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The Roles of Government And Banks in Entrepreneurship Financing in Nigeria

Bello Baba Hassan

Department of Banking and Finance
Abdu-Gusau Polytechnic, P.M.B 1021
Talata Mafara
Zamfara State, Nigeria
E-mail: Cardinalbello77@gmail.com

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Abstract

The industrialization policy of most developed and developing nations in the past laid emphasis on economy of scale which is a concept that emphasizescost effectiveness through large scale production. This idea which holds the view that large scale corporations were the pillar stone of the modern economy prevailed for greater part of the 20th century. In recent times, however, this idea has changed and the importance of small and medium scale enterprises- SMEs as the bedrock of industrial development is gaining prominence. Entrepreneurship development is a concept concerned with the formation, financing, growth and expansion of business enterprises most especially small and medium scale in an economy with the objective of achieving economic growth and development.In Nigeria, since independence, and since when the idea of entrepreneurship development was introduced in the 1970s and 1980s, various programmes and policies were created by successive governments *over the years for the development and financing of enterprises to improve the economy. Also, financial institutions, most especially the banks have important roles to play in the development and financing of entrepreneurship in the country. Financing is one of the necessary prerequisites for SMEs development; lack of finance represents a major obstacle to their growth and development. This write up will be an attempt to look into the roles of both government and banks in entrepreneurship development and financing in achieving economic growth and development in Nigeria. Relevant literature was reviewed in the formulation of this write up. The main source of informationused is secondary method of data collection.The paper revealed that most of the various programmes, policies and schemes created by the government for the development and financing of entrepreneurship were either now moribund or have failed to meet up with the purpose for which they were established. The paper concludes that entrepreneurship is the need of the day, therefore, authorities and the banks should actively involve themselves in this task.*

Keywords*:* Entrepreneurship, Enterprises, Financing, Banks.

INTRODUCTION

The term, entrepreneurship simply put is accepting the risk of starting and running a businessenterprise. It involves taking the risk of engaging in any meaningful venture for one's economic benefit and hence that of the nation.

In different countries across the globe whether developed or developing, research evidence have proved that small and medium scale business entrepreneurship activities form a greater part of the industrial facility setting of those countries.

In Nigeria,various post-independence government adopted large and semi large-scale industrialization policies to hasten the pace of industrial development and consolidate independence. But then, the weakness of the above large- scale industrialization policies were opened to light following the collapse of the oil boom whose revenues were used to finance the largely import substitution policies in the early 1980s. This, according to Oboh (2005), gave rise to the pre mature death of most of the large- scale industries.

Thus, with the adoption of the Structural Adjustment Programme (SAP) in 1986, there was a change of emphasis or focus from the glamorous, capital intensive,large scale industrial projects to micro medium, scale enterprises as well as new policies and methods of financing them.

Taking into cognizance the growing importanceof entrepreneurshipleading to the establishment of smalland medium scale enterprises in the economic development of a nation and the significance of the role of finance in the growth and development of this type of enterprises,this paper is an attempt to look into entrepreneurship development and enterprisefinancing through the roles played both by the government and financial institutions most especially the banks in promoting and achieving the above in Nigeria.

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Concept and Philosophy of Entrepreneurship:-

Entrepreneurship development is a concept that has to do with the formation, financing, growth and expansion of business enterprises in an economy. This has the overall objective of increasing the number of business enterprises and improving the capacity utilization and productivity of the industrial sector of the economy and thus produce goods and services more efficiently to meet the demand of consumers.

In the past, the industrialization policy of most developing and some developed countries tended to give more emphasis on economy of scale; a concept which emphasises cost effectiveness through large-scale production. At that time, small enterprises were thought to be outmoded and presented technological and economic backwardness.However, in recent times, this has changed and the importance of small and medium scale enterprises as the cornerstone of industrial development is gaining prominence.

Although some people contend that the earliest beginning of entrepreneurial theory datesback to the writings of Richard Cantillon in 1755, most modern day scholars agreed that there are no serious theoretical studies on entrepreneurship until the works of Max Weber, Joseph Schumpeter and David McClelland etc. the theories postulated by these authors, most of which are aggressively empirical are very diverse-ranging from sociological, to psychological and to economic imperatives, Fasua (2006).

Entrepreneurship Development in Nigeria

The history of entrepreneurship in Nigeria can be traced to some studies of Nigerian entrepreneurship, some of which include studies limited to the former Western State of Nigeria. The object of these studies, accordingto historical relics was to determine the reactions of Nigerian businessmen to government measures to encourage indigenous private enterprise. The results of the findings showed that inadequate capital and lack of organization and managerial competence were among the major problems of most Nigerian entrepreneurs.

