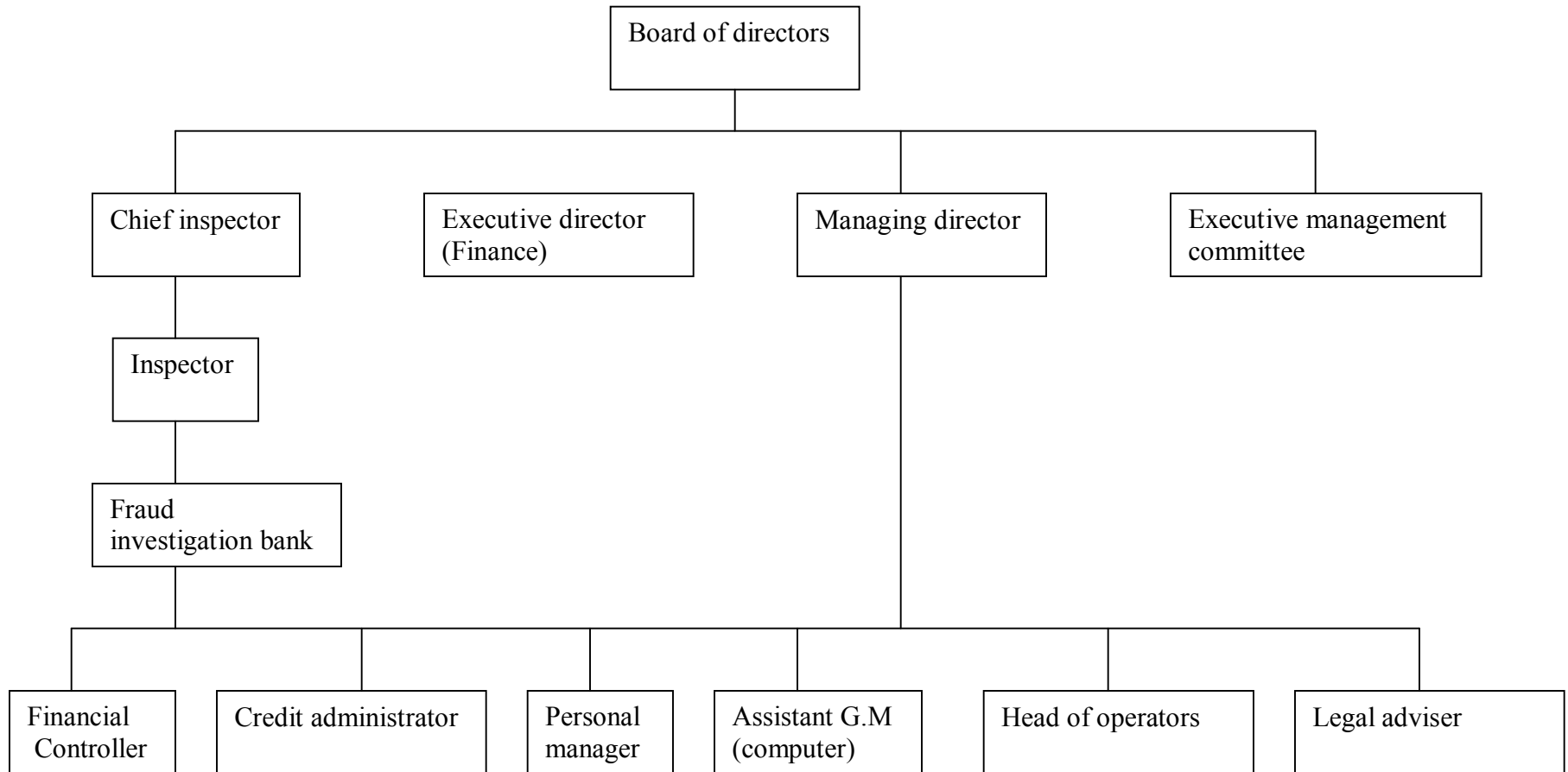
The control organization has been divided into different sectors for efficiency and ease of administration. Area managers are responsible for the day-to-day activities of branches under their control while they in turn report to the head office in Lagos.

There are thirteen area offices which include Abuja, Bauchi, Benin, Enugu, Ibadan, Ilorin, Jos, Kaduna, Kano, Lagos (36 Marina and 40 Marina branches) and Port-Harcourt area offices.

In any particular branch, the manager accepts overall responsibility for the performance of his section, but obviously he cannot oversee every individual in his section. This control is very necessary at various levels in the international banking department.

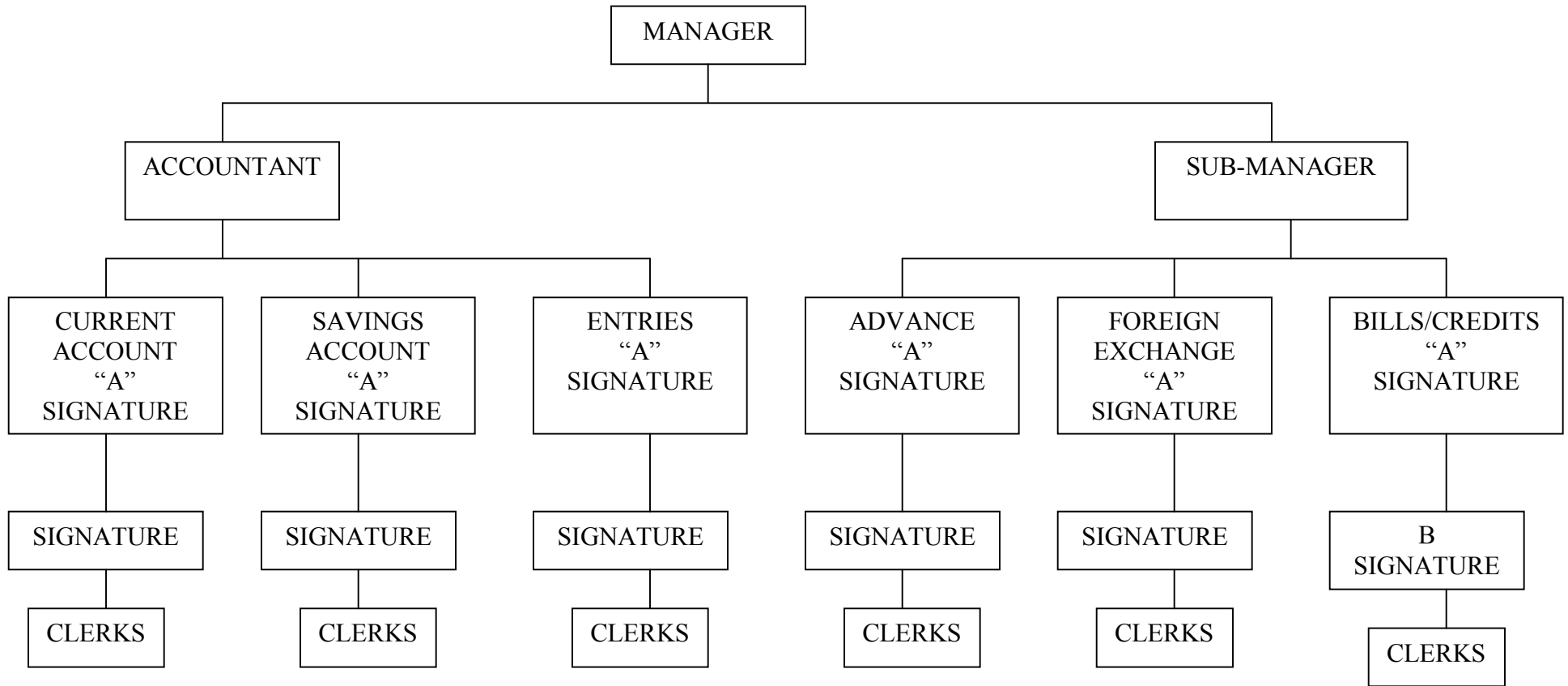
The organizational chart overleaf shows the 'B' signatory or supervisor who reports to the officer in charge of the section or the 'A' signatory. The officer takes instructions from the accountant who in turn reports to the assistant manager who finally reports to the manager. This chart shows a functional relationship in which instructions are passed down through a channel from the top to the bottom.

