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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) DEVELOPMENT POLICIES AND STRATEGIES IN NIGERIA: A CRITICAL APPRAISAL

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ABSTRACT

This paper explores a critical appraisal of the policies and strategies for the development of Small and Medium Scale Enterprises in Nigeria. A descriptive analysis of the policies and strategies of Small and Medium Scale Enterprises was carried out and it was discovered much of the efforts initiated by government did not yield much result because of lack of adequate fund to carry out the activities as well as overbearing regulatory and operational environment among others. It is therefore necessary that the implementation of policies and programme for Small and Medium Scale Enterprises development be taken seriously by carrying out proper monitoring and evaluation of these programmes.

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KEYWORDS

Development, Policies, Strategies, Small and Medium Scale Enterprises, Nigeria.

INTRODUCTION

The positive contribution of small and medium-scale enterprises (SMEs) in providing and maintaining balanced economic and social development is universally accepted. These enterprises also play an important role in reducing the level of unemployment and creating new employment opportunities and, with their flexible production structure, they can follow changes in market conditions more effectively. It was pointed out in Ihua (2009) that these enterprises constitute the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic product (GDP) of many countries. Due to their importance, countries usually seek to encourage the establishment, expansion, development and protection of SMEs. The promotion of SME efficiency and dynamism can thus yield increasing social and economic returns in virtually all economies (Thitapha, