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SMES FINANCING AND ITS EFFECTS ON NIGERIAN ECONOMIC GROWTH

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BACKGROUND OF THE STUDY

Small and Medium Enterprises play key roles in transition and developing countries (OECD, 2002). These firms typically account for more than 90% of all firms outside the white-collar jobs sector, constituting a major source of employment and generates significant domestic and export earnings. OECD, (2005) stressed that SME development emerges as a key instrument in poverty reduction efforts, therefore, SME obviously contributes to economic, social development and poverty reduction. World Bank review on small business activities establishes the commitment of the World Bank Group to the development of the SMEs sector as a core element in its strategy to foster economic growth, employment and poverty alleviation (World Bank, 2012). This is because, SMEs constitute the driving force of such industrial growth and development and this is due to their great potentials in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development. Given the great potentials of SMEs to bring about social and economic development, it is of no surprise that the performance and financing SMEs is of huge concern to the government of different countries in the world (Okpara 2000). SMEs in both developing and developed countries play important roles in the process of industrialization and economic growth, by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas Hallberg, (2000); Olutunla, (2001); OECD, (2004); Williams, (2006). For instance, statistics shows that Africa and Asia has the majority of their population living in rural areas where SMEs delivers about 20% - 45% of full-time employment and 30% - 50% of rural household income (Haggblade and Liedholm 1991). However, financing SMEs is a major catalyst and a key success factor for the development, growth and sustenance of any economy. Most government and business circles have come to recognize the importance of financing SMEs and have consequently agreed that their growth constitutes one of the corner stone's of economic development (Olutunla,2001; OECD, 2004). Despite the numerous factors that challenge the survival and growth of SMEs in both developing and developed countries, finance has been identified as one of the most important factor (UNCTAD, 2001; SBA, 2000). Having access to finance gives SMEs the chance to develop their businesses and to acquire better technologies for production, therefore ensuring their competiveness, however, there is a huge challenge for SMEs globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks. Abereijo and Fayomi (2005) notes that the majority of commercial bank loans offered to SMEs are often also limited to a period far too short to pay off any sizeable investment. In addition, banks in many developing countries prefer to lend to the government rather than private sector borrowers because the risk involved is lesser and higher returns are offered (Levitsky, 1997). Such apathy for the SMES have crowded out most private sector borrowers and increased the cost of capital for them. This study therefore sets out to, among others, examine the various sources of financing SMEs in Nigeria as well as assess the problems these SMEs faces in the formal and informal financing of their activities.

REVIEW OF RELATED LITERATURE

Overview the importance of SME

SMEs constitute essential ingredients in the lubrication and development of any economy. SMEs play a major role in economic growth in the OECD area, providing the source for most new jobs. Over 95% of OECD enterprises are SMEs, which account for 60%-70% of employment in most countries (OECD, 2005). As larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing. In addition, productivity growth and consequently economic growth is strongly influenced by the competition inherent in the birth and death, entry and exit of smaller firms. This process involves high job turnover rates and churning in labour markets which is an important part of the competitive process and structural change. Less than one-half of small start-ups survive for more than five years, and only a fraction develop into the core group of high performance firms which drive industrial innovation and performance.

This underscores the need for governments to reform policies and framework conditions that have a bearing on firm creation and expansion, with a view to optimizing the contributions that these firms can make to growth. In Nigeria the contribution of SMEs has been recognized as main sustenance of the economy because of their capacity in enhancing the economic output and enhances human welfare. The problems bedeviling the SMEs in Nigeria are multi-faceted. Ekpenyong (1997) and Utomi (1997) identified inadequate capital, inaccessible credit facilities. Long term development institutional credit was known not to be available to SMEs because they are generally considered high credit risks by financial institutions. The study by Evbuomwan, et al. (2012) indicated that 75.7% of their survey respondents relied mostly on own funds to finance their businesses.