Organizational structure of UBN Plc

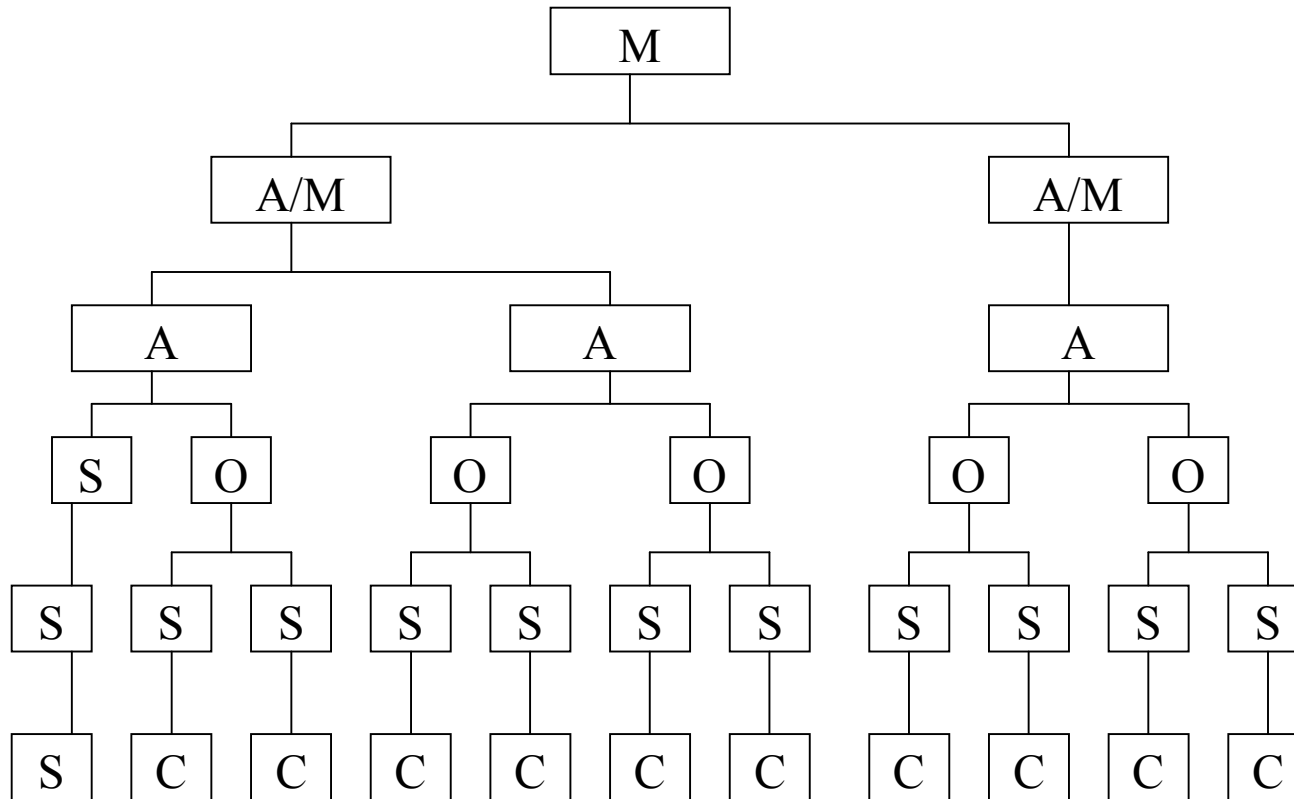


Source: **Annual Report of Union Bank of Nigeria Plc**

ORGANIZATIONAL CHART OF UNION BAN K OF NIGERIA PLC ZARIA BRANCH



Source: Annual Report of Union Bank of Nigeria Plc



KEY

- M - Manager
- A/M - Assistant manager
- A - Accountant
- O - Officer
- S - Supervisor
- C - Clerks

Source: Annual Report of Union Bank of Nigeria Plc

4.2 CREDIT PROCESSING AND APPROVAL IN UNION BANK NIGERIA

PLC

Lending activities normally represent the largest source of banks' revenue (interest income and fees) and the most significant component of banks' assets. Lending and its inherent risks are critical to banks' performance and stability. Credit products take a variety of forms. They typically represent one of the larger categories on a bank's balance sheet. Two important principles govern a bank's operation in this area:

- The need to make a reasonable return on its advances.
- To maintain a duty of care to its depositors whose monies fund its lending activities.

In essence, the art of good lending and sound banking implies that the bank must strike an acceptable balance between these potentially conflicting principles. The bank needs to consider the following factors to achieve this compromise:

- a) Quality of borrower and security
- b) Purpose of the facility
- c) Amount and duration
- d) Government policies and regulatory constraints
- e) The return offered on the available funding
- f) The draw down and repayment schedules and
- g) The nature of the facility.

In light of the above, the application from the customer must contain:

- i. The amount
- ii. The reason for/purpose of the loan
- iii. Mode of repayment
- iv. Source of repayment
- v. Proposed security

The customer's credit application is now processed in stages viz:

- a) Application appraisal: this involves determination of the type of account maintained by the customer, the date account was opened or account age, the account performance and the account transaction /statistics.
- b) Viability of the loan: this requires checking of the amount requested against his (the customer's) earnings or income. Total cost of the project plus amount requested plus the interest which should not be up to 50% of his net monthly take home. Otherwise, he has to state the source of loan balance.
- c) Raising/completing of the proposal form: which contains background information of the customer, his request, existing and required facility, account performance in the bank's books, earnings from the account, facility from other banks and bank's percentage of patronage, financial analysis, security proposed to

the bank, credit risk analysis, future and potential business opportunities as well as manager's remarks.

Lastly is the approval which involves the sanction/approval letter from the controlling office sent to the branch. Approval letter from the branch is sent to the customer which should contain the following details:

- 1) Date of his application
- 2) Amount approved
- 3) Repayment mode
- 4) Expiry date
- 5) Bank's charges which contain interest rate, commission on turnover (COT), and management processing fee.
- 6) Other conditions e.g. the loan is payable on demand, adequate provision for loan deduction i.e. principal plus interest, no excess over marked limit except prior to management approval.
- 7) Advice to the customer which state all the above conditions for granting the loan. Customer appends signature on the letter agreeing to all the laid down conditions. There after, funds are released/credited into customer's account.

4.3 DATA ANALYSIS AND INTERPRETATION

The questionnaire administered and interview conducted with both the bank, the I.D.C officials and the small and medium scale industrials were used for the analysis and interpretation of data collected.

A total of 100 questionnaires were administered out of which 55 were administered to the bank and the remaining 45 to the small and medium scale industrialist. Out of the 55 questionnaires administered to the bank, 50 were returned duly completed and 5 uncompleted. The duly completed questionnaires represent 90.9% of the total questionnaires administered to the bank. Out of the 45 questionnaires administered to the industrialists, 40 completed questionnaires were returned. This implies that 33 were duly completed and represent 88.89% of the total questionnaires administered.

4.3.1 ANALYSIS AND INTERPRETATION OF DATA FROM THE BANK

QUESTION 3: Educational qualification

Table 4.1a: Educational background

RESPONSES	FREQUENCY	PERCENTAGE (%)
SSCE/WAEC/GCE O'LEVEL	-	-
NCE/OND/GCE A'LEVEL	2	4
B.Sc/HND	30	60
Masters	17	34
Professional qualification	1	2
total	50	100

Source: fieldwork

QUESTION 4: How long have you worked with the bank?

Table 4.1b Working Experience

RESPONSES	FREQUENCY	PERCENTAGE (%)
0 - 5 years	18	36
above 5 years	29	58
above 20 years	3	6
Total	50	100

Source: fieldwork

QUESTION 5: Have you been or are you directly involved in granting of loan in your bank?

Table 4.1c: Involvement with lending

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	35	70
NO	15	30
Total	50	100

Source: field work

Comment:

Tables 4.1a, 4.1b and 4.1c shows the educational qualification, the number of years spent and the involvement in granting loans of the respondents respectively. These information were used to verify the authenticity of the answers or responses given by the respondents in the questionnaire.

Table 4.1a shows a very high level of educational background of the respondents as it is seen that only 4% have qualifications below B.Sc/HND, while 60%, 34% and 2% have B.Sc/HND, Masters Degree and professional qualifications respectively.

58% of the respondents have worked for more than 5 years, 6% for more than 20 years and 36% worked for less than 5 years.

Table 4.1c shows that 70% of the respondents have experience with loan granting procedures. This implies that the information gathered using above parameters can be strongly relied on.

QUESTION 6: Do you have lending program for small and medium scale industries in your bank?

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	50	100
NO	-	-
Total	50	100

Comment: To verify whether bank operates a lending programme for small and medium scale industries, the bank officials surveyed, i.e. the respondents were asked whether they have lending program. As seen in the table above, the response was 100% yes. This implies that the bank has lending programme for small and medium scale industries.

Other questions were also asked, such as the specification of the type of loans. The response shows that Agric. loan and small and medium scale enterprises loans are most common.

QUESTION 8: On the average, what percentage of the populace would you say is aware of the loans and advances services being granted by commercial banks?

RESPONSES	FREQUENCY	PERCENTAGE (%)
0 - 20%	-	-
21 - 40%	-	-
41 - 60%	5	10
61 - 80%	10	20
81 - 100%	35	70
Total	50	100

QUESTION 9: Do small and medium scale industrialist apply for loans and advances in your bank?

Table 4.4

RESPONSES	FREQUENCY	PERCENTAGE (%)
YES	47	94
NO	3	6
Total	50	100

Comment: table 4.3 shows that there is high level of awareness of the loans and advances services among the industrialists. 70% of the respondents indicated 81-100% level of awareness of the industrialist, 20% indicated 61-80% while 10% indicated 41-60%.

When asked whether small and medium scale industrialist apply of loans and advances, 94% of the respondents indicated yes while the remaining 6% said no. See table 4.4. The 3 respondents out of 50 are of the opinion that even if the smlists apply for loans they may at the end of the day not be able to meet the banks requirement in securing loans. It could also be that the long procedures to be followed in securing loans and the time taken before the loans is finally granted by the bank are among other factors that could discourage smlist from applying for loans. Instead, the smlists go for an alternative source of funds. This view is further revealed by asking question 10 bellow.

QUESTION 10: what percentage of the industrialists take advantage of this services?

Table 4.5

RESPONSE	FREQUENCY	PERCENTAGE (%)
0-20	35	70
21-40	15	30
41-60	-	-
61-80	-	-
81-100	-	-
TOTAL	50	100

Majority of the respondents, 35 out of 50 indicated 0-20% of the industrialists benefit from the service. This implies that even if 94% as seen in table 4.4 agree that the industrialists apply for loans, only few of them endure to fulfil all the requirements of the bank.

QUESTION 11: Do you specify how loans are to be used?

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	11	22
No	39	78
Total	50	100

From information gathered through interviewing bank officials, they stated that problems usually arise when it comes to loan recoveries from smlists. These problems usually cut across inadequate planning on the part of the

entrepreneur, diversion of funds to other uses and delay in repayment. From the above table (4.6), it can be seen clearly that these problems arise from the fact that the banks do not specify how these loans should be used. Also the banks after disbursing loans do not monitor how they are being used as was the response of 7% of the respondents in table 4.6 above.

QUESTION 12: From 2000-2004, how much was marked aside by your bank for this project? Please specify amount for each year.

QUESTION 16: Do you have problems with disbursing the funds?

Table 4.7

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	35	70
No	15	30
Total	50	100

From the above table, there is an indication to problems faced by the bank officials when it comes to disbursing the funds as indicated by 70% of the respondents. This might be as a result of the criteria for payments mated out to the smlists and their inability to meet certain conditions.

QUESTION 20: How long does it take your bank to process loans indications?

Table 4.8

RESPONSES	FREQUENCY	PERCENTAGE (%)
1-3 months	10	20
4-6 months	25	50
7-12 months	15	30
Less than a month	-	-
Total	50	100

From the table above, it can be seen that over half of the respondents indicated that it takes the commercial banks more than 3 months to process loan applications of smlists although this delay might be as a result of the inability of the entrepreneur to meet certain specified conditions, at stipulated times; yet the mere fact that it takes the entrepreneur over 3 months to know whether his application is successful can be highly deleterious to the start-up or survival of a business.

QUESTION 22: What are the condition for granting loans to small and medium scale industrialists?

Table 4.9

RESPONSES	FREQUENCY	PERCENTAGE (%)
Collateral	30	60
Guaranter	10	20
Nature of business	-	-
Registration of business	-	-
Others (specify)	10	20
Total	50	100

In question 18 of the questionnaire, the respondents were asked to indicate the criteria used in disbursing the loans. The response showed that the intending borrower has to satisfy certain terms and conditions which are as follows; being a customer of the bank, proper completion of application form, ability to put the loan into proper use, frasibility study, means of repayment, the applicants initial contribution to the project, collateral security and guaranter. This implies that the loan cannot be given until these conditions are fulfilled, from the table above it can be seen that a lot of the respondents (60%) say collateral security is required before a loan can be given.

QUESTION 23: What constitutes the collateral securities required?

Table 4.10

RESPONSES	FREQUENCY	PERCENTAGE (%)
Land property	20	40
Educational certificate	-	-
Others (specify)	30	60
Total	50	100

From table 4.9, it showed that more emphasis was placed on collateral security from responses. The respondents were then further asked to indicate what constitutes the collateral securities required in table 4.10 above. From the summary of their responses it reveals that most of the loans given by commercial banks to small and medium scale entrepreneurs in Nigeria are secured on highly valuable securities. In the above table, 40% of the respondents indicated landed property, while the remaining 60% fell under others indicating life assurance policy, certificate of ownership (c of v), guaranter and lien over deposit were also mentioned. Educational certificate is not accepted.

QUESTION 24: Have the small and medium scale industrialists been meeting such requirements?

Table 4.11

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	15	30
No	35	70
Total	50	100

Comment

Question 24 asked whether small and medium scale industrialists have been meeting the bank requirement on securing loans. The response shows that 70% of the respondents indicated that the industrialists do not meet the collateral security requirements. This reveals that most of the small and medium scale industrialist can not obtain loans from the commercial banks due to lack of collateral and other requirement. Table 4.11 illustrates this.

QUESTION 25: what kind of loan is available for these small and medium scale industrialist.

Table 4.12

RESPONSES	FREQUENCY	PERCENTAGE (%)
Short-term loan	50	100
Medium-term loan	-	-
Long-term loan	-	-
Total	50	100

Comment:

Table 4.12 above shows that 100% of the respondents indicated that the small and medium scale industrialists get short-term loan from the banks. The repayment period is between 1-6 months according to the respondents implying that the banks, due to the short repayment time discourages the smlist. The duration could also cause default in repayment. This was the assertion of the respondents when they were asked the duration of repayment in question 26.

QUESTION 27: in case of default by the borrower what do you do to recover the loan.

Table 4.13

RESPONSES	FREQUENCY	PERCENTAGE (%)
Auction the pledge	38	76
Legal action	3	6
Other (specify)	9	18
Total	50	100

Comment: From the above table, 76% of the respondents indicate that in a situation where the borrower cannot pay up at the stipulated time the bank can auction the pledge (securities) of the defaulter. Legal action can be taken if the pledge is not enough. On the other hand, the bank can also sell off the business venture for which the loan was taken on conditions that proceeds from the sale will cover up. This is what the remaining 18% indicated as 'others' in the table above represents. This can also help in discouraging potential borrowers from defaulting as they would not want to lose their business.

QUESTION 28: Would you say that the CBN also influence the bank lending policies.

Table 4.14

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	40	80
No	10	20
Total	50	100

When asked in question 28 whether the CBN influences the lending policies of the bank, 80% of the respondents indicated yes while 20% said no. These responses conforms with some findings that in 1999, the bankers committee at the initiative of the CBN developed an interventionist strategy called the small and medium industries equity investment scheme (SMIEIS). This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in an equity participation framework. (See bullion, CBN publication October -December 2004.)

Question 29 asked how far is it true that the commercial banks do not follow the federal government directives concerning loanable fund to these sub-sectors of the economy.

To this response, 70 percent of the respondents said this is false accusation while 20% agreed with the accusation. The remaining 10% did not respond to this question.

In my opinion, I agree with the 20% that agreed with the accusation as the 70% would want to favour their organization. This assertion could be related to the fact that the respondents did shy away from the question demanding the allocated fund and amount actually disbursed in the year 2000-2005. So the CBN has to come up with SMIEIS.

In response to question 30 which asked whether the collateral securities demanded from borrowers are too rigid or hard to come by, 90% of the respondents indicated yes. Based on this information and the one gathered from IDC this is my opinion could be the reason why some of the smlists find their way through their “god fathers” either in government or the banks to secure loans without actually pledging any tangible assets and most atimes such loans are used for unproductive venture.

QUESTION 31: How would you rate the performance of Union Bank of Nigeria in financing small and medium scale industries in Nigeria?

Table 4.15

RESPONSES	FREQUENCY	PERCENTAGE (%)
Good	35	70
Satisfactory	10	20
Poor	5	10
Very poor	-	-
Total	50	100

70% of the respondents rated the performance of the bank as good, 20% said it was satisfactory while 10% said it was poor. None of the respondents said it was very poor. From this table above it can be deduced that the commercial banks are trying their best to make their impact felt in the areas of helping out smalls but there is still a lot they can do to improve their services.

4.3.2 ANALYSIS AND INTERPRETATION OF DATA FROM SMALL AND MEDIUM SCALE INDUSTRIES.

QUESTION 2: FORM OF OWNERSHIP

Table 4.15

RESPONSES	FREQUENCY	PERCENTAGE
Sole proprietor	30	75
Partnership	3	7.5
Company	7	17.4
Total	40	100

A large number of the respondents expressed an overwhelming preference to the sole proprietorship form of business. From the above table, it is shown that 75% favour sole ownership while 17.5 are owned by private companies only 7.5% of the businesses are joint partnership which makes it the most unpopular form of ownership. This might be as a result of the entrepreneurs mistrust for each other so they avoid partnerships. This will definitely result in the trend of low capital base as indicated by the answer given to question 5 of the industrialist's questionnaires. The answer showed that most

of the entrepreneurs have small capital base which could have been improved if at least tow people had put their capitals together to start up a business.

QUESTION 3: Number of employees.

Table 4.16

RESPONSES	FREQUENCY	PERCENTAGE
Skilled	90	18
Semi-skilled	248	49.6
Unskilled	162	32.2
Total	500	100

A breakdown of the total work force of the small and medium scale industries was taken and is represented in table 4.16 above. The workers were grouped into skilled, semi-skilled and unskilled.

A skilled worker is one who has learnt some form of techniques or has acquired some knowledge resulting from apprenticeship or some other form of training. A semi-skilled worker is one who is in the process of learning a technique or undergoing some on-the-job training to acquire some technique or knowledge as an apprentice. An 'unskilled worker is one who hasn't any knowledge or knows any technique, and the work he is involved with does not require any skill.

The sample unit indicated in table 4.16 above shows that out of 500 persons employed, about 49.6% are semi-skilled, 32.4% are unskilled whereas

only 18% are skilled. The result shows that small and medium scale industries are mostly made up of semi-skilled and unskilled workers.

QUESTION 4: Raw materials used in the industry or company

Table 4.17

RESPONSES	FREQUENCY	PERCENTAGE (%)
Local	36	90
Imported	-	-
Both	4	10
Total	40	100

When the entrepreneurs were asked the source of their raw materials, from the above table it can be seen that about 90% of them get their materials from within the country. Only 10% of them get their materials from local and imported sources and none acquire materials from external sources. This might be as a result of the high exchange rate of most foreign currencies from where they are likely to get viable materials. Most of these smlists might find it unaffordable.

QUESTION 5: Market for finished products of the company or enterprise.

Table 4.18

RESPONSES	FREQUENCY	PERCENTAGE (%)
Within the country	40	100
Outside the country	-	-
Both	-	-
Total	40	100

Table 4.18 shows that 100% of the respondents market their finished products in Nigeria. This might mean that, their goods are made to suit the Nigerian markets on the other hand, it might also mean that their finished products cannot compete for foreign users due to market research carried out which revealed their products are needed most within the country. This definitely shows the level at which our small and medium scale industries are functioning presently.

QUESTION 6: Do you keep daily or weekly records of business transactions.?

Table 4.19

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	40	100
No	-	-
Total	40	100

QUESTION 7: Do you have accounts into which business receipts are paid?

Table 4.20

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	40	100
No	-	-
Total	40	100

All the respondents responded in the affirmative when asked whether they keep records as indicated in table 4.19. This is an advantage since there is always a need to keep records in a business whether big or small. On further enquiries, it was discovered that there was no particular format in which accounts were kept, but all records were recorded haphazardly as no financial experts like accountants were employed. This will usually result in the commercial banks being reluctant to give them loans because their books do not normally reveal their true financial positions.

Table 4.20 reveals that all respondents have accounts with commercial banks where they keep profits of transactions. It was discovered that most of the small and medium scale industrialists (with particular reference to the small scale industrialists) do not separate personal and business accounts. These results in them using the money in solving personal problem which will ultimately result in liquidation of the company that was barely staying afloat.

QUESTION 8: Source of initial capital

Table 4.21

RESPONSES	FREQUENCY	PERCENTAGE (%)
Commercial banks	5	12.5
Personal savings	25	62.5
Relations and friends	7	17.5
Government	3	7.5
Total	40	100

Comment: in response to the question of the source of their initial capital, the small and medium scale industrialists indicated that the initial capital is sourced mostly from the personal savings followed by sources from friends and relations. Table 4.21 shows that 62.5% comes from personal savings, 17.5% from friends and relations, 12.5% from commercial banks and 7.5% from government.

This implies that commercial banks and government make little impact on the initial take-off of the small business. From their opinion (smallists), it is very difficult to source the capital for initial take off from the banks and some of them are not aware that they can also source funds from the government. Therefore the best option is to source capital from the personal savings and friends and relations.

QUESTION 12: What sources do you obtain fund to run your business?

Table 4.22

RESPONSES	FREQUENCY	PERCENTAGE (%)
Personal savings	11	27.5
Retained earnings	9	22.5
Friends and relations	8	20.0
Loans from banks	8	20.0
Government	4	10.0
Total	40	100

Comment: Question 12 above asked the smlits the sources of funds for running their business. In response, table 4.22 shows that 27.5% indicated personal savings, retained earnings 22.5%, friends and relations 20%, loans from banks 20% and government 10%.

This implies that personal savings still plays greater role in sourcing of funds, to run the business followed by retained earnings. However, the table above shows that commercial banks prefer to give loans to small and medium scale industrialists for working capital to initial capital (see table 4.21). Also using 22.5% of the retained earnings as working capital indicates that the smlits don't make adequate profit.

QUESTION 19: Has your business ever needed advice on certain issues or information concerning your business.

Table 4.23

RESPONSES	FREQUENCY	PERCENTAGE (%)
Yes	36	90
No	4	10
Total	40	100

From the above table (table 4.23), it can be seen that 90% of the small and medium scale entrepreneur have needed advice at some point from various sources on how to go about their business. 10% on the other hand have never needed any form of advice.

They were then further asked in question 20: if yes what are/is your source(s) of advice.

Table 4.24

RESPONSES	FREQUENCY	PERCENTAGE (%)
Friends	15	41.7
Consultants	8	22
Commercial banks	5	14.3
Any others (specify)	8	22
Total	36	100

Thirty six of the entrepreneurs responded in the affirmative to question 19. So they were further asked the sources of advice in table 4.24 above. The table reveals that they mostly get advice from friends (41.7%). Consultants are also other source of advice for them. The 22% response under the others column is advice from IDC and NDE officials. Only 14.3% of the entrepreneurs indicated commercial banks as sources of advice. This indicates that the impact of the IDC and NDE's on advising the industrialist is felt more than that of commercial banks.

On further investigation, it was revealed that the smlits do not approach officials of commercial banks for advice e as a result of their unco-operative attitudes. They mostly get advice from friends which is why they usually run into series of problems as indicated in the questionnaire, such problems include financial, managerial, lack of adequate supply of raw materials etc. this could have been taken care of if they had been able to get good and sound advice from commercial banks instead of friends and relations who might not be in a position to give unbiased advice for a particular problem.

QUESTION 22: How would you rate the performance of commercial banks in financing small and medium scale industries in Nigeria?

Table 4.25

RESPONSES	FREQUENCY	PERCENTAGE (%)
Good	2	5
Satisfactory	14	35
Poor	18	45
Very poor	6	15
Total	40	100

The respondents in the smlists were asked how they would rate the performance of commercial banks in the promotion of smis in Nigeria. They responded as shown in table 4.25.

45% of the respondents indicated that the commercial banks have a poor performance when it comes to financing smis. 35% indicated satisfactory, 15% said very poor and only 5% said good.

They were then asked to comment further on their answers to question 22. The respondents who rated commercial banks as poor and very poor listed the following factors; cumbersome and time consuming procedure in loan approval, bribery, repayment problems and collateral securities requirements. All these make it very difficult or impossible to obtain loans from commercial banks at stipulated times. Those who rated them as good and satisfactory maintained that

commercial banks are doing their best though more efforts are needed. Nigeria is just starting up this micro financing and time and effort is needed for it to work effectively. The commercial banks are not charitable organizations but also business ventures out to make their own profit and they need to have very good reasons to administer loans and advances so their business flourishes and succeeds.

Other questions asked on the questionnaire revealed that 80% of the small and medium entrepreneurs in the sample unit did apply for loans from commercial banks only 42% out of them got the loan. Greater part of those who were unable to secure the loan indicated that it was on the basis of lack of tangible collateral security while the rest indicated improper completion of application form, lack of accounting system in their business records, etc. however, those smallists that succeeded and were satisfied with the loan procedures still complained of the interest rates being too high and thus, adversely affect their business, they also complained of the duration of repayment time which also is a bottle neck on the progress of the business. This according to the smallists is due to the dwindling nature of the economy. According to them, the profit they make is not sufficient enough so as to repay the loans conveniently. This is also attributed to the government's policy on allowing importation of goods which are locally made here in Nigeria though cannot effectively compete in the market with the imported or foreign goods. This is one of the major reasons why banks are reluctant in giving out loans to smallists.

4.5 TEST OF HYPOTHESIS

Hypothesis One

That financing of small and medium scale enterprises by commercial banks in Nigeria has been a failure.

Table 4.15 and 4.25 reveals the respondent's view from both the bank and industrialists respectively on the performance of commercial banks in respect of financing small and medium scale industries.

It is seen that in table 4.15, 70% of the respondents rated the performance of the bank as good 20% said it was satisfactory while 10% said it was very poor. While table 4.25 shows that 45% of the respondents from the industrialists indicated that commercial banks have a poor performance when it comes to financing SMEs. 35% indicated satisfactory, 15% said very poor only 5% said good.

I feel strongly that the industrialist's result will be considered more accurate to test this hypothesis knowing fully well that banks will certainly favour themselves since they are the creditors. Although result from table 4.22% shows that 8 respondents out of 40 industrialists, constituting 20% indicate that fund are obtained from banks, 27.5%, 22.5%, 20% and 10% indicate the sources of funds come from personal savings, retained earnings friends and relations and government respectively.

This implies that banks do fund SMEs, to some extent and thus the null hypothesis one above is not accepted.

Hypothesis Two

That securing loans from commercial banks in Nigeria by small and medium scale entrepreneurs is very difficult and that most of their funds are obtained through personal savings and friends and relatives.

To test the above hypothesis, question 9 was put to bank officials as whether entrepreneurs apply for loans and advances in their banks. The response was that 94% of the respondents indicated yes while the remaining 6% said no. (See table 4.4). The 3 respondents one of 50 are of the opinion that even if the smallists apply for loans they may at the end of the day not be able to meet the bank's requirements in securing such loan. In addition to this, the long procedures to be followed in securing loans and the time taken before loans are finally granted by banks are among other factors that make securing of loans to be very difficult. This assertion is further supported by results from question 10 of the bank officials. Table 4.5 shows the percentage of the industrialists that take advantage of the service. 70% of the respondents indicated 0-20% industrialists take advantage.

Responses from the industrialists on questions 8, 12, 14 and 15 (chapter 4) further justified the above responses from bank officials. Table 4.12 shows 62.5% of their initial capital comes from personal savings. For sources of funds to run the business i.e. working capital, which was asked in question 12, 27.5% which represents the highest comes from personal savings. In response to question 14 and 15, 80% of the entrepreneurs apply for loans, 42% out of them got the loan.

Greater part of those who were unable to secure the loan indicated that it was on the basis of lack of tangible collateral security while the rest indicated improper completion of application forms, lack of accounting system in their business records etc.

Based on the analysis above, I strongly accept the null hypothesis two above that securing loans from commercial banks in Nigeria by entrepreneurs is very difficult and that most of their funds are obtained through personal savings and, friends and relations.

CHAPTER FIVE

5.1 SUMMARY

This study sheds light on the problems, roles and importance of small and medium scale industries in the economic development of any country and Nigeria in particular. Attempt was made to evaluate the role of commercial banks of Nigeria through financing these industries. The other sources of finance available to small and medium scale industries were also enumerated. Issues raised by both the bank and the SMEs were analyzed and summary of the findings were discussed in chapter four, in which the primary data were collected through two sets of questionnaires; one to the bank and the other to the small and medium scale industries. Interviews were also conducted in which IDC staffs were included. The secondary data obtained were from annual and financial reports, bulletins, publication of CBN, newspapers, relevant text books etc.

In an effort to enhance and develop these small and medium scale industries, the federal government of Nigeria at the initiative of the CBN introduced a scheme (SMIEIS) which requires banks to set aside 10 percent of their profit before tax to fund SMEs in an equity participation framework other schemes like NERFUND and SSICS were also established.

The purpose of this research work is to analyze the result of these programs so far and ascertain whether it offers an effective means of solving the

problem of funding small and medium scale businesses in Nigeria, whether banks can play the intermediary role.

5.2 CONCLUSION

From the analysis of the results in chapter four, one can deduce that the accessibility to credit market for small and medium scale businesses in Nigeria is extremely difficult due to the fact that the macroeconomic instability and uncertainty in the business environment has forced banks to lend short to SMEs. Also such facilities i.e. overdrafts and short term loans are made available at a very high interest rate of over 26 percent and they are heavily collateralised. In a situation in which SMEs are mainly dependent on bank loans, this situation could be very disastrous. The implication is that many SMEs do not have access to bank loans with grave implications for their growth and development. Also the inconsistency in government industrial policies for example the inability of the government to execute budgets on time is a major restriction on the ability of manufacturing firms to factor tariff measures into their trade decisions. The lack of infrastructural facilities is also part of external problems that affect the growth of small and medium scale industries. Here, many banks blame their inability to fund SMEs on the poor economic climate prevalent in the country, citing for instance the low performance of public utilities as one of the factors threatening fund managers.

Apart from the external problems that harm the growth of SMEs, there are also serious internal problems that greatly constrain their growth and serve as a

deterrent for banks to lend. These problems include among others poor management practices, high rate of business failure, poor accounting standards, shortage of skilled manpower and financial indiscipline.

On the basis of these problems, some recommendations are made below which , if implemented will improve the dwindling state of our economy in general and the small and medium scale industries in particular.

5.3 RECOMMENDATIONS

There is no way Nigeria can achieve sustainable funding of small and medium scale enterprises by commercial banks and other agencies such as NERFUND, NIDB etc established for the funding purposes until both the external and internal problems of SMEs are solved. Banks react to the stimulus of the macroeconomic environment and as long as the environment remains uncondusive, banks will continue to exhibit risk-averse behavior irrespective of the programs put in place to address this problem including the SMIEIS program that was already highlighted.

The following recommendations in my opinion will help improve the growth and development of the SMEs:

1. The government should cut down the interest rate since interest rates are not favorable to investors in the sense that the cost of funds could undermine profits and cause a loss of the investment. Interest rates in Nigeria officially are as high as 23.6% and this has a

negative impact on the ability of small and medium scale industries to obtain credit from the banks.

2. The government should be consistent in its industrial policies so as to enable manufacturing firms to factor tariff measures into their trade decisions.
3. The government should provide adequate infrastructural facilities like electricity, roads and water supply for the SMEs as this will reduce the high cost of doing business. This will encourage banks to fund the SMEs as their investment will be recouped.
4. The government should regard SMEs should regard SMEs as the 'eggs' that hatch big businesses. Apart from the adequate incentives in (3) above, the government should support SMEs by bulk purchasing their products and retailing them both for the domestic market and for exports.
5. To facilitate their access to bank credits, the government should be issuing LPOs to the SMEs and payment should be made promptly to the SMEs as this will encourage their growth and the banks can also accept such contract papers as collateral.
6. On the issue of the internal problems of the SMEs like poor management practices, high rate of business failure, poor account standards, shortage of skilled manpower and financial indiscipline, the government should set up small business management

assistance agencies manned by highly skilled and dedicated workers with the view of tackling these problems. The agencies should compliment the provision of credit by insuring its efficient use through training and counseling of the small and medium scale entrepreneurs.

7. The banks should target potential borrowers for its core operations and form them into groups. Then soft loans should be made available to these SMEs, repayable within a specified period before others in that strategic group can benefit from the scheme. The idea is that with this system, a subtle pressure from other SMEs that are members of this strategic core is mounted on the benefiting group to repay so that others can benefit from the scheme. This will no doubt introduce healthy capitalization among SMEs through factoring the credibility of the borrowers.
8. The need for capitalization of the banks cannot be overemphasized as capitalization influences the way banks react to GDP shocks. Also, the credit supply of well capitalized banks is less pro-cyclical. This indicates that well capitalized banks are not risk-averse. Moreover, well capitalized banks can better absorb temporarily financial difficulties on their borrowers and preserve long term lending relationships.

9. If (8) above is achieved, the mega banks such as Union Bank should play a more active role in actualizing the objectives of SMIEIs by setting up separate desks to manage the funds and vigorously pursue the idea as with any other bank product and undertaking studies aimed at attracting foreign investors scanning overseas markets and monitoring developments that have implications for the sector.
10. The banks should adopt relationship lending as a dominant bank rule in funding SMEs. This will mitigate the problem of weak asset-based collateral. However, this can be more effective if the borrowers show some high level of responsibility, discipline and trustworthiness. According to the CEO of one of the mega banks in Bangladesh, they give loans to SMEs without collateral and realize over 96 percent of their investments (CNN CONNECTS, Sept 05).

I strongly believe if all these recommendations are given serious attention by both the key players' i.e. the government, the banks and the SMEs themselves, financing the SMEs by commercial banks will be made a lot easier, more effective and the impact will be felt towards the growth and development of small and medium scale industries vis-à-vis the economic development of Nigeria.

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APPENDICES

**QUESTIONNAIRE FOR SMALL AND MEDIUM SCALE
ENTREPRENEURS**

Dear Respondents,

I am a Post Graduate student of the department of Business Administration, Ahmadu Bello University, Zaria.

I am conducting a research on the “Financing of Small and Medium Scale Enterprises (SMES) by commercial banks in Nigeria a Case Study of Union Bank of Nigerian Plc”. This is in partial fulfillment of the requirement for the Award of Masters Degree in Administration, Master of Business Administration (MBA)

Your response to the question below will be highly appreciated in this research work. You are assured that all the information supplied is merely for academic purpose and will be treated strictly as such.

Yours faithfully,

Garba Isa.

INSTRUCTION: Fill or tick where appropriate in the space provided.

1. Year of establishment of business.....
2. Form of ownership of business?
(a). Sole proprietor [] (b). Partnership [] (c). Company []
3. Number of employees of enterprises?
(a). Skilled [] (b). Semi – skilled []
4. Raw materials used by the industry or enterprises?
(a). Local [] (b). Imported []
5. Market for financial products of the Company of Enterprise?
(a). Within the country [] (b) Outside the country []
6. Do you keep daily or weekly records of transactions?
(a). Yes [] (b). No []

7. Sources of Initials Finance?
 - (a). Commercial Bank [] (b). Personal Bank []
 - (c). Government [] (d). Relation and Friends []
8. Appropriate total capital.....
 - (a). Yes [] (b). No []
9. Do you have a bank account into which you pay your business receipts?
 - (a). Yes [] (b). No []
10. If No, why do you prefer not to maintain an account with a bank?

.....
11. Do you prefer the source of initials funds chosen or is it the only available one?.....
12. What source do you obtain fund to run your business?
 - (a). Personal Saving [] (b). Retained Earning []
 - (c). Friends and Relatives [] (d). Loans from the bank []
 - (e). Government []
13. Have you applied for loan from commercial bank (s) before?
 - (a). Yes [] (b). No []
14. Was the loan granted?
 - (a). Yes [] (b). No []
15. If Your answer to question 14 is no, what is the reasons for the refusal?

.....

.....
16. If Yes, how long did it take before the loan was granted?.....

.....
17. What was demanded from you before the loan was granted?
 - (a). Collateral [] (b). Others (Specify).....

.....
18. How would you assess the rate of the interest charged by the Bank?

-
19. Has your business ever needed advice on certain issues or information concerning your business?
 (a). Yes [] (b) []
20. If Yes, what are/is your source of advice?
 (a). Friends [] (b). Consultant [] (c). Commercial Banks []
 (d). Any other (specify).....
21. Rank in order of importance, the major problems your business is facing
 (a). Financial Problem [] (b). Managerial Problem []
 (c). Competition []
 (d). Lack of adequate and irregular supply of raw materials []
 (e). Others (Specify).....
22. How would you rate the performance of commercial banks in financing small and medium scale industries in Nigeria?
 (a). Good [] (b). Satisfactory [] (c). Poor []
 (d). Very poor []
23. Comment briefly on why you gave the answer to question 22?

24. Number of years of experience in the industry
-
25. Educational Qualification?
 (a). SSCE/WASC/GCE O'Level (b). NCE/OND/GCE A Level []
 (c). B.Sc/HND [] (d). Professional Qualification []
 (f). No formal education []

QUESTIONNAIRE FOR BANK OFFICIALS

Dear Respondents,

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Yours faithfully,

Garba Isa.

QUESTIONNAIRES FOR BANK OFFICIALS

INSTRUCTION: Fill or tick where appropriate in the space provided.

1. Sex
(a). Male [] (b). Female []
2. Marital status:
(a). Single [] (b). Married []
3. Educational Qualification
(a). SSCE/WASC/GCE O’Level (b). NCE/OND/GCE A Level []
(c). B.Sc/HND [] (d). Professional Qualification []
(f). Masters and Above []
4. How Long have you worked with the bank?.....
.....

5. Have you been or are you directly involved in granting of loan in your bank?
 (a). Yes [] (b). No
6. Do you have lending program for small and medium scale industries in your bank?
 (a). Yes [] (b). No []
7. If yes, please specify the type of program.....

8. On the average, what percentage of the populace would you say is the loans and advantage services being granted by commercial banks?
 (a). 0 – 20% [] (b) 21 - 40% [] (c) 41 - 60% []
 (d). 61 - 80% [] (e) 81 - 100% []
9. Do people (Small and medium scale industries) apply for loan and advances in your bank?
 (a). Yes [] (b). No []
10. What percentage actually take advantage of this services?
 (a). 0 – 20% [] (b) 21 - 40% [] (c) 41 - 60% []
 (d). 61 - 80% [] (e) 81 - 100% []
11. Do you specify how loans are to be used?
 (a). Yes [] (b). No []
12. How much was marked aside by your bank for this program from 1998 – 2000, please specify amount for each years?

Year	Amount ₦
1998	
1999	
2000	
13. How many organization benefited each year for the period?

Year	No of Organization

1998

1999

2000

14. How much was actually disbursed from the funds allocated for each year over the same period?

Year	Amount actually disbursed
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1998

1999

2000

15. If there is a gap between the amount actually disburse, briefly outline the causes.....

16. Do you have problems with disbursing the funds?

(a). Yes [] (b). No []

17. If the answer to 16 is Yes, what problem (s) do you have?

.....
.....

18. What are the criteria in disbursing loan?

.....
.....

19. Do you supervises loan utilization?

(a). Yes [] (b). NO []

20. How long does it take your bank to process loan indications?

(a). 1 - 3month [] (b). 4 - 6 months []

(c). 7 - 12month [] (d). Less than a month []

21. What constitute the collateral securities required by your bank for intending borrowers?

.....
.....

22. What are the conditions for granting loan to small and medium scale industrialist?
- (a). Collateral security [] (b). Guarantor []
- (c). Nature of business [] (d). Registration of business []
- (e). Other (specify).....
23. What constitute the collateral required?
- (a). Land property [] (b). Educational Certificate []
- (c). Others (specify)
24. Have the small and medium industrialist been meeting such requirement?
- (a). Yes [] (b). No []
25. What kind of loan is available for these small and medium scale industrialists?
- (a). Short - term Loan [] (b). Medium - term loan []
- (c). Long – term Loan []
26. What is the duration of repayment of loan?
- (a). Short - Term loan:.....
- (b). Medium - term loan :.....
- (c). Long term loan:.....
27. Incase of default by a borrower what do you do to recover the loan?
- (a). Auction the pledge [] (b). Take legal action []
- (c). Others (specify).....
28. would you say that CBN also influence the bank lending policies.
- (a). Yes [] (b). No []
29. Would you say that the commercial bank do not follow the Federal Government directives concerning loan able to these sub – sector of economy?
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30. The collateral securities demanded from borrowers too rigid or hard to come by?

.....
.....

31. How would you rate the performance of Union Bank of Nigeria Plc financing in small and medium scale industries in Nigeria?

- (a). Good [] (b) Satisfactory []
(c). Poor [] (d). Very Poor []