Although, the studies above revealed the inherent problems of indigenousprivate enterprises, entrepreneurship dates back to the period of our fore fathers who were engaged in subsistence farming. Later, with increasing needs of the farmers they had to diversify into crafts trade to provideadditional source of income to meet other needs. The coming of European missionaries and traders changed the scope and forms of indigenous enterprises as people move from place to place to trade, markets sprang up and later business organizations such as United Trading Company (UTC) expanded the frontiers of entrepreneurial activities in the country.

The attainment of independence by Nigeria in 1960 raised the awareness and consciousness for economic freedom without which the political independence would be meaningless, This desire encouraged many successive governments of the country to fashion out programmes, policies and laws aimed at encouraging entrepreneurial activities among the citizens. This was the basis for the establishment of agencies, associations and most importantly specialized banks and other financial institutions for entrepreneurship development and enterprise financing. At present, there are many small and medium scale enterprises (SMEs) in Nigeria since the 1970s, and especially also since the 1980s after the introduction of the structural adjustment programme (SAP).

Small and Medium Scale Enterprises (SMEs)

Adams (2007) stated that small and medium scale enterprises worldwide constitute an integral part of the industrial base of any nation; they form the foundation on which the industrial sector of any nation must be built. Thus, it is pertinent to boldly say that without a strong base in small and medium scale enterprises, there can be no industrialization of sound foundation on which a sustainable economic growth and development could be achieved. But then, what constitutes a small and medium-scale enterprise (SME)?

A congruence of definitions over what really constitute or qualifies as a small and medium-scale enterprise has been difficult to come by. Various definitions have been offered based on number of employees, annual turnover, capital employed, or a hybrid of the three, Ozor (2007). Some definitions are also based on sales value, independent ownership, and type of industry, age of the firm and adoption of technology among others.According to Adams (2007), the determining factor in defining what constitutes a medium and small-scale industry often includes the different levels of economic advancement and industrial development of a country or among countries at a particular time. For example, an organization which can be described or categorized as a medium or small scale-scale in the United State in terms of capital investment and employment of labour may be of such size that it would be categorized as large- scale in some developing or third world countries.

In Nigeria for instance, since the 1970s, varying definitions were made of SMEs depending on the economic situations or development of the time. For e.g. in 1978, the small-scale department of the Federal Ministry of Industries defined small-scale industries as “organizations having investment capital of up to N60,000, and employing no more than 50 persons”. This was later upgraded to include any manufacturing,processing or service industry with a capital not exceeding N150,000, including machinery and equipment. In 1979, the Central Bank of Nigeria (CBN) issued its credit guidelines for that year. In these guidelines, the CBN defined medium and small-scale enterprises as “organizations whose annual turnover does not exceed N500,000”. Similarly, in1985, the defunct Nigerian Bank for Commerce and Industries (NBCI), for the purpose of its loan revolving scheme for small-scale industries regarded small and medium scale industries as those whose capital investment exceed N750,000including working capital but excluding land and building. The 1989 industrial policy of the Federal Government of Nigeria defined SMEs as those businesseswith investment of between N1,000,000 and N2,000,000 excluding land and buildings but including working capital. In the same vein, during its 31st meeting held in Makurdi in 2001, the National Council on Industry as quoted by Oboh(2005), defined and classified small and medium-scale as follows:

A, Micro/cottage industry- total capital of not more than N1.5m including working capital, and or a labour size of not more than 10 workers.

B, Small-scale industry- total capital employed of overN1.5m but not more than N50 million including working capital and labour size of 11-100 workers.

C, Medium –scale industry- total capital employed of over N 50 million but not more than N200million including working capital and a labour size of over 300 workers.

Contribution of Small and Medium-Scale Enterprises to National Economic Development:-

The most visible and important role of small and medium-sale enterprises (SMEs) in the national economic development of any nation is their contribution in the establishment of an industrial foundation upon which the industrial sector must be built. This is in line with the fact that many large businesses grew out of small and medium enterprises. The experience of the industrialized nationssuggests that the development of SMEs is a precursor to the development of the industrial sector.

The level of prominence and attention given to the SMEs in the nations mentioned below is shown by the decisive and concrete steps taken to stimulate and sustain the growth of same in those nations. For instance, the United State of America enacted the Small Business Act in 1953. Similarly, the Netherlands issued its White paper on the development of small-scale industries in 1954. In the same vein, the former West Germany promulgated its policy Framework on SMEs in 1969. While the Asian Country of Japan enacted its Fundamental Laws on SMEs in 1963.