However, the SMEs lack of access to relative cheap and effective sources of finance has been identified as the major factor hindering their contribution to economic growth. A widespread concern is that the banking system in the sub sector (which supposed to be the major financier of SMEs) is not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agriculture sector. It is noted that commercial and the hitherto merchant banks which retained liquidity levels in excess of regulation have shown reluctance in financing SMEs (Sacerdoti, 2005). While Micro Finance Institutions (MFIs) have expanded vigorously in a number of countries, the size of their credit remains limited, so that their support is not on the scale needed for many medium sized projects. Also, the interest rate on micro-credits is very high, due to large administrative costs in relation to their scale of operations (Mahmoud, 2005).The primary focus of this study emanates from the fact that small scale enterprises owners do not have sufficient finance to carry on their businesses. The reason for this is not farfetched, low level of income basically. It is an established fact that SMEs face financial challenges.

Several studies have identified financial constraint as the major obstacle to SMEs development in developing countries including Nigeria. For instance, Adelaja (2003) argued that lack of access to institutional finance has always constituted a pandemic problem for SME development in Nigeria. The problem of SME financing has received the tremendous research efforts from researchers. In their findings, four problems in financing SMEs have

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become recurrent: the cost of capital; risk; the inappropriate terms on bank loans; and the shortage of equity capital. Over the years government has enacted various policies and introduced schemes aimed at financing SMEs. However it is worrisome to note that SME up till date are starved of funds and the financing problems keep reoccurring. Asaolu et al (2005) have deduced that the financial challenges limit the developmental role of SMEs. But this may not be true especially in the case of Nigeria where the informal sector, which is constituted largely by the SMEs play a very important role in the development of the nation's economy. There is serious doubt as to the success of SMEs to economic growth as regards accessibility of its funds. Therefore, based on the phenomenon, the researcher has come up with some objectives of the study. In this regard, it becomes pertinent to examine the impact of financing SMEs on economic growth in Nigeria with a view to proffering solutions as well as making policy recommendations based on the study.

SMEs in Nigeria

In Nigeria, empirical report shows that an estimate of about 70% of the industrial employment is held by SMEs and more than 50% of the Gross Domestic Product is SMEs generated (Odeyemi, 2003). Given the seminal role of SMEs to the economy of Nigeria, various regimes of government since independence in the 1960s, have focused on various programmes and spent immense amount of money with the primary goal of developing this sector, these have however not yielded any significant results as evident in the present state of the SMEs in the country (Mambula, 1997). SMEs are generally very susceptible and only a certain number of them manage to survive due to several factors such as difficulty in accessing credits from banks and other financial institutions; harsh economic conditions which results from unstable government policies; gross undercapitalisation, inadequacies resulting from the highly dilapidated state of Infrastructural facilities; astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, to mention a few (Oboh 2002; Okpara 2000; Wale-Awe 2000).

The situation is equally prevalent in the Nigerian economy where commercial banks often prefer to lend to government, trade in foreign exchange (FOREX), and financing buying and selling. A banker in Nigeria aptly put such preferences that "the banks are not a charity, hence why should they take risks with SMEs when they can make good money elsewhere". These preferences and tendencies of the commercial banks have worsened the lack of financing for SMEs which has also affected the economic growth. The Financial systems in every country play a key role in the development and growth of the economy, although the ability to play this role effectively and efficiently largely depends on the degree of development of the financial system. The traditional commercial banks which are key players in the financial systems of nearly every economy, have the potential to pull financial resources together to meet the credit needs of SMEs, however, there is still a huge gap between supply capabilities of the banks and the demanding needs of SMEs. In Nigeria, the situation is even more prevalent as noted by Olutunla and Obamuyi (2008).

SMEs in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. However, the role played by SMEs, notwithstanding their development, is everywhere constrained by inadequate funding and poor management. The unfavourable macroeconomic environment has also been identified as one of the major constraints which most times encourage financial institutions to be risk-averse in funding small and medium scale businesses (Ogujiuba *et al.*, 2004). Financial systems, the world over, play fundamental roles in development and growth of the economy. The effectiveness and efficiency in performing these roles, particularly the intermediation between the surplus and deficit units of the economy, depends largely on the level of development of the financial system. It is to ensure its soundness that the financial sector certainly the most regulated and controlled by the government and its agencies. (Allen 1994). SMEs play very important roles in developing economies, and assisting them is a task which ranks high in the priorities of the governments. This position is corroborated by other studies which identified financial support as one of the main factors responsible for small business failures in Nigeria (Abereijo & Fayomi, 2005; Okpara & Pamela, 2007).

SMEs in Latin Americas and other countries

Extant studies lend credence to the significant role played by finance in firms' survival, performance and growth. Data also shows that Latin America, which is more urbanized, has an estimated 50million micro and small-scale enterprises, employing 120 million people (Berger and Guillamon 1996). For example, khalizadeen-Shirazi (1971) cited in Azende (2011) indicated that difference in firms' performance could be linked with differences in their capital major factors affecting the ability of a business to grow. Butter and Linter (1945) found that growth of firms, especially small and young firms, as constraint theory is complemented by a recent study which indicated how access to finance affects firm formation, survival and growth. In this regard, Oliveira and Fortunata (2005) investigation, which utilized unbalanced panel data in Portuguese manufacturing (surviving) firms over the period 1990-2001 to estimate a dynamic panel data model of firm growth that include serial correlation and financing constraint using the pooled OLS and GMM-system techniques, reported an overall result which suggests that the growth of Portuguese manufacturing firms is finance constrained.

Gavin (2000) investigated the dynamics of small business financial structure using empirical evidence from three years of detailed primary soured data on one hundred and fifty new business start-ups in Scotland. The investigation tested the dynamic theory of small firms with emphasis on debt and equity relationships, and their modification, as the small firm goes through various stage of growth. The research concluded that predicted trajectories for key financial variables depend largely on both debt and equity. Carl's (2001) study on the survival and growth among and micro-enterprises in Africa and Latin America revealed that have survived in the first three years or that have grown even slightly appear to be more likely candidates for assistance. Godfried and Song (2000) investigated into the mode of financing small scale manufacturing firms in Ghana.

The panel data, which provides a comprehensive source of credit at various levels of establishment, employed econometric model (linear regression and probit models) to inquire into access to the various forms of finance and ownership characteristics. In respect of finance, he found that a greater proportion of SMEs utilized informal loans than formal loans. A considerable proportion used overdraft while formal credit is the least form of external capital employed. Importantly, the study revealed that a great number of SMEs in the survey used international sources of finance, mainly personal savings and retained earnings in the financing of capital equipment. The econometric results further indicated that high profit small firms are more likely to have access to loans from the formal financial institutions and government credit scheme. Godfried and Song's (2000) result is consistent with Ojo (1995) findings in his investigation into the role of informal finance in the development of SMEs.

From the response to the questionnaire administered in 1993 to various small business firms in Lagos State owner's savings/retained earnings, friends and relatives, clubs, esusu and money lenders the informal sources, constituted about sixty per cent of the total. Dauda (2006) investigated financial intermediation and real sector growth in an deregulated economy in Nigeria. Using Pearson Correlation Analysis and Pair-wise Granger Causality test, she found that financial sector reforms positively impacted on the performance of the real sector form the secondary data of variables between 1986 and 2003. The Pair wise Granger Causality test revealed that bank loans and advances granger-cause real sector growth in general. Impliedly, for profitably operating firms, banks loans and advances determine real sector output growth performance in the Nigerian economy. This is indicative of the fact that termloans and advances meet working capital needs of efficiently operated manufacturing firms.

Fadahunsi (1997) argued that until recently, government policies, strategies and programs in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labor intensity of the small scale enterprises and the low cost for creating jobs. SMEs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They generally require limited capital and they can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and diluting monopoly. The significant contributions of SMEs to the economy of Asian countries are evident in the role that SME sub-sector plays in that region. For example SMEs represent 99.4 percent of total industries in Indonesia and generating 93 percent employment (1974); 99.4 percent in Japan and generating 8.4 percent of employment (1985); 96.6 percent in Korea and 49.3 percent employment generation (1980); 92.0 percent in Hong Kong (1981); 90 percent in Philippines and generating 61.2 percent employment (1983); 90 percent in Thailand and generating 72.2 percent employment (1988).

SMEs in Philippines and Thailand accounts for 47.4 and 30 percent of total value added respectively (Fadahunsi, 1997). The unique feature of the Asian region is the emergence of a large number of NGOs and Voluntary Organizations promoting SMEs particularly in India, Bangladesh, Nepal and Philippines. A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995). The semi-formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Ekpenyong, 1995; Aryeetey, 1995). More than 50 percent of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plcs, the sole proprietor owns more than 60 percent of the capital stock.

This clearly demonstrates that little institutional credit has been received by SMEs (Odetola, 1997). A study conducted by Odetola (1997) on the sources of investment financing for SMEs in Nigeria, found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents. In a similar study by Cowrie Consultants (1995) cited in Odetola, (1997) covering Northern Nigeria, Lagos and Western Nigeria, and Eastern Nigeria, the source of business finance from personal savings was 26.6 percent, 37.04 percent and 32.14 percent for the regions respectively. From friend sources it was 30.59 percent, 19.53 percent and 32.14 percent respectively. From bank sources it was 35.29 percent, 33.33 percent and 21.42 percent respectively. From government agencies it was 8.82 percent, 7.83 percent and 3.57 percent respectively; while trade groups and cooperatives was 5.88 percent, 11.02 percent, and 7.14 percent respectively.

Okraku and Croffie (1997) argued that in Ghana SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40 percent at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity f0or loans. At the enterprise level, SMEs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices.

Evaluating the impact of intervention on SME performance can benefit from the use of a logical framework that clearly defines the program's objective and links activities and inputs to outcomes and impact. However, many of the often repeated justifications for the scale-based enterprise support have little empirical evidence. But whether their actions are based on myth or reality, government in both developing and industrialized countries do intervene to promote SMEs Their SME assistance strategies often try to achieve a combination of equity objectives (alleviating poverty, and addressing social, ethnic, and gender inequalities); and efficiency objectives (raising the productivity and profitability of the business or firms). The confusion created by multiple objectives often leads government to oversubsidize services that could be provided by the market (Hallberg, 1999). Added that direct provision of credit and non-financial assistance to SMEs tend to substitute for markets rather than dealing with the underlying causes of market underdevelopment.

Consequently, the supports for SME through the development of markets for financial and non-financial services are only successful if their market-development effects outweigh their market-distortion effects. In turn, this depends upon whether the support resolves the underlying problems that constrain market development. This underscores the need to begin with a good understanding of the structure and performance of existing markets and to build upon institutions and inter-firm or business networks that are already in place. Previous studies by Ligthelm and Cant (2003) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development.

Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and

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poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. Information asymmetry is a situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge.

In spite of these claims, studies by Liedholm, MacPherson & Chuta (1994) and Paul (2001) indicate that a large number of small enterprises fail because of non-financial reasons such as a lack of forecasting or planning skills, a lack of skilled human resources and poor management practices. It is widely acknowledged that through its labour intensive production and utilisation of basic raw materials, the SME sector, unlike any other business sector, has the potential of reducing the capital cost of creating new jobs. This opportunity may fail if the current financial problems and lack of management skills such as human resources, marketing and general management are not fully addressed. It is apparent and true that the public and private sectors in both the developed and developing world are contributing effectively in the development of small businesses, but there are some factors in the market environment that might not enhance all the initiatives undertaken for the development of small businesses.

Temtime & Pansiri (2004) postulates that the governments of developing countries and private enterprises in developing countries are doing much to facilitate participation for all in terms of the establishment and support for SMEs, but economic forces (inflation, interest and exchange rates) are negatively influencing these efforts and cannot be easily controlled. According to studies carried out in India, SMEs face high interest rates and experience difficulty in raising loans or equity finance; this is as a result of capital market imperfections. Most of the SMEs lack the drive, imagination, managerial ability and ambition to grow and develop. Taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special relief is given. First, founding a business is very risky and taxation (income or company tax) reduces the potential reward that compensates for the risk. Shortages of raw materials or the excessive price of inputs are the primary problems which SMEs are confronted with in developing countries (Little, Mazumdar and Page, 1987). Although SMEs offer employment and income to the majority of people in developing countries, their performance has been characterized by low contributions to output low growth rates and the inability to graduate into larger companies (Berry *et al.*, 2001 & Liedholm, 2002).

Compared to large firms, the poor performance of SMEs has been connected to limited demand for their products and their inability to access foreign markets and technology (Kimura, 2003). Other factors which are also connected to the poor performance of SMEs in the developing world is a shortage of working capital, institutional and infrastructural obstacles and their inaccessibility to formal market supporting institutions and government incentives (Liedholm, 2002; Peel & Wilson, 1996 & Kappel and Ishengoma, 2004).

Main Sources of Financing SMEs in Nigeria

The importance of finance to business organization cannot be over emphasised. Business finance is however, not easy to come by especially in respect of SMEs. Yet they require funds from every source available to meet their asset needs, working capital needs, and for expansion. According to Ekpenyong and Nyong (1992), there is wide consensus in Nigeria that government policies are skewed in favour of the formal sector to the detriment of the informal sector. This skewness is to the great disadvantage of SMEs in Nigeria since they are more disposed to the funds of the informal sector.

Formal Sources of Financing SMEs

The commercial banks, merchant banks, and development banks provide the formal sources of finance to SMEs. The financial system in Nigeria is not in short supply of liquidity, but banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sector. Most of the banks would rather pay the penalty imposed for not meeting the minimum exposure to preferred sectors of the economy than actually run the risk of being exposed to them. According to Ojo (1984), the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, and moneylenders. The study shows that almost all the funds came from personal savings (96.4%) with about 3% from the informal sector and 0.21% from the formal financial institutions. This trend is further established by a 1983/84 study by the Nigerian institute for Social and Economic Research (NISER). NISER findings show that about 73% respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions.

SMEs are crucial catalysts for economic development (Aruwa, 2006). Banks provide a nation with a function of pooling scattered resources from surplus to deficit units so as to promote investment innovation, productivity and consequently growth and development. The banking industry in Nigeria dominates the financial system (Agusto, 2000). Berger et al (2001) maintains that a well-functioning financial system contributes to investment and economic growth. Every enterprise at its onset, before standing firm on its feet, needs borrowing. The first place that they need to go and borrow at those times is the banks. According to elementary corporate finance theory, an investment project should be undertaken whenever its net present value is positive. This assumes that the capital outlay is not exhaustive. Firms do any volume of investment, and so where the firms do not have adequate capital to embark on any level of investment, there is need for capital borrowing (Mainoma, 2005).

This shows that even if an enterprise is strong and firmly rooted, it still does not stop borrowing, because it can embark on a very large scale investment more than it currently does, if it can get the required capital. When funding becomes a major problem for such enterprises, nothing else works. This is because other problems which emerge later in an enterprise's lives that are being tackled as natural problems which come after its funding. This in turn hinders the growth and development of the economy. Njoku (2007) postulates that to forestall the imminent capital flight from the real sector to the banking sector, banks should begin to take second look at the industrial sector in terms of lending operations. He continues that banks should plough back a large proportion of the money available to them to the real sector of the economy as long-term loans at rates not exceeding 5%.

The author further states that this will encourage industrialists not only to remain in their present businesses but also to achieve their business expansion targets. Small and medium scale enterprises dominate the private sector of the Nigerian economy, but almost all of them are starved of funds (Mambula, 2002). The persistent lack of finance, for establishment and operation of SMEs occasioned by the inability or unwillingness of the deposit money banks to grant long term credit to operators of the real sector of the economy, led to the establishment of development finance institutions and the introduction of numerous funding programmes for the development of SMEs in Nigeria. In spite of these institutions and funding programmes, there continues to be a persistent cry against inadequate finance for the development of the SMEs in the country. The CBN (2008) shows that commercial and merchant banks loans and advances to SMEs have been decreasing over the years.

The statistics show thus; commercial bank's loans to SMEs as a percentage of total credit decreased from 48.8% in 1992 to 22.22% in 1994. The trend increased marginally to 22.9% and to 25.5% in 1995 and 1996, respectively. There was a sharp reduction from 25% to 17% in 1997, and the decrease continued till it reached 0.2% in the year 2008. Similarly, merchant banks loans to SMEs as a percentage of total credits reduced from 31.2% in 1992 to 9.0% in 2000 (Akabueze, 2002). The continuous decrease in commercial and merchant bank's loans to small scale enterprises can be attributed to lack of collateral from the SMEs to secure the loans and the high lending rates from the banks.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund

In Nigeria, the formal financial institutions have been organized to finance SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the Federal government's desire to promote SMEs as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. Venture capital financing supplements or takes the place of credit facilities that the conventional banks are unwilling to give. The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk. Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998).

The Nigerian government's version of venture capital financing of SMEs -SMIEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and to promotion of small and medium-scale enterprises. The goal is to reduce interest rate burden and other financial service charges imposed under normal bank lending. The reason for the inability of the SMEs to avail themselves of this fund is as a result of conditions beyond most predominant SMEs Aruwa (2004). According to Sanusi (2004), a breakdown of the SMIEIS fund investment by sectoral distribution shows that 68.82% went to the real sector while service related investment accounted for 31.18%. This, he noted, is a sharp reversal from the initial trend recorded under the scheme.

The Bankers Committee has allocated the investment of banks with respect to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. Analyzing the geographical spread of the SMIEIS fund, Sanusi (2004) reported that Lagos-based investments have gulped 56.63% of the fund, and Abuja and 18 states received the balance 43.47%. The point is about the model of growth of SMEs and financing options available. Golis (1998) submit that venture capitalists do not seek enterprises on the start-up and survival stage but only in the stability and rapid growth stages did the venture capitalists appear. Yet the method of financing remains a critical success factor for SMEs. To be eligible for equity funding under the scheme, a prospective beneficiary shall: i). Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filling of annual returns, including audited financial statements; ii).Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities (Bankers Committee Revised, 2005). Aruwa (2005) laments that, given the developmental stage of Nigeria's dominant SMEs; it is difficult for them to meet any of these requirements. Consequently, SMEs in Nigeria do not have the capacity to access funds from SMEEIS.

Funds from Specialized Financial Institution

It is pertinent to recognize government efforts at improving the capital base of SMEs through creation of specialized and developed institutions and specific directives of these and other formal financial institutions, as well as the Central Bank of Nigeria (CBN), targeted towards increased lending to indigenous (SMEs) borrowers. Other efforts are the non-governmental organizations (NGOs) finance supply targeted at the informal sector especially the SMEs sector. The recent government efforts at meeting the needs of the sector include the following:

i. The reconstruction of the former NIDB in the year 2001 to Bank of Industry (BOI) and the merger of Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) with the newly created Bank of Industry.
ii. As part of government efforts at addressing the financing needs of micro entrepreneurs, a micro-finance policy was launched by the Federal Government in December, 2005.

Other sources of SMEs Financing

One of the major sources of fund/financing available to SMEs is that of personal savings and informal loans from friends and lenders. The government of Nigeria coupled with assistance of World Bank and the African Development Bank have tried in the past to really assist SMEs through their various loans and credit schemes designed to finance SMEs; some of which are: World Bank SME loan scheme, African Development Bank Export Stimulation Loan (ADB/ESL) scheme; CBN Re-discounting and Re-financing Facility (RRF); National Economic Reconstruction Fund (NERFUND), Bank of Industry (BOI) and the Graduate Employment Loan Scheme (GELS) initiated by the National Directorate of Employment (NDE). Lately, the Federal Government of Nigeria (FGN) introduced the Small and Medium Industries Equity Investment Scheme (SMIES) for or to the Banker's Committee requiring all licensed banks in the country to set aside 10% of their Profit Before tax (PBT) for equity investment in promotion of SME's. More so, according to Owualah (15) itemize others seven major sources of funding which are available to SMEs.

a. Personal resources.
b. Family and friends.
c. Partners or business associates.
d. Informal financial markets comprising, individuals and group, including pool fund groups and co-operative societies.
e. Banks (commercial and merchant). Specialised banks like Peoples bank of Nigeria (PBN) and community banks.
f. Specialized funding facilities e.g. NERFUND, the World Bank Loan Scheme for SMEs managed by CBN and the African Development Bank (ADB) loan scheme for export stimulation in the SME sector, SMIEIS etc.

g. Specialised financial institutions such as the Nigerian Bank for Commerce and Industry, (NBCI), Nigerian Industrial Development Bank (NIDB) and the Nigerian Agricultural and co-operative Bank (NACB).

CONCLUSION

The importance of SMEs is such that cannot be ignored by the government of any country especially in Nigeria. Consequently it has been agreed that the growth of SMEs constitutes one of the corner stone's of economic development in the country. In other words, SMEs constitute the driving force of industrial growth and development in the country. It therefore makes it a sector that should be focused on and cared for, nurtured by the government by making funds more accessible to them at a low interest rate as they need funds to thrive and survive. More attention is to be channeled towards the development of SMEs in Nigeria so as to aid there growth and expansion. SMES are very important to the development and growth of the country as they utilize local raw materials and technology thereby aiding the realization of the goal of self-reliance, there is a need therefore to rightly channel the concern of government towards small and medium sized enterprises because of the important roles that SME play in the process of industrialization and economic growth, SMEs immensely contributes to employment generation, income generation, catalyzing development in the country at large, more focus should be on the financing and performance of SMEs also because of the economic gains it brings. Government should formulate policies aimed at facilitating and empowering the growth and development and performance of the SMEs, assisting the SMEs to grow through soft loans at low interest rate and other fiscal incentives in order to enhance the socio-economic development of the economy like alleviating poverty, employment generation, enhance human development, and improve social welfare of the people. Small and medium scale enterprise is a sector that should be given full attention and not be ignored by the government.

RECOMMENDATIONS

Base on the above, the following recommendations are hereby put forward.

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

- Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures.
- There is the need for clear national development objectives to meet the needs of the SMEs sector. Sound policies and regulations pronouncement do not guarantee achievement of anticipated results because of what is encountered during execution, such as inconsistency of policy implementation.
- There is need to improve the administration and fiscal environment of SMEs.
- Promote the production of qualitative goods and services to facilitate a competitive export oriented manufacturing sector.
- There should be promotion of micro-finance institution to cater for the creation of more SMEs in Nigeria.
- There is need for sustained collaboration between government and the private sector. Government needs to sustain the present consultations with the private sector by providing incentives and the needed enabling environment to stimulate and foster the survival and growth of SMEs.
- Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates.
- The government could also assist by establishing a well funded National Credit Guarantee Fund that will act as buffer for credit facilities from banks and other financial institutions over and above the equity provided under SMIEIS.

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