

TITLE PAGE

**THE ROLE OF COMMERCIAL BANKS IN SMALL SCALE
ENTREPRENEURIAL DEVELOPMENT IN ENUGU STATE
(CASE STUDY OF UBA AND UNION BANK OF NIGERIA PLC.)**

BY

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**BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
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APPROVAL PAGE

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DEDICATION

I dedicate this project to God Almighty for his wisdom, knowledge, guidance and protection throughout my stay in the great Caritas University.

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My utmost gratitude goes to God Almighty who through his love and mercy, made possible the completion of my project work.

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ABSTRACT

The subject matter of this research work is to evaluate the extent to which Small Scale entrepreneurs in Enugu have been able to obtain loans and raise finance from Nigerian Commercial Banks as a major source of finance to the economy. The main objective of the study is to establish the role of Commercial Banks in financing Small Scale Enterprises (SSEs) in Enugu .A review of literature was done to ensure the conclusion of the study. Based on the analysis, Commercial Banks comply with the Central Bank of Nigeria (CBN) credit guidelines which stipulated that they should set aside 10% of their profit before tax for loan to Small Scale Enterprises (SSEs).Commercial Banks require feasibility report from SSEs before granting loan to them. Small Scale Enterprises do not provide proper feasibility studies due to poor level of education. The research concluded that for small scale enterprises to survive, there have to be a collective effort between them and banks. Also the government should engage more in the development of Small Scale Enterprises by creating and embarking on various incentives to encourage both Small Scale Enterprises and commercial banks.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The post-independence Nigerian government adopted the entrepreneurship government which constrained it to assume the role of entrepreneur and the urge to offset the economic neglect of the colonial government and that resulted in engaging in ambitious industrialization programmes.

When the Nigerian industrial Development Bank Limited (NIDB) was established in 1964 for the purpose of speeding up the industrialization process, its mandate was to promote industrial projects which were large enough to make applicable contribution to the national economy. However, the collapse of the oil boom in the early 1980's exposed the inherent weaknesses of this importation of inputs resulted in large idle capacities, thereby creeping many gross domestic product (GDP) declined in the face of the strong national aspiration for the restructuring of the economy and reduction of the dependence on petroleum. Small and medium scale enterprises have since become the focus of national industrial policy.

In pursuit of self-reliance in a developing country particularly in Nigeria, the central government enacted a decree called "Enterprises promotion Decree" when there was need for small scale enterprises in the promotion of economic development. This has since been at the fore front of development strategies.

However, many developing countries have failed to adopt these strategies owing to their belief that it is a relatively slow process of industrialization. Without the development of small scale enterprises in Nigeria, the nation's quest for industrialization will certainly remain forever at a slow pace. It is the humble opinion of the researcher that further development on our business enterprises must add to the basic issue of creating linkage within the economy to begin to yield real inputs to our economic activities. Priority attention must therefore be given to those business enterprises for which domestic inputs could easily be produced. The objective should be to maximize the value added in their processing and manufacturing as final strong producer incentives to small scale enterprises are necessary not only to meet the food requirement but also to promote growing input supplier industrial growth.

The present economy constraints may well turn out to be a blessing in disguise to our small scale industry effort particularly for the dynamic manufacturing sector. For instance, the market determined exchange rate through Foreign Exchange Market with its resultant high cost of imported inputs may serve as an impetus for industrialist to intensify their search for loan substitute.

In 1971, the government of then East Central State statutorily enacted an edit establishing an office which was hitherto a sub-system of the ministry of commerce and industry to be known as fund for small scale industries Credit Scheme (FUSSI) to give credits to prospective investors to enable them establish, thus helping the country towards industrialization.

As at 1996 and 1999 respectively, banks' loans and advances to small scale enterprises rose from ₦12,302.1 to ₦16,824.00 million. However the very slow rate of growth of the industrial sector, the inability of the sector to adequately provide and satisfy the needs of the economy, the over-dependence of the nation at large on foreign goods, pose a necessary course for concern. The means for helping small scale enterprises to acquire the much needed finance form the background of this research.

1.2 STATEMENT OF THE PROBLEM

There is dearth of financial institutions which cater for long and medium term credit needs of businesses operating in the economy. Small scale enterprises are no exceptions to these, and they suffer a great deal for want of capital for development and expansion of the economic survival of the country. It cannot be over emphasized that they have moved from the subsistence level of pre-indigenization period to a position of importance in the country's industrialization process.

In an attempt to modernize many small scale enterprises, their standard of operation has moved into the capital intensive stage. The need in many cases is beyond the financial capability of the entrepreneurs who set up the business. The major alternative for the provision of such capital is the financial institutions and among the financial institutions operating in the country, commercial banks are the major sources of credit to the various sectors of the economy.

However, it is common knowledge that getting financial support from commercial banks has been grossly inadequate for budding indigenous entrepreneurs and even for those who have

been in the manufacturing business for a long term. Three types of credit are usually required by small scale enterprises. They include:

i. **Short Term Loan:** This type of credit is used to finance yearly operation until the product or proceeds from the industry are sold. The amount which is involved in this type of credit is usually small but lack of this type of credit is most accurately felt by small scale entrepreneurs who have little or no saving upon which to withdraw as they are mostly beginners.

ii. **Medium Term Loan:** This type of loan is for more than one year maturity period but not exceeding three to five years. This loan is mostly required for acquisition of inexpensive equipment with relatively short life span.

iii. **Long Term Loan:** This type of credit is necessary for acquisition of major industrial machines, improvement in industrial equipment, building and land: It is a type of loan that the maturity period is for quite a longer duration.

Small scale enterprises therefore can be a powerful instrument in bringing about a revolution in industrial practices and in firms productivity especially if supplied in sufficient quantity and used effectively.

The study therefore identifies small scale entrepreneurial financing by commercial banks as a major role to entrepreneurial development because finance is just one of the major factors of production.

1.3 OBJECTIVES OF THE STUDY

In view of the above problem of small scale entrepreneurship, the overall objectives of this study is to evaluate the role of commercial banks in financing small scale enterprises in Enugu.

The specific objectives are:

- I. To evaluate the extent to which small scale enterprises in Enugu have been able to obtain loans and advances from Nigerian Commercial Banks, as major source of finance to the economy.
- II. To ascertain the problems facing Commercial banks in financing small scale enterprises in Nigeria.
- III. To identify problems encountered by small scale enterprises in obtaining funds from commercial banks.
- IV. To determine the viability in small scale enterprises financing by commercial banks.
- V. To appraise and evaluate the situation and make recommendations on how to improve on commercial bank provision of finance to small scale enterprises.

1.4 RESEARCH QUESTION

1. To what extent can small scale enterprises obtain loans and advances from Nigerian Commercial Banks?

2. What are the problems facing commercial banks in financing small scale enterprises in Nigeria?
3. What are the problems facing small scale enterprises in obtaining funds from commercial banks?
4. How viable is small scale enterprises financing by commercial banks?
5. How can commercial bank's provision of finance to small scale enterprises be improved upon?

1.5 HYPOTHESES

The hypotheses to be tested include:

Ho₁: United Bank for Africa (UBA) does not comply with the Central Bank of Nigeria Credit Guidelines as it affects lending to small scale enterprises.

Ho₂: Union Bank of Nigeria Plc. does not comply with the Central Bank of Nigeria Credit Guidelines as it affects lending to small scale enterprises. When commercial banks are not willing to comply with the credit guidelines of the central bank, it will be a hindrance for any institution to obtain loans or advances from the bank.

1.6 SIGNIFICANCE OF THE STUDY

During the 1960's and early 1970's most Nigerians engaged in industrial project did so on subsistence level but now emphasis has shifted to the sophisticated and capital intensive enterprises. Annual policies of the Federal Ministry of Nigeria in recent years have been to ensure that commercial banks provide needed capital to small scale enterprises to help

improve their present state. The study therefore sets out to ascertain the extent to which commercial banks have performed the role and the findings will help make recommendations and suggestions for future improvement of the present situation.

1.7 LIMITATION OF THE STUDY

In view of the current emphasis on industrialization of the country in order to reduce the country's import bill from foreign countries, the study focuses attention on the evaluation of the ability of small scale entrepreneurs to obtain loans from the commercial banks to attain the needed level of productivity of their enterprises. The research covers selected small scale entrepreneurs in Enugu State. For the period of three weeks.

Some of the difficulties encountered by the researcher were the unco-operative attitudes of many of the banks' officials approached and some of the small scale entrepreneurs who misconstrued the essence of the study.

Another problem is that of lack of time on the side of respondents to answer the questionnaires in details coupled with the high fare of public transportation. This greatly increased the cost of production and limited the scope of areas covered by this study.

Also difficulties were encountered in collecting data from the banks used as case study. Some of the questions in the questionnaire were not answered inspite of the university's inscription on the questionnaire and the letter of authorization by the head of department attached to it as well as the detailed explanations given to them on

the need of the study. They insisted that some of the required information were confidential and should not be released.

1.8 DEFINITION OF TERMS

1 Small Scale Enterprises

As defined in the Nigerian context, following the current official definition of industrial enterprises adopted by the 13th meeting of the National Council on Industry (NCI) Markudi, Benue State in July, 2001 as “an enterprise with total capital employed of over ~~₦1.50m~~ but not more than ~~₦50m~~, including working capital but excluding cost of land and or labour size of 11-100 workers.

2 Short term credit

This type of credit is a credit or loan that has maturity period that is less or more than one year. E.g. Personal loan.

3 Medium term credit

This is a type of credit or loan that has a maturity period of more than one year but not exceeding two years to be repaid back. E.g. loan required for temporary business requirement.

4 Long term credit

This type of credit matures in more than three years and above. It has a very long maturity period as agreed by the lender and the borrower. E.g. are business development loans and Bridging loans.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 MEANING OF SMALL SCALE ENTERPRISES (SSES)

There has been no consensus among researchers and practitioners as to what constitutes a small scale business. Some writers refer to small scale business as one with low employees, low sales volume, and small capital. The owner is usually directly involved in the management as well as the operations of the business and may not have much training or experience in accounting procedures, taxation, finance, business management and business systems procedures and practices.

Most people would agree that the neighborhood beer parlours, grocery stores and newspaper hawkers are small scale businesses while the Nigerian Brewery Limited, Iganmu Lagos or the Nigerian Tobacco Company Ibadan is a big business. One may generate an argument about what is “big or small” between these two extremes, since it is a relative concept. What appears “small” an establishment in terms of employees or sales volume may be “big” in another establishment. For example, United Africa Company (UAC) with a total sale of a billion naira annually could be a “giant” in comparison to Nigerian Mineral Water Industries, Onitsha. Controversy arises then as to where to draw a line between “big and small” or put in another expression, “how big is small?”. Perhaps the most functional definition is the one made by United Nations Industrial Development Organization (UNIDO) which suggests that a small scale business firm is characterized by at least two of the following features:

1. Ownership and management are usually vested in the same individuals that is, the management is not independent and the managers are usually also the owners.
2. The small business controls a small share of market and therefore, constitutes a little quota in the large size market.
3. Capital is made available by the owner and policy decisions are in the hand of the individual or small groups of entrepreneurs.
4. The area of operation is localized and workers and owners concentrate in the local community. Of course, some do have branches in other towns but most of such branches serve as mere depots.
5. The owner participates very actively in all decision making on a day-to-day operational basis, with a high degree of rigid control.

The above definitions of small scale business is based on parameters such as the installed capacity utilization, output, employment, capital, type of industry or other criteria which have more relevance to the industrial policies of the nation.

In Nigeria, the official definition of small scale business is somewhat flexible and broad.

The Nigerian Bank for commerce and industry defines small scale business as a firm or company with asset (including working capital but excluding land) not exceeding ₦750,000 and aid employment up to 50 persons. Such an establishment must be wholly Nigerian owned (all companies in schedule of the 1977 Nigerian Enterprises Promotion Decree). This Act has been repealed. In addition, manufacturing unit exceeding the limit of investment and

employment as stated above may still be considered to prevalent sizes of plant and technologies are fairly labour intensive.

The Central Bank of Nigeria Monetary Circular No. 25 of 1991 defines small scale enterprises as one whose capital investment does not exceed five million naira including land and working capital or whose turnover is not more than twenty-five million naira annually.

The World Bank Document (Report No. 7114) of 1998 on Nigeria defined small and medium enterprises as one whose total fixed asset (excluding land) plus cost of investment do not exceed ten million naira in constant 1988 price and in micro enterprise as one with fixed asset (excluding land) plus cost of the investment prospect below four hundred thousand naira in constant 1988 prices.

Furthermore, the National Economic Reconstruction Fund (NERFUND) defines small and medium scale enterprises (Section 2 (b) of Act No 2 of 1969) as those with fixed cost of new investment excluding land but not exceeding ten million naira.

Following the current official definitions of industrial Enterprises adopted by the 13th meeting of the National Council on Industry (NCI – 13) in Makurdi, Benue State in July 2001, defined a small scale industry as an industry with total capital employed of over ~~N~~1.50 million but not more than ~~N~~50.00 million, including working capital but not excluding cost of land, and or labour size of 11-100 workers.

2.2 ROLES AND IMPORTANCE OF SMALL SCALE ENTERPRISES

Development issues are interesting ones in economics and finance literature. They are interesting because they form the focus of many strategies that become policies of government. In the context of developing economies such as Nigeria, poverty reduction or alleviation is the nucleus of economic development policies. According to Babajide (2002:16), poverty alleviation efforts are directed as addressing two major goals of lifting persons trapped out of the poverty web and to also prevent those above poverty line from slipping under.

One of the instruments that have been utilized to reduce poverty and promote economic development is the promotion of small and medium scale enterprises. Development of small scale enterprises is seen as an instrument that can be used to generate sustainable development, is one which ensures that the general population can attain an acceptable level of welfare both at present and in the future. It is far from haphazard and inequitable economic growth. It is growth accompanied by economic empowerment and mass participation in the economic and social life of the nation. It is, therefore, a truism that industrialization remains a veritable strategy to economic advancement and the promotion of small scale enterprises as a sub-sector of industrialization is a pertinent instrument for economic development. This is because small scale enterprises approach lends itself easily as a tool in the development process.

The importance and relevance of small scale enterprises according to Central Bank of Nigeria's monetary policy circular of 2002 and 2003 section 3, states that its role in employment generation, skill acquisition, output growth, enhancement of local technology and the mitigation of rural-urban drift cannot be overemphasized. Its relevance is manifested in the numerous dimensions:

1. They enhance capacity building as they serve as entrepreneur training avenues.
2. Small scale enterprises ordinarily and usually create more employment opportunities per unit of investment because they are characterized by labour intensive operations.
3. They achieve a more relatively high value added operations because they are propelled by basic economic activities that depend mostly on locally sourced raw materials.
4. Small scale Enterprises provide feeder industry services as they serve as major suppliers' intermediate goods and components of large scale industries as well as major agents for the distribution of the final product of such industries.
5. They also provide opportunities for the development of local skills and technology acquisition through adaptation. The 'Aba made' syndrome is a clear manifestation of such technological acquisition that invariably gives impetus to rapid development in the economy.
6. They also tend to serve as agent of industrial spread and rural development since they survive in less sophisticated industrial infrastructure.
7. Small scale enterprises provide an interesting alternative for countries like Nigeria that desire the fast option for industrial development. This is because they are characterized by short-term gestation periods and high potentials for quick yield on investment.

Given all the above positive impacts and indications which small scale enterprises can create in an economy, it is understandable then that they are IN fact, generally accepted that they constitute over 90 percent of the employment and 30 – 70 percent of the gross domestic product (GDP).

Little wonder, that the government in its Economic Direction (1999-2003) proposed the establishment of a Small and Medium Enterprises Development Agency (SMEDA) for the promotion of Small and Medium Scale Enterprises. It is one of the measures being put in place for achieving the provision of five million jobs in the four years (1999-2003) which also involves the training and settlement of at least 50 percent of tertiary institutions graduates estimated at about 130,000 per annum.

The banking industry is not left out in complementing government efforts. Banks now set aside 10 percent of their profit before tax for equity investment and promotion of small and medium enterprises. The impact of this initiation is better appreciated when it is realized that this is the only sector that is enjoying this special funding arrangement coupled with the fact that it is expected to provide funding of small and medium enterprises to the tune of ~~N~~42 billion annually if all banks cooperate in its implementation.

In Nigeria, economic development program of the present administration is targeted at poverty alleviation, job creation and sustainable livelihood. The prospects to achieving these goals are perfectly suited through small and medium scale enterprises. This is because given the richly endowed nature of the country in agriculture, oil and gas, and in the internal

resources, developing small and medium scale enterprises should be relatively easy task. It was, perhaps, partly in realization of this, that there was a change and shift in industrial development strategy from large scale and import-substitution industrialization strategy to small and medium scale enterprises as far back as 1975 through the third National Development Programme.

The government is thinking along this and is also probably informed by the positive experience resulting from the promotion of the small and medium scale enterprises in other economies. There is the need that continuous development of small and medium scale enterprises made them to play a significant role in the rapid transformation of the Asian Tigers from primary producing underdeveloped economies to industrial giants in the second half of the 20th Century. It is believed that small and medium scale enterprises are capable of performing a similar feat in Nigeria.

2.3 FUNDING NEEDS AND SOURCES OF FUNDS FOR SMALL SCALE ENTERPRISES (SSES)

A simple but general question to ask ourselves is for what do organizations or firms require funding?

According to Babajide (2002:17), firms need finance for many reasons and these reasons can be divided into two broad areas:

1. To acquire fixed asset e.g. plant and machinery, factory premises and facilities for start up, expansion, diversification or reconstruction.

2. To finance working capital requirements which could be the need to acquire or increase stock of raw materials and finished goods and to bridge temporary gaps between the payment and the receipt of money.

The rationale for funding requirements of small scale enterprises is not different from these. In general terms, the sources of funds to finance business are legion depending on the type and character of business as well as the duration for which the fund is required i.e. short term, medium term and long term. In Nigeria, funding businesses of the nature under consideration can be private or institutional.

2.3.1 PERSONAL INITIATIVE AND EFFORTS

Personal savings and loans and grants from parents, relatives, friends or business associates are major sources of finance for this category of business in Nigeria. In addition, cooperative society efforts as well as thrift savings “isusu” remain veritable sources of savings that are plunged back into businesses. There are those that resort to money lenders, who remain a major source of finance in all parts of the world. The major merit in all these sources is the fact that little or no formalities are involved in accessing the funds. Thus, funds can be obtained much more quickly than would be from other formal source of finance. It is to be noted though that the quantum of funds that can be mobilized through these sources are rather very low.

2.3.2 THE BANKING INDUSTRY

The Nigerian banking industry made up essentially of commercial and investment banks remain a veritable source of funding for small scale enterprises. Although they operate at the short end of the market resulting from their sources of deposits, which are short-tenured, they still foster funds that are accessible through equity participation, venture capital activities and loans and advances. By section 21 of the banks and other financial institutions Act 1991, (BOFIA) a bank may acquire or hold a part of not more than 40 percent of the share capital of any agricultural, industrial or venture capital company subject to a number of conditions. Among the conditions for banks is that such equity participation should not be more than 10 percent of the bank's shareholders unimpaired by losses while total holding for all companies is restricted to 20 percent for commercial banks and 50 percent for investment banks of their shareholders funds not impaired by losses.

Apart from equity funding, banks are also sources of borrowing for small scale Enterprises (SSE) ranging from short-term overdraft facilities to medium and long term loans and advances. The major limitation of bank loans is the associated costs in terms of interest and other charges. Furthermore, lack of required and acceptable collateral always poses a problem of small scale Enterprises (SSEs) in accessing bank loans of various types.

2.3.3 SMALL SCALE ENTERPRISES CREDIT SCHEME (SSECS)

This was a popular scheme for the financing of small and medium enterprises before the introduction of the structural Adjustment programme (SAP). They are funding assistance to

cottage and small & medium enterprises by the regional governments. The schemes were implemented by management committees and investment promotion Departments backed-up with technical support from the industrial Development Centers (IDCS). This scheme was able to promote over 10,000 small scale enterprises before 1986. Political interference on the operations of the scheme during the Second Republic led to the collapse of the scheme in many states. However, some states still have the scheme functioning.

2.3.4 THE SMALL AND MEDIUM INDUSTRY EQUITY INVESTMENT SCHEME (SMEIS).

This is a voluntary initiative of the Bankers committee that was approved at its 246 meeting held on 21st December, 1999. The initiative was in response to government's concerns and the policy measures for the promotion of small and medium enterprises as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. The scheme requires all banks in Nigeria to set aside 10 percent of their profit before tax for investment in form of equity in eligible industries in the real sector of the economy, specifically in agro-allied, information technology and telecommunications, manufacturing, educational establishment, services, tourism and leisure, solid minerals, construction and any other activity as may be determined from time to time.

To access the funds, the beneficiary must be a limited liability company and comply with all applicable tax laws and regulations. Funds invested by participating banks shall be in the form of equity investment. This is to reduce the burden of interest and other financial charges under normal banks lending. A beneficiary may however, obtain additional funds by way of loans from banks in addition to the equity. The recommendations of industrial associations

such as the Manufacturers Association of Nigeria (MAN) and National Association of Small and Medium Scale Enterprises (NASME) are mandatory for their members.

2.3.5 THE BANK OF INDUSTRY

This bank is a product of the merging of federal government financial institutions that have responsibilities for promoting small and medium enterprises as well as poverty alleviation for the development of a country. Thus, the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB), the National Economic Reconstruction were merged to form the Bank of Industry with an initial capital base of ₦50 billion. It is the primary responsibility of the new bank to promote industrial development.

2.3.6 THE CAPITAL MARKET

The capital market remains the source of long-term funding for business. It is a market for the trading of long term securities e.g. debentures, commercial papers e.t.c. In Nigeria, the Nigerian Stock Exchange (NSE) is the apex of the market for long term and equity finance, it was established in 1961 to facilitate the raising of business finance for industries and the trades and to facilitate the disposal or change of ownership of existing stocks and debentures. The Nigerian Stock Exchange (NSE) seeks to promote Small and Medium Enterprises (SMEs) by the establishment of Second-Tier Securities Market (SSM). The objective of this market is to facilitate access to the capital markets by small and medium enterprises to raise cheap funds. The main technique is to streamline the listing requirements under the second-tier

securities market (SSM) and make it more flexible than what is obtainable at the Nigerian Stock Exchange (NSE).

Although, a laudable scheme, it has achieved limited successes as only few enterprises have achieved this.

2.3.7 OTHER SOURCES

There are hosts of other avenues and institutions for funding of small and medium enterprises in Nigeria. The government efforts of encouraging on-lending activities to small and medium enterprises through the international financial Organizations, UNIDO, UNDP, ILO, USAID e.t.c, also represent credible sources of funds to the small and medium enterprises.

There are also venture capital companies and leasing institutions, which provide seed and risk capital for equity and equipment acquisition in Nigeria. These are basically private initiatives.

There are others too like the micro finance banks that also provide credit facilities for the small and medium enterprises.

For accessing the funds through any institutional arrangement, whether banks or specialized institutions, the conditions are almost the same. There is the conventional requirement of applications backed up by feasibility studies and cash flow arrangements. For long-term funding, project proposal is a must. Furthermore, production, marketing, management, technical partner, where applicable, and other relevant details must be provided. There is also the need to show conviction on the competence of the management to manage such

fund and, indeed, such an enterprise. Most of these conditions are difficult to meet for a large proportion of the small and medium enterprises.

2.4 THE PREDOMINANCE OF SMALL SCALE INDUSTRIES IN NIGERIA.

Small Scale Enterprises (SSE) are found significantly in every nook and corner of Nigeria. They could be likened to frontline troops in the battle for even development of a nation. An international finance corporation study estimated the number of modern sector small and medium scale enterprises in Nigeria at 90,000 in 1972 and 125,000 in 1983, suggesting an average annual growth rate of 3.5 percent between 1972 and 1983. If it is assumed that this growth rate had been maintained since 1983, the number of small and medium scale enterprises in Nigeria could have been about 320,000 in year 2001. The small and medium scale enterprises sector employs about 50 (fifty) percent of the labour force in Nigeria.

According to statistical data as at 1999, it was revealed that there were 3, 185 manufacturing establishments, which employed 435, 179 workers and paid ~~N~~2.231 billion in wages and salaries. A survey which was also conducted in 1999 covered 2,696 enterprises with a maximum capital of ~~N~~150,000.

According to the survey, the bulk of employment was food and basic metal industries accounted for 40 percent and 16 percent respectively. Furthermore, the average number of employees in an enterprise was five and 90 percent of enterprises were sole proprietorships. While about 35 percent of the managers did not have any basic educational qualifications and more than 75 percent of the managers had working experience of five or more years and about 88 percent had received more than two years apprenticeship. They are also intensive

users of domestic raw materials, which accounted for about 60 percent of the total cost of materials. There is no doubt that large domestic employment generated by the small scale enterprises sector is as a result of not only the large number of enterprises operating in the sector, but also from the low level of capital investment per enterprise and worker.

Various size characteristics of Distribution:

Table 1

Percentage Sectoral Distribution of the Number, output and Employment of Small Scale Enterprises in 1999.

Sector	Number	Output	Employment
Non durable Consumer Goods	55.18%	49.12%	56.22%
Durable Consumer Goods	22.76%	20.48%	13.99%
Capital Goods	22.06%	30.40%	29.79%
Total	100.00%	100.00%	100.00%

Source: 1999 National Survey of Small Scale Enterprises in Nigeria.

Table 1 above shows that 55.18% of the establishments were engaged in the production of non-durable consumer goods such as processed food, toiletries, soaps, footwear's, household appliances e.t.c. while about 22.06% were engaged in the production of metal products and simple machinery equipment.

It is quite evident that the output and employment patterns are quite similar to that of the number of establishments. The final consumer goods accounted for over 66% of total output

while more than 70% of the volumes of employment were engaged in the production of those goods.

TABLE 2

Percentage Level of External Dependence of Small Scale Enterprises in Nigeria 1999 Sector.

Sector	Raw	Equipment	Labour	Finance
Non Durable Consumer Goods	46.95%	60.19%	1.03%	0.74%
Durable Consumer Goods	5.23%	69.93%	1.29%	0.17%
Capital Goods	86.33%	65.40%	9.98%	0.63%
Overall	40.68%	63.61%	3.73%	0.58%

Source: 1999 National Survey of Small Scale Enterprises

Table 2 shows that small scale enterprises depend heavily on imported raw materials and equipment. They relied on local labour and finance. It also shows that enterprises that produce capital goods depend more on imported inputs than those which produce final consumer goods. There are no indications that the pattern of external dependence has changed. This import dependence according to Nwankwo (1992:7) is a major cause of small scale and medium enterprises financial predicament.

2.5 PROBLEMS FACING SMALL SCALE ENTERPRISES IN NIGERIA

According to Ekhaton (2001:32), the major problems of small scale enterprises sometimes arise from the nature and characteristics of the enterprise. He therefore classifies their problems into two main categories:

- a. Problems inherent in the small enterprise.
- b. Problems arising from weak institutional support

Babajide (2002:17) is of the opinion that small scale enterprises major problem is not so with avenues of sourcing funds but their accessibility. Since 1970, when the government changed its industrialization policy to give focus and pre-eminence to small and medium scale enterprises away from import substitution and large scale industrialization, there have been series of incentives, financial, institutional and otherwise by successive governments to promote small and medium scale enterprises. The private initiatives are also legendary. The achievements recorded cannot be said to commensurate with the efforts put into it.

Mordi (2002:35) believes that funding is not the major problems of small scale enterprises. He prefers to view the situation from two perspectives. According to him, most small scale enterprises find it difficult to differentiate between the owner of the business and the business itself. He said that a lot of small business managers run the organization without some form of financial accountability and exhibit gross ignorance about the need to seek equity participation which is capable of lifting the business to greater heights.

On the policy side, the major problem he sees is the problem of offering marketing protection for small scale enterprises. He said that government does not provide market protection for small scale enterprises in the country. According to him, local manufacturers face stiff competition from their foreign counterparts, who produce under an economy of scale that give them unfair advantage. He gave an example with the textile industry in Nigeria. He noted that Nigerian wax used to be the best among others locally and was selling well in the market before the importation of Hollandies Wax which is being seen as the current wax recently and in turn has brought down the price of Nigerian wax. Another example is with the candle industry in Nigeria. He noted that a pack of local candle used to sell ~~N60~~ and ~~N65~~, but owing to the trade policies of the government, this thus opened the borders of the country for all manners of goods, including substandard and fake ones. He said that the industry now face the threat of extinction. This, according to him, because the imported candle were selling for a lower amount a pack and has caused a sharp drop in local patronage.

Another area the government can assist small scale enterprises, is in the area of “encouraging patronage”. He said that it is not simply enough for the government to champion the “produce more and buy made- in- Nigeria goods” crusade. He said that the government should take practical steps by patronizing small scale enterprises to serve as moral booster. He said that a lot of keyboards used in churches and other places in Nigeria currently are products of small scale enterprises in developed countries. He recalled that when some small scale enterprises in Japan built the keyboard, the government made it compulsory for all

public schools to purchase them for use in music lessons. This, thus, enabled the manufacturers to add more mellifluent notes before they were shipped down to Nigeria.

All these are the reasons for him to continue saying till at the end of the day that fund is not the major problem because if you give funds for somebody to produce and you are not buying his products, especially in a place where government is the largest buyer, you are not creating any market for him.

Small scale enterprises expert, however, observed that the government appears to have come to grips with the situation by taking a long over-due step to ban the importation of some products such as turkey, beer, bottled water and cigarette lighters. He said that Nigeria should borrow a leaf from India which has over 700 items under restriction.

According to Obitayo (2001:16), small scale enterprises like large scale enterprises assemble finished goods and depend critically on imported raw materials and equipment, and thus suffer from the same problems. But the size, nature, characteristics and isolation of the small scale enterprises have made them more vulnerable to these constraints than the large ones. Hence, the rate of business failures was dominant among small scale enterprises (SSEs).

Also, despite the efforts made at providing finance and ensuring that the regulatory environment is conducive through the withdrawal of regulations that were inimical to orderly growth and development of small businesses, there are still areas that have not been adequately addressed. Some of these areas are discussed below:

2.5(i). RESTRICTED ACCESS TO CREDIT FACILITIES

Finance which is the most critical need of small scale Enterprises (SSE) to establish production plants, upgrade technology, increase capacity e.t.c. has also been identified as their basic problem, reflecting the imperfection in the market. Most Small Scale Enterprises (SSEs) have restricted access to institutional finance including the short-term working capital to meet fluctuating needs. Since the banks are risk adverse, the poor performance of small scale enterprises (SSEs) and the high risks and transaction cost associated with commercial lending have made the banks unwilling to lend to small scale enterprises (SSEs). Other limiting factors include small scale enterprises (SSEs) inability to provide the required equity capital funds, adequate collateral securities to support loans, shortage of long term loans, restrictive monetary policy and high cost of funds. The wholesale liberalization of the financial sector and the tight monetary policy stance which addressed excess liquidity has resulted in rising interest rates on loans. The specialized target credit scheme such as NERFUND and SME I and II and those provided by the federal and state governments have encountered difficulties due to acute budgetary constraints and lack of counterpart funding and have to a limited extent, succeeded in addressing the funding requirements of small scale Enterprises (SSEs).

II INFRASTRUCTURE CONSTRAINT

The poor state of the country's basic infrastructure has remained unsolved, and partly restrained the growth capacities of small scale Enterprises (SSEs). Productive activities in the manufacturing sub-sector are characterized by dysfunctional physical infrastructure,

incessant electric power outage and under-utilization of capacities which adversely affect small industries.

Also, inadequate provision of essential services, such as telecommunication, access roads electricity and water supply constitutes one of the greatest constraints to small scale industries development. Most small scale enterprises (SSEs), resort to private provisioning of these facilities at great costs, thereby reducing the available funds of their operations. A World Bank study (1989:3), estimated that such cost accounted for 15-20 percent of the cost of establishing small scale enterprises (SSEs) in Nigeria. This is likely to be much higher today, given the high level deterioration of our basic infrastructure. Contemporary evidence has shown that the relative burden of the compensatory provision of infrastructure facilities is much heavier on small scale enterprises than on a large scale enterprise.

III TECHNICAL CONSTRAINT

Like large enterprises, small scale enterprises (SSEs) need modern managerial skills to source resources which are known to be in a short supply in the country. Therefore, government and the organized private sector must jointly ensure that appropriate and functional assistance schemes are put in place for small scale enterprises. In this regard, the National Association of small scale enterprises (NASME) must collaborate with the Industrial Development Centers (IDCs) of the federal government. The Industrial Development Centers must also be better equipped for this purpose.

IV DETERIORATING MACROECONOMIC ENVIRONMENT

The harsh macroeconomic environment in Nigeria has adversely affected the performance of small scale Enterprises (SSEs) and has also become hostile to their survival and growth. Majority of small scale enterprises (SSEs) are grappling with the problem of uncertainty created by the macroeconomic instability and policy shifts. Other sources of uncertainty which impacted negatively on small scale enterprises (SSEs) include high and unpredictable inflation and price instability and foreign debt harden and service obligation. As a major obstacle to the survival and growth of small scale Enterprises (SSEs), macroeconomic instability arises from government's fiscal operations. Fiscal indiscipline impacts negatively on private investment and survival of small scale enterprises (SSEs) as large public sector deficits, fuel inflation, price variability, and exchange rate volatility. Fiscal deficit rose from ₦13.3 billion in 1998 to ₦285.1 billion in 1999, but declined to ₦103.8 billion in 2000.

Foreign debt services obligation deprives the economy of resources that could be used to provide credits, strengthen the infrastructure and make the environment conducive for small scale enterprises (SSEs). Sourcing of funds from banks at 23.0 percent average (lending rate has limited small scale enterprises (SSEs) access to both short and long-term financing). Such funds are usually used for short-term speculative business, instead of long-term investment in physical plants and equipment. The wide gap (17.7%) between high lending and low savings rate discourages domestic mobilization of resources from investment in productive activities. Except for the period of between 1996 and 1998, macroeconomic framework has not been

conducive for the survival, development, and growth of small scale enterprises (SSEs) since 1992, while incentive framework remained weak. Growth in money supply has led to excess liquidity in the banking sector and also the new system of bank recapitalization which reduced the number of banks to 25 strong banks has improved banking industry. Sharp depreciation exchange rate, resulted in widening spread between autonomous and the parallel market rates. All these have created uncertainty which encouraged capital flights and industrialization. Other sources of macroeconomic disequilibria are external shocks, sociopolitical instability e.t.c.

V TARIFF POLICY

Nigeria is a signatory to the World Trade Organization (WTO) agreement on trade liberalization and is, therefore, expected to promote the cause of free trade. However national interest should be paramount in the pursuit of trade liberalization. Not even the industrial countries that are throwing their borders open indiscriminately to imports. They still protect their industries in one form or the other. The current situation whereby Nigeria's market is virtually taken over by dumped goods (new and second hand) should be urgently redressed. Otherwise, industrial development will continue to be unrealized dream even in the distant future.

2.6 COMMERCIAL BANKS FINANCING OF SMALL SCALE ENTERPRISES UNDER THE NEW CENTRAL BANK OF NIGERIAN DIRECTIVE AND ITS LIKELY IMPACT

The need for a sustainable source of financing for small scale enterprises following the failure of various arrangements described above necessitated the bankers' committee initiative, with the central bank of Nigeria (CBN) as the prime mover. Under the scheme which is known as the Small and Medium Industries Equity Investment Scheme (SMIEIS) which was a voluntary initiative of the Bankers Committee at its 246th meeting held on 21st December, 1999 requiring all commercial banks to commit 10 percent of their pre-tax profit to the funding of the equity of small and medium scale enterprises (SMEs) and was launched by president Olusegun Obasanjo on 21st August 2001 after it has started its operation 19th June 2001. This is the best that has ever happened to the country's real sector in general. It was estimated that aggregate pre-tax profit of banks would be about ₦573.7 billion in the first five years of its operation i.e. 2001-2005 and 10.00 percent of the sum being ₦57.37 billion. This is a substantial amount that could revive the small enterprise sector if all the stakeholders play their roles as expected. The initiative, in addition to providing finance, also requires banks including commercial banks to identify develop and package viable industries with the entrepreneurs. Through the scheme, banks are expected to spread the restructuring and financing or refinancing of small scale industries, many of which are now moribund owing partly to poor financing. In order to give further support to the initiative, the Central Bank has contacted the International Finance Corporation (IFCO, which has agreed to bring in resources for on-lending through the banks, when an enabling environment has been created.

According to Babajide (2001:16), this new initiative by the Bankers' Committee has generated new hopes for early and tick revitalization of the prostrate real sector of the economy. But the initial hope generated by this decision according to him is fast abating and is being gradually replaced by doubts over workability of the scheme and frustration on the part of small scale industries promoters who are beneficiaries. This is because 17 months after the CBN gave the directive, the modalities for the scheme's implementation are yet to be finalized or agreed upon, there by delaying the release of the fund.

According to him/some industry experts believe that if the implementation of the scheme had commenced as promised by the apex bank, the 0.8 percent negative growth recorded in the industrial sector last year as well as the increased unemployment level would not have occurred.

However, the current delay in implementing this bold initiative is not a surprise to many. From the outset, small scale industries programme had been lodged by one controversy or the other. An instance of this according to him was the revelation that contrary to the belief that the idea of creating the scheme emanated from all banks, it was only the CBN and a handful banks, mostly the old generation banks that were actually behind it. He said that other banks were merely forced to abide by the directive.

But despite all these delays, some still believe that if the scheme is well managed, the Banker's committee initiative has good prospects of fostering an enduring private sector and giving financial support to small scale industries. Nnanne (2001:7) is of this opinion. He is also

of the opinion that small scale industries are needed in the country and economy in general to provide a solid indigenous base from the nations industrialization drive.

THIS INITIATIVE WOULD AMONG OTHER THINGS MAKE THE FOLLOWING IMPACT:

2.6.1 BOOST AND DEEPEN SMALL SCALE ENTERPRISES FINANCING

The programme is expected to reverse the age long Luke warm attitude of the banking sector in meeting the credit needs of small scale enterprises (SSEs) operation. This is aside of the anticipated International Finance Corporation (IFC) financing in foreign exchange which would further deepen sources of financing in the country.

2.6.2 FACILITATE ACCEESS TO THE CAPITAL MARKET

Access to the capital market will be facilitated as the Bankers initiative is expected to broaden equity participation in small scale Enterprises (SSEs), thereby resolving operator's characteristic aversion to disclosure and ownership dilution. Through this, the prospects for many small scale Enterprises (SSEs) satisfying the listing requirement on the second Tier market and existing ones moving to the first Tier market appear bright.

2.6.3 STIMULATE ACTIVITIES IN THE SUB-SECTOR

With enhanced funding and improved infrastructure facilities, capacity utilization in existing firms would be boosted and this would provide incentive for prospective investors, thereby stimulating productive activities in the economy. The step-up activities will in turn facilitate employment generation and utilization of local resources for which small enterprises are noted for, with the attendant multiplier effects on overall economy.

2.6.4 WORLD BANKS' SERVICE DELIVERY TO THE ECONOMY

The new initiative provides a veritable avenue for all the banks in the country to participate in the ownership of business enterprises through equity participation, thereby widening their service delivery to the economy. Increased availability of equity capital to small scale enterprises will in turn help in restructuring their capital bases for revival and growth.

2.6.5 IMPROVE OPERATOR'S MANAGEMENT PRACTICES

As the new initiative would influence banks to be involved in the ownership of enterprises, there will be improvement in the management practices of small scale enterprises for instance, with banks expert advice, the problem of poor record keeping and lack of adequate utilization of owners' funds from enterprise would be overcome, leading to efficient management of such businesses and growth of entrepreneurship in the economy.

2.6.6 REDUCE RATE OF DEFAULT

As banks under normal circumstances with proper loan administration and monitoring through the application of canons of lending which usually comes in four questions like:

- (1) How much is required?
- (2) What is the purpose of the loan?
- (3) For how long are the funds required?
- (4) What is the source of repayment?

When these have been answered satisfactorily, then the issue of security of the loan is considered. The notion of seeing every loan facility as national cake will be mitigated, thereby reducing the rate of default.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 POPULATION OF THE STUDY

The population of this study is made up of the officials of two commercial banks in Enugu: namely United Bank of Africa (UBA) and Union Bank of Nigeria Plc, and some selected small scale enterprises in Enugu. The elements in the population are units of analysis and their nature is determined by the survey objectives.

The study population consists of the following groups:

Number of Surveyed officials in UBA	=	100
Number of Surveyed officials in Union bank	=	100
Number of Surveyed officials of small scale enterprises	=	110
Total population	=	310

3.2 DETERMINATION OF SAMPLE SIZE

Sampling involves the selection of a number of study units from a defined study population. A sample is therefore a small representative of a large population. Out of three hundred and ten (310) questionnaires that was shared among the groups used as the population of the study, three hundred (300) were returned while ten (10) were not returned. So, sample size here becomes three hundred (300).

3.3 INSTRUMENT OF DATA COLLECTION

Research projects more often than not, seek to build on previous knowledge which may exist in published forms as well as in peoples unrecorded experiences. This research involves both

data and other information which were obtained from primary and secondary sources in the form of previous publication.

3.3.1 PRIMARY DATA

These were collected by the use of well-structured questionnaires which were administered to the operation departments of UBA and Union bank, Enugu and also selected small scale enterprises in Enugu.

3.3.2 SECONDARY DATA

The secondary data sources are professional journals, newspapers, presented by experts on accounting and financial matters, textbooks, magazines, works done by researchers etc.

3.4 METHOD OF DATA COLLECTION AND INVESTIGATION

In carrying out this research, the main choice that had to be made is whether to embark on a detailed study or survey. A case study was deemed appropriate. The two banks and selected small scale enterprises were visited and interview conducted with the entrepreneurs and banks personnel, especially those found useful to the study such as operation managers. In most cases, journals, books and other materials relevant to the study were collected from the bank. Libraries were visited and internet to update the information acquired from the banks and also to acquire a strong theoretical back ground on the subject matter.

This approach, though time and finance consuming afforded me the opportunity to have an indebt evaluation of the speculated and actual role of commercial banks in financing small scale enterprises since it placed the researcher not just as mere listener but also as observer because the researcher went through the past records made available.

3.4.1 QUESTIONNAIRE ADMINISTRATION

Questionnaires were self-administered. They refer to questions by using a firm, which the respondent fills himself. Questionnaires constitute a principal source of data and from which references are drawn.

3.4.2 INTERVIEW METHODS

Interview method served as a supplement to questionnaires. It was employed to cover the deficiency of the questionnaires and sometimes to extract additional information where there is a conflict or bias.

3.5 METHOD OF DATA PRESENTATION

Data processing involves the following set of activities such as data sorting, categorizing of data, data coding and transferring coded data to tabulations. Method of data presentation in this study is Z-SCORE TEST. It would be used to analyze data derived from primary source i.e. questionnaires.

Formula: $Z = \frac{X - N}{\sigma / \sqrt{n}}$

When X = sample mean

N = population mean

σ = sample standard deviation

N = number of respondents

Z = standard normal distribution

DECISION RULE:

If Z , that is, the standard normal distribution falls in the critical region i.e. 1.96, the null hypothesis is rejected and the alternate accepted.

HYPOTHESIS TO BE TESTED

Ho: United bank of Africa (UBA) does not comply with central bank of Nigeria (CBN) credit guideline.

Hi: United bank of Africa (UBA) complies with central bank of Nigeria (CBN) credit guidelines

Ho: Union bank of Nigeria Plc. does not comply with central bank of Nigeria (CBN) credit guideline.

H₂: Union bank of Nigeria plc. Complies with central bank of Nigeria credit guideline.

CHAPTER FOUR

4.1 DATA PRESENTATION-PRIMARY DATA

On the whole 310 questionnaires were distributed and 300 returned while 10 were not returned.

4.2 PRESENTATION OF QUESTIONNAIRE RESULT IN PERCENTAGES

Two sets of questionnaires were used, one for small scale enterprises (SSEs) and one for bank officials, both UBA and union bank.

The one for bank officials comprise of 10 (ten) questions while that of small scale enterprises comprise of 5 (five) questions.

QUESTIONNAIRE FOR BANK OFFICIALS

Question: 1

Name of Bank: UBA

Question 2: Does your bank recognize small scale enterprise?

OPINION	NO. OF RESPONSES	PERCENTAGE
YES	56	56%
NO	44	44%
TOTAL	100	100%

This question was aimed at discovering whether UBA recognizes the needs of SSEs like loans to help them establish or expand businesses. Result from respondent's show that 56 of the

bank officials are of the view due to one reason or the other. From these responses, it can be seen that UBA recognizes the needs of SSEs.

QUESTION 3:

Does your bank comply with commercial banks minimum credit allocation to SSEs as required by the CBN through its guidelines?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

The question is to know if UBA complies with commercial banks minimum credit allocation to SSEs as required by the CBN through its guideline of setting out 10% of commercial banks' profit before tax for SSEs. The responses show that they are seriously complying.

QUESTION 4:

Does your bank require a feasibility study of the proposed project before granting loans?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	84	84%
NO	16	16%
TOTAL	100	100%

This question was purposely done to ascertain whether UBA require a feasibility study of the proposed project before granting loans to SSEs or not. The responses show that 84 of them

agreed that they require while 16 disagreed. The result now is that they require feasibility report before granting of loans to them (SSEs).

QUESTION 5:

Does your lending policy require SSEs to provide a collateral security before obtaining loans?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	30	30%
NO	70	70%
TOTAL	100	100%

This question was aimed at knowing whether UBA lending policies require SSEs to provide a collateral security before obtaining loans from their bank. The responses show that 30 respondents were of the lending policy require collateral while 70 of them were against it because of the SSEs poor financial state, so the result shows that they don't require collateral security from SSEs before granting loans to them.

QUESTIONS 6:

Since the majority of those small scale enterprises are not educated enough, do you have problems in dealing with them?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	65	65%
NO	35	35%
TOTAL	100	100%

This question was asked to know if the attitudes of the SSEs since majority of them are uneducated enough, is affecting the bank, may be in feasibility report writing or filling of forms required. The responses show that 65 of them said their attitudes affect them while 35 said that they were not affected. The result shows that their attitudes (SSEs) affect the bank.

QUESTION 7:

Do they (SSEs) repay the loans given to them as and when due?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	50	50%
NO	50	50%
TOTAL	100	100%

This question was asked to ascertain whether the SSEs repay the loans given to them by bank as and when due. The responses show that 50 respondents agree that they repay while other 50 disagree with them. The result now becomes that sometimes they do repay while sometimes they don't repay.

QUESTION 8:

Does the small and medium enterprises equity investment scheme (SEMEEIS) have positive effect on SSE and the economy in general?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

This question was aimed at knowing if SEMEIS scheme have positive effect on SSE and the economy in general. The responses show that all the respondents agree that it affects economy in general positively. The result now is that the scheme affects economy positively may be through provision of employment.

QUESTION 9:

Since most of the small scale businesses are one man business has this got any negative effect on your business transactions especially in loan recovery?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	71	71%
NO	29	29%
TOTAL	100	100%

This question was aimed at knowing whether small scale mostly being one man business has any negative effect on banks' business transactions especially in refusal to loan repayment. The responses show 71 of the UBA respondents said that it affects their business negatively while 29 of them disagreed. The result becomes that it affects them negatively as bad debts.

QUESTION 10:

Presently, do you feel that your lending policy is so attractive as not to scare intending customers away?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

This question was asked to ascertain whether UBA's lending policy is so attractive as not to scare intending customers away. The respondents answered fully that it is so attractive. The results thus, show that UBA's lending policy is so attractive presently as not to scare intending SSEs customers away.

FIRST SET (B)

Question 1: Name of bank: Union Bank of Nigeria

Question 2: Does your bank recognize small scale enterprise's needs?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

This question was asked to know whether Union bank of Nigeria plc. recognizes that something like SSE is in existence and also has many needs like obtaining of loans from commercial banks in which they are inclusive, for the enhancement of their standard of living.

The responses show that all of the respondents agreed that they recognize it, thus, the result showing that they recognize them (SSEs).

QUESTION 3

Does your bank comply with commercial banks minimum credit allocation to SSE as required by the CBN through its guidelines?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

This question was aimed at ascertaining whether Union bank of Nigeria plc comply with commercial banks minimum credit allocation to SSE as required by the CBN through its guidelines. The responses show that all of the respondents agreed that they comply, so the result now shows that they comply.

QUESTION 4:

Does your bank require a feasibility study of the proposed project before granting loans?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	65	65%
NO	35	35%
TOTAL	100	100%

This question was aimed at discovering whether Union bank is requiring a feasibility study of the proposed SSEs project before granting loans to them. The response show that 65

respondents were of the feasibility study requirement while 35 were not. The result is that they require the feasibility study before granting loans.

QUESTION 5:

Do your lending policies require SSEs to provide a collateral security before obtaining loans?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	50	50%
NO	50	50%
TOTAL	100	100%

This question was purposely asked to know if Union bank require collateral presentation before obtaining loan. The responses show that 50 respondents said yes while 50 said no, so the result thus, becomes that they sometimes demand for collateral while sometimes don't demand for it, it depends on their internal reasons.

QUESTIONS 6:

Since the majority of those small scale enterprises are not educated enough, do you have problems in dealing with them?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	55	55%
NO	45	45%
TOTAL	100	100%

This question was asked to discover whether the illiteracy of most of the operation of SSE is affecting the bank. The responses show that 55 people responded yes while 45 of them said no. The result shows that it is affecting them.

QUESTION 7 repay the loans given to them as and when due?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	60	60%
NO	40	40%
TOTAL	100	100%

This question was aimed at ascertaining whether the SSEs do repay the loans granted to them as and when due in Union bank. They responded that 60:

Do the SSEs

Percent of them repay while 40 percent don't repay. The result is that they do repay

QUESTION 8:

Does the small and medium enterprises equity investment scheme (SMEEIS) have positive effect on SSE and the economy in general?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	90	90%
NO	10	10%
TOTAL	100	100%

The question as to discover whether Union bank recognizes SMEEIS as a scheme that have positive effect on SSE and the economy in general may be through generating employment

for job seekers. The responses show that 90 respondents were of the scheme's positivity while 10 were against it. The result then becomes that is positive to the economy in general.

QUESTION 9:

Since most of the small scale business enterprises are one man business, has this got any negative effect on your business transactions especially in loan recovery?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	61	61%
NO	39	39%
TOTAL	100	100%

This question was purposely asked to know whether sole proprietorship of small scale enterprises has any negative effect on Union bank's business transactions especially in loan recovery. The responses show that 61 people said yes while 39 said no. The result is that it affects them.

QUESTION 10:

Presently, do you feel that your lending policy is so attractive as not to scare intending customers away?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	100	100%
NO	-	-
TOTAL	100	100%

This question was asked to know whether Union bank's lending policy is so attractive as not to scare intending customers away. The responses show that all the respondents agreed that the lending policy is so attractive and thus, the result is that it is attractive to SSEs.

SECOND SET OF QUESTIONNAIRE

FOR SMALL SCALE INDUSTRIES

QUESTION 1:

Did you raise fund for setting up your business through commercial banks loan and from which bank?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	70	70%
NO	30	30%
TOTAL	100	100%

The question was asked to know if small scale enterprises raise fund for setting up their business through commercial banks or not. The responses show that 70 of the respondents said that they raise through them while 30 said that they didn't get from them rather from personal savings, thrift societies etc. The result is that they raised money from commercial banks for setting up business.

QUESTION 2:**Does the loan granted to you contribute to the growth of the business?**

OPINION	NO OF RESPONSES	PERCENTAGE
YES	80	80%
NO	20	20%
TOTAL	100	100%

The question was aimed at knowing whether the loan being granted by commercial banks to small scale enterprises solely for setting up of business contributed to the growth of the business at last. The responses show that 80 respondents said that it contributed while 20 said that it didn't contribute, so the result is that it contributes.

QUESTION 3:**Do you feel that Union bank comply with the minimum credit allocation to SSEs as required by the CBN through its guidelines which stipulates that they should set aside 10% of their profit before tax for SSEs?**

OPINION	NO OF RESPONSES	PERCENTAGE
YES	77	77%
NO	23	23%
TOTAL	100	100%

The question was all about discovering whether Union bank is complying truly with the minimum credit allocation to SSEs through the responses of small scale enterprises

themselves and not from banks' responses because every bank will say that they are complying. Their responses were like 77 of them said that they are complying while 23 said that they are not complying. The result shows that they are complying.

QUESTION 4:

Have you been able to repay the loan given to you?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	75	75%
NO	25	25%
TOTAL	100	100%

This question was asked to ascertain whether small scale enterprises that obtained loans from Union bank have been able to repay their loans. 75 of the respondents said that they have repaid while 25 of them have not repaid. The result shows that they have been able to repay.

QUESTION 5:

Do you think that United bank of Africa (UBA) comply with the minimum credit allocation to SSEs as required by the CBN through its guidelines?

OPINION	NO OF RESPONSES	PERCENTAGE
YES	57	57%
NO	43	43%
TOTAL	100	100%

This question was asked to know whether UBA comply with minimum credit allocation to SSEs as required by the CBN through its guidelines, which will determine the hypothesis result of the bank. The responses show that 57 respondents said they comply while 43 said that they don't comply. The result is that they do comply with CBN credit allocation to SSEs.

4.3 STATISTICAL TOOLS

4.4 TEST OF HYPOTHESIS

Ho: United bank of Africa (UBA) does not comply with the central bank of Nigeria credit guidelines

Hi: United bank of Africa (UBA) comply with the central bank of Nigeria credit guidelines.

Using the report gotten from question 5 of the small scale enterprises questionnaire,

	X	F	Fx	X-x	(X-x) ²	F(X-x) ²
Agree	2	57	114	0.43	0.1849	10.5393
Disagree	1	43	43	(0.57)	0.3249	13.9707
		100	157			24.51

$$\bar{X} = \sum fx / \sum f = 157 / 100 = 1.57$$

$$\begin{aligned} \text{Standard Deviation } s &= \sqrt{(\sum f(X-x)^2 / (\sum f))} \\ &= \sqrt{24.51/100} \\ &= \sqrt{0.2451} \\ &= 0.49 \end{aligned}$$

$$\text{Standard Error Mean (SEM)} = 0.49/\sqrt{100}$$

$$= 0.49/10$$

$$=0.049$$

$$\text{Population Mean (M)} = x \pm 1.96 \text{ (Standard error mean)}$$

$$= 1.57 \pm 1.96 (0.049)$$

$$=1.57 \pm 0.09604$$

$$=1.57 + 0.09604=1.66604$$

$$=1.57 - 0.09604 = 1.47396$$

Use the smallest figure 1.47396 for Z calculation.

$$Z = X-M \div \frac{s}{\sqrt{n}}$$

$$Z = (1.57 - 1.47396) \div (0.49/\sqrt{100})$$

$$= 0.09604 \div 0.49/10$$

$$= 0.09604 \div 0.049$$

$$= 1.96$$

DECISION RULE: accept the alternate hypothesis and reject null hypothesis since the Z falls in the critical region that is 1.96

HYPOTHESIS 2:

Ho: Union bank of Nigeria plc. Does not comply with the Central bank of Nigeria (CBN) credit guideline.

Hi: Union bank of Nigeria plc. Comply with the Central bank of Nigeria credit guideline.

Using the report gotten from question 3 of the small scale enterprises questionnaire.

	X	F	Fx	X-x	(X-x) ²	F(X-x) ²
Agree	2	77	154	0.23	0.0529	4.0733
Disagree	1	23	23	(0.77)	0.5929	13.6367
		100	177			17.71

$$X = \frac{\sum fx}{\sum f} = \frac{177}{100} = 1.77$$

$$\begin{aligned} \text{Standard Deviation } \sigma &= \sqrt{\frac{\sum f(X-x)^2}{\sum f}} \\ &= \sqrt{17.71/100} = \sqrt{0.1771} = 0.42 \end{aligned}$$

$$\begin{aligned} \text{Standard Error Mean (SEM)} &= \sigma / \sqrt{\sum f} \\ &= 0.42 / \sqrt{100} = 0.42 / 10 = 0.042 \end{aligned}$$

$$\begin{aligned} \text{Population Mean (M)} &= x \pm 1.96 (\text{Standard Error Mean}) \\ &= 1.77 \pm 1.96 (0.042) \\ &= 1.77 \pm 0.08232 \\ &= 1.77 + 0.08232 = 1.85232 \\ &= 1.77 - 0.08232 = 1.68768 \end{aligned}$$

$$Z = \frac{X - M}{\sigma / \sqrt{n}}$$

$$Z = \frac{1.77 - 1.68768}{0.42 / \sqrt{101}}$$

$$= \frac{0.08232}{0.42 / 10}$$

$$= \frac{0.08232}{0.042} = 1.96$$

DECISION RULE: reject the null hypothesis and accept the alternate hypothesis since the Z cal falls in the critical region that is 1.96.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

From the data analysis carried out in chapter four, the major findings, from the research are summarized as follows:

1. Commercial banks recognize the need of granting loans to the small scale enterprises as means of generating employment and enhancing growth of the economy.
2. Commercial banks comply with CBN credit guideline on setting aside 10% of their profit before tax for small scale enterprises.
3. Commercial banks require a feasibility report and collateral before granting loan to small scale enterprises.
4. Since small scale enterprises do not provide proper feasibility studies of every viable project due to poor level of education, banks find financing of small scale enterprises (SSEs) unattractive because of inability of such borrowers to meet their financial obligations.
5. Most of small scale entrepreneurs are scared of applying for loans from commercial banks due to poor level of education that is, illiteracy, high interest rate, collateral requirement etc.
 - a. Diversion of funds provided to other ventures
 - b. Changes in economic trends and activities
6. Finally, although banks revealed that loan given to SSEs are not properly utilized, the banks used in the study were relevant to reveal the percentage being set aside for small scale enterprises.

5.2 CONCLUSION

There is no doubt that small scale enterprises (SSEs) can be a miracle source of development and an engine of growth that they have been in Asian Countries and in America. In fact, going by their characteristics, they should be the major focus of the government, together with agriculture, if Nigeria is to realistically address the development problems of unemployment, poverty, urbanization etc. They should therefore, immediately become the economic policy priority of government because of their potentials if they have to address our economic ills. The oil boom of the early seventies brought with it the enormous notion that a project had to be big, to be viable and profitable. Consequently, many large and complex projects were started without due regards to our management limitations. Our track record in Nigeria in the management of large and complex organizations has proved unsatisfactory. Even now, many of such organization cannot pass the test of efficient and effective management. Many have collapsed while many are still grappling with problems that could have been avoided had they started on small scale.

Indeed, the industry for the future in this country should emphasize the development of the well-managed small size firms. The government providing the necessary incentives, education and infrastructure and a general conducive environment for the environment for the development of Small Scale Enterprises (SSEs).

Our universities, colleges of education and research institutions should devote more time and resources into the problems of small scale enterprises so that the ultimate objective of entrepreneurial and commercial development of the nation can be achieved.

Our banks should adopt a more developmental approach to the financing of small scale enterprises.

When these are achieved, other benefits of small scale enterprises (SSEs) as a source of raw material, provision of food, employment generation and self-reliance will be accomplished.

Banks adopting more developmental approach to the financing of small scale enterprises can be achieved through the nature of advice and guidance they give their small scale customers.

They should also encourage them to use the facilities at the stock exchange particularly under the second-tier securities market, as a basis of acquiring needed capital and spreading ownership and consequently reducing the risks of concentrated control. They should also de-emphasize collaterals as the overriding condition for granting credit facilities to small scale enterprises (SSEs).

Finally, the Banker's committee initiative and commercial banks are to keep the ball rolling in financing small scale enterprises as well as enhancing and uplifting the growth of the economy.

5.3 RECOMMENDATIONS

Having highlighted the problems and shortcomings of small scale enterprises (SSEs) in Nigeria, the following recommendations aimed at correcting and eliminating those constraints are put forward for consideration.

In order to reduce the risk in small scale enterprises (SSEs) lending, the Central bank of Nigeria and the government must ensure that they keep on regulating properly their current initiative of requiring all commercial banks to set aside 10 percent of their profit before tax for equity investment in small and medium scale enterprises.

Rediscounting by the Central bank of Nigeria (CBN) can sample possibilities for encouraging commercial banks to gain experience in medium and long term building operation. A number of procedures can be adopted such as preferential discount rates, multiple discount rates or quotas favouring certain purposes.

The banks, themselves can ensure minimum risk of the loan losses by providing technical and managerial resources to various kinds of small scale enterprises customers. This would assist them in project preparation, implementation, financing and management.

At the same time, small scale enterprises can avail themselves of such services provided by the government at the entrepreneurial development center.

In order to make credit available to small scale enterprises (SSEs) sector, the banks and the government should make use of the rural banking program. The branches of each bank in the rural community should be given free hand to take certain decisions concerning advancement of these loans and advances to rural small scale enterprises. They should be able to act as “management consultants” identifying problems and suggesting solutions.

Banks would also need to be encouraged to fund the working capital requirements of small scale enterprises (SSEs). In the face of the limitations and inadequacies already enumerated in this project, small scale enterprises are high risk for banks to lend. Consequently, part of the government programs for small scale enterprises (SSEs) would be to devise a means of providing incentives and encouragement to banks to be able to freely lend to small scale enterprises (SSEs).

There is need to have an institutional coordination of the funding efforts of government and its agencies if small scale enterprises are to access and benefit from these institutions set up to cater for their financing needs. We can borrow a leaf from the USA where the small business administration (SBA) creates awareness about funds available, the categories of business that can get them money and various ways to obtain them. It is also involved in loan guarantee, certificate of competence, prime contracting, break out procurement, research and development, business information services etc. much more, the small business administration (SBA) channels all its assistance through appropriate institutions like commercial banks.

Probably, this is the direction that the newly established bank for industry and small and medium enterprises development agency (SMEDA) would have to focus. Government efforts should be geared towards the creation of management environment conducive to the

development of their efficiency, productivity and the adoption of a result-oriented management approach.

Central bank of Nigeria (CBN) should license more Micro Finance banks to be able to extend more loans to small scale enterprises (SSEs).

We also recommend that small scale enterprises (SSEs) should not base only in urban areas. This is because the numbers of small scale enterprises in urban areas are alarming and commercial banks cannot give loans to all. This is why they should be encouraged to reside more in rural areas i.e. rural small scale enterprises should be encouraged. If this is achieved, the government should ensure that it provides more infrastructural facilities in rural areas so as not to discourage these small scale enterprises (SSEs) in achieving their objectives.

Banks should not discriminate from lending to small scale enterprises (SSEs) as there are no more restrictions restricting them from doing so. They should extend loans freely to small scale enterprises (SSEs) and ensure that these loans are monitored effectively so that they are used for their specific purposes.

Also, government should initiate industrial development bonds, which are used in countries for the purpose of building industrial plans in certain areas with a view to attracting industries or firms to such an area. Business firms apply and are allowed under certain conditions to occupy such plans for which they pay rent. The rents paid are used to offset the principal and interest.

Finally, a major impediment to growth generally in Nigeria has been the state of economic and social infrastructure. This has been an over-flogged issue in the discussion of Nigeria's economic development. Provision of necessary infrastructural facilities and the enabling environment for business operations generally is an imperative uninterrupted power supply, good roads and transportation networks, rural development, efficient, effective and cheap communications etc. are the basis to competitive performance of enterprises. Their provision will definitely reduce the funding needs of small scale enterprises (SSEs) as they would no

longer require funds to provide electricity, water, telephone and other infrastructures on their own.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

In a research work like this, which is quite broad “the role of commercial banks in financing small scale industries in Enugu”, cannot be easily exhausted and that is why the researcher has identified other areas of further research in greater details. The researcher could not do this because of some constraints. The areas are as follows:

1. How the government can improve the provision of basic infrastructure and provide entrepreneurial extension services to train these small scale entrepreneurs and their staff in order to improve the poor technical know-how of these enterprises.
2. How the central bank of Nigeria in conjunction with the government can establish decrees that will enable development banks to be reviewed in allowing them maintain current accounts and attract deposit from the general public. This will afford them the opportunities to provide loans.
3. The researcher also wishes that banks can act as financial consultants to small scale enterprises (SSEs) in the form of regular guidance on the preparation of financial records and proposals for banks facilities.
4. Finally, how commercial banks can assist small scale entrepreneurs in having access to foreign exchange and also ensuring that they do not misuse such opportunities. If this is achieved, it will help in the reduction of cost and will lead to an increase in their working capital.

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APPENDIX 1

DEPARTMENT OF BANKING AND FINANCE

FACULTY OF MANAGEMENT AND SOCIAL SCIENCES

CARITAS UNIVERSITY, ENUGU STATE

August 14th, 2012

Dear respondent,

The researcher is a student of the above named department and institution, conducting a research on the role of commercial banks in small scale entrepreneurial development in Enugu.

Please reply honestly. All information is strictly and confidentially used for the purpose of study alone.

Thanks.

Name:

Signature:

Uduogu Augustine

SECTION A

FOR BANK OFICIALS

1. Name of bank.....
2. Does your bank recognize small scale enterprise needs?
.....
3. Does your bank comply with commercial banks minimum credit allocation to SSE as required by the CBN through its guidelines?
.....
4. Does your bank require feasibility of the proposed project before granting loans?
.....
5. Do your lending policies require SSES to provide collateral security before obtaining loans?
.....
6. Since the majority of those small scale enterprise are not educated enough, do you have problems dealing with them?
.....
7. Do THEY (SSES) repay the loan given to them as and when due?
.....
8. Does the small and medium industries equity investment scheme (SMIESI) have positive effect on SSE and the economy in general?
.....
9. Since most of small scale business enterprise is one man business, has this got any negative effect on your business transactions especially in loan recovery?

.....

10. Presently, do you feel that your lending policy is so attractive as not to scare intending costumers away?