In Nigeria, numerous small and medium scale enterprises have been established by private business entrepreneurs, partnership and organizations since the 1970s after the promulgation of the Enterprises Promotion Decree, through the 1980s when the Structural Adjustment Programme (SAP) was introduced and to date when the economy was liberalized. This development is indicative of strong opportunity for the emergence of a vibrant industrial sector to emerge in this country. In an analysis of the contributions of the socio-economic development of a nation, Owualah (1999), as quoted by Oboh (2005) identified the following roles of SMEs:

1. **Transformation of Traditional/ Indigenous Industry:** Evidence from

both the developed and developing countries show that the traditional sector always precedes the modern sector. To a large extent, the modern sector evolved through a structural transformation and modernization of the traditional sector. The critical driver of this change has always been the small firms, which metamorphose into medium and large-scale firms.

2. **Stimulation of Indigenous Entrepreneurship:** Through the seedbed or nursery role, SMEs provide opportunities for the realization of the innate entrepreneurial endowments aside from serving as vehicles for the propagation and diffusion of innovative ideas.

3. **Employment Creation:** A very important role of SMEs is their potential to create jobs due to their labour intensive and capital-saving mode of operations. In the case of the developing countries, the labour intensive nature of SMEs coupled with the dearth of capital and abundance of labour presents the SMEs as a veritable source of employment.

4. **Wealth Redistribution:** By providing employment and remunerative economic activities to a great number of rural and urban people, and also supplementing their income from their regular jobs, SMEs contribute greatly to the reduction of income disparities.

5. **Utilization of Local Resources:** SMEs use a lot of local raw materials and discarded by-products of large firms as primary inputs in their production process. In addition, their employment of local resources could beseen from the perspective of the opportunities being offered by SMEs to people with limited skills and formal training to acquire new skills or improve on their old skills.

6. **Dispersal of Economic Activities:** Since SMEs are not capital- intensive, they spring up anywhere in response to the demand for their products. Furthermore, they have the tendency of being located outside major metropolitan centers thereby contributing to industrial dispersal.

7. **Mobilization of savings:** SMEs are useful in mobilizing small savings for productive investments and enhancement of the industrial capital formation. By channeling personal savings of the promoter and those of his or her friends in to the production process, SMEs are able to transform the savings in to the production of physical goods and services thereby bringing about the expansion of the funds due to the multiplier effect.

Enterprise Financing in Nigeria

In Nigeria, successive governments at different times have put in place different policies, programmes and schemes aimed at facilitating the growth and development of micro, small and medium-scale enterprises. This, according to Nnanna (2001), involves the provision of local finance through government agencies, facilitating and guaranteeing external finance through the World Bank and other multi-lateral financial institutions, as well as the establishment of the National Economic Reconstruction Fund (NERFUND). Below is the roll call and analysis of government programmes, agencies and organizations created over the years to aid the financing and operations of SMEs in the country:

1. **Small-scale Industries Credit Scheme:** This was a federal government scheme set up in 1971 through the federal and state governments. The scheme was aimed at providing financial and technical support for the SMEs. It was officially incorporated and launched in the Third National Development Plan(1975-1980) and was meant to be managed by the state ministries of commerce, industry and cooperatives. But by the early 1980s the scheme was already cash-strapped and moribund.
2. **The Nigerian bank for Commerce and Industry:** This bank was set up in 1973 with the aim of providing financial and consultancy support to the SMEs. However, the bank suffered major operational and financial problems which made it unoperational since the early 1990s. The bank was later merged with NIDB to form the Bank of Industry.
3. **Nigerian Industrial Development Bank:** The NIDB was established by the federal government with the primary mandate of providing credit facilities for the large scale industries but the bank also accommodated SMEs. The bank was responsible for disbursing most of the funds under the SME II loan scheme of the World Bank in the 1990s. But like its counterpart above, this bank also suffered from several financial and operational constraints forcing it into distress and later being merged with NBCI and NERFUND by the federal government to form the Bank of Industry.
4. **National Directorate of Employment:** The national directorate of employment(NDE) was established by the federal government in the mid-1980s to provide loans to unemployed graduates for the operations of small-scale business enterprises.
5. **World Bank Small and Medium-scale Enterprises Loan scheme II:** In 1988, the federal government secured a World Bank loan aimed at improving the quality, type and range of financial and extension services to small and medium-scale enterprises in the country. An SME unit was established in the Central Bank of Nigeria, CBN in 1990 to administer the credit component of the scheme on behalf of the World Bank in order to facilitate project implementation. This scheme has since been abolished in 1994.
6. **National Economic Reconstruction Fund:**This scheme popularly known by its acronym as NERFUND was introduce in 1989 during the peak of the structural adjustment programme (SAP) to assist SMEs cope with the attendant high production cost of inputs and interest rates. In addition, the fund was also introduced to bridge the long-term

financing gap in banks' lending to SMEs. The funds of the scheme were mainly from the federal government, the central Bank of Nigeria and foreign sources. NERFUND recorded a lot of successes. But it was also faced with a number of problems such as poor loan recovery, dwindling demand for loans due to foreign exchange risks, under funding and unco-operative attitude on the part of some participating bank.

7. **The Second-tier Securities Market:** This was established in the capital market in 1985 to assist SMEs access funds from the capital market mainly for the purpose of business expansion and modernization. This initiative, according to Oboh(2005), was necessary to counter the bias of the capital market in favour of large-scale industries. By the mid-1990s, the number of SMEs listed on this market rose to more than twenty with some few of them being upgraded to the first-tier market.
8. **Small and Medium Industry Equity Investment Scheme (SMIEIS):**This equity investment scheme formed in 1999 and started in 2001 is a voluntary initiative of the Banker's Committee in response to the federal government's concern and policy for the promotion of small scale enterprises in Nigeria.Under the scheme, all banks in the country are required to set aside 10% of their profit before tax annually for equity investment in small and medium industries as the banking industry's contribution to government'sefforts towards stimulating economic growth, developing local technology, poverty alleviation and generating employment.
9. **Small and Medium Scale Enterprises Development Agency of Nigeria(SMEDAN):** This was established by the SMEDAN Act of 2003 by the federal government to promote the development of micro, small and medium-scale enterprises sector of the economy. The agency has industrial development centres (ICD's) in many states in the country.
10. **Introduction of Entrepreneurship Education Curriculum:**Sincethe early 2000's, the Nigerian government has introduced entrepreneurship education courses in all tertiary institutions in the country as a compulsory subject. This was aimed at making school graduates acquire knowledge and skills that will make them employable, self-employed and most importantly job creators instead of job seekers.School graduates are expected to be exposed to the business world and to understand the roles of entrepreneurship in personal and national development.
11. **International Multilateral Agencies:** Multilateral financial agencies especially the International Finance Corporation (IFC), International Development Association (IDA), etc are a veritable source of finance for the SMEs. The IFC is an arm of the World Bank that assists economies of developing member countries by promoting private sector

development. IFC has extended over $130 million term loan to finance private sector SME operations in Nigeria. The IDA is another arm of the World Bank formed to assist developing countries like Nigeria in poverty reduction by providing credit at zero percent interest with maturity period ranging from 30-40 years. The IDA currently commits about $10 billion dollars annually to the economic development of its member countries of which Nigeria is one.

TYPES AND FUNCTIONS OF BANKS

Banks are of various types. But regardless of their type, all banks perform almost the same functions and play the same role of stimulating the economy and helping in economic growth and development.

Types Of Banks

1. Commercial Banks 2. Marchant/ Investment Banks 3. Specialized Banks 4. Central Banks 5. Development Banks.

Functions Of Banks:-

1. Accepting deposits 2. Granting loans and advances 3.Financial intermediation 4. Financing Foreign Trade 5. Agency services 6. Miscellaneous Functions

ROLE OF BANKS IN ENTERPRISE DEVELOPMENT AND FINANCING

There is no gainsaying the fact that activities of banks reflect their unique role as the engine of growth in any economy. Banks especially commercial and specialized ever remain crucial to the growth and development of entrepreneurship, and their operations provide a solid backing capable of encouraging entrepreneurs in viable and profitable ventures. The role of banks goes beyond their traditional functions which if entrepreneurs avail themselves of could be of tremendous assistance in meeting their desired needs.

There are several ways banks could get involved in small and medium scale enterprise finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of special unite for financing SMEs.

Along the lines of the main functions of banks mentioned above, we shall now examine their role in entrepreneurship development and enterprise financing. And; for the purpose of convenience and proper understanding, the roles can be categorized as follows:

Statutory Roles

These consist in the main the functions for which banks were created in the first place. Such roles are for example accepting of deposit and safekeeping of same, transfer of money, giving of loans and advances, etc. By accepting deposit of customers especially entrepreneur-customers, the banks will be providing security for customers' money and giving them opportunity to use their deposit to borrow more money from the banks to finance the running of their enterprises. By funds transfer, money is moved from one account to another and from one place to another. A good payment system which provides speedy fund transfers is vital for the efficient working of an economy. And with the development of information technology in banks, the speed of service delivery has improved while the cost of doing business has reduced tremendously. The services have enabled entrepreneurs to make transactions outside their immediateenvironment without necessarily having to carry money about.

Financing Roles

The primary reason that banks want deposits is to enable them grant loans and advances from which they earn interest income. Extension of credit to the economy for the financing of business enterprises is the core link that banks have to the real sector, acting like a catalyst and contributing to the growth of the economy of the country. By financing entrepreneurs' production, consumption and commercial activities, banks lubricate the process of economic growth with multiplier effect across all sectors of the economy, Oboh (2005). The various methods by which banks can lend money to entrepreneurs include overdraft, medium and long term loans, debt factoring, invoice discounting, asset finance including commercial mortgages and equity finance. Up until 1997, when compulsory sectorial allocation of credit was phased out as a policy instrument used by the monetary authorities in Nigeria, mainstream banks were made to meet specified targets in their lending to the productive sectors operated by entrepreneurs and businessmen. In 2001, the mainstream banks under the aegis of the Bankers' Committee also decided to commit 10% of their profit to equity investment in SMEs under the Small and Medium Industries Equity Investment Scheme (SMIEIS).

Business Investment Promotion Roles.

Because of the specialized and professional status of banks, they are in a position to play investment promotion roles to entrepreneurs. Such roles may include management of investment for customers, advice on sustainable lines of investment to follow by analyzing the pros and cons of each investment alternatives to the entrepreneur-customer.

Advisory, Guaranty and Consultancy Roles.

In addition to the normal lending and other service, banks now also engage in business advisory, guaranty and other consultancy services which help immensely in the promotion and financing of entrepreneurship activities in the country. It is well known fact that some enterprises/businesses fail simply because of mismanagement, faulty investment decisions, inefficient capital and foul planning etc.

Other areas

Other areas in which banks could offer advisory and consultancy services to the SMEs include methods of control systems or measures to be adopted by the enterprises with respect to defined lines of business or trend of challenges. Advice on methods of raising capital or reorganization of a company to bring about the desired level of efficiency. Advice on tax and tax related matters. Status enquiry services could be offered to effect credit purchases within the domestic market or overseas.

The banks could also perform a great role in entrepreneurship development by organizing, sponsoring and supporting entrepreneurship education and training programmes either directly or in conjunction with other organizations and stake holders. In this regard, the CBN and Diamond Bank Plc are worth mentioning. The CBN organizes and sponsors entrepreneurship development trainings for retiree civil servants in the country. While on its part, Diamond Bank sponsors the Building Entrepreneurship Today (BET), a training programme for small scale entrepreneurs organized by the Enterprise Development Service at pan- African University, Nigeria campus.

METHODOLOGY AND DATA

This paper makes use of secondary sources of data. Information was obtained from related texts, journals, bulletins of the government, World Bank and the Central Bank of Nigeria. The internet was also consulted in this regard, and using deductive approach, conclusions were drawn

CONCLUSION

The importance of entrepreneurship development and small and medium scale enterprises as the pillar block for industrial growth and development in any country was clearly highlighted in this paper. The variousprogrammes, policies and schemes put in place by successive governments to facilitate the growth of SMEs in Nigeria were discussed. It was revealed that the various programmes and schemes were either now moribund or failed to meet up with the purpose for which they were established. This made it necessary for other organizations and agencies including multilateral agencies and banks to come in and play the important role of enterprise development and financingwhich is also one of their major functions. The task of entrepreneurship development and financing is being sharedby several agencies and institutions among which banks are the most important ones. Entrepreneurship development is the need of the hour, therefore authorities and the banks should actively involve themselves in this task. Banks benefit from their involvement in the development and financing of SMEs by increasing their client base and thus diversifying into new areas of business that will eventually reflect positively on the banks' portfolio. This is in addition to the positive outlook on the banks, as they are seen to be playing a role in developing the community and the economy.

RECOMMENDATIONS

Following from the above discussions and conclusions, it is hereby recommended that governmentand financial institutions including the world bank should develop a strong holistic approach to programmes and schemes created by them.All administrative bottlenecks and stringent conditions which make funds inaccessible to SMEs should be removed by the authorities and the banks.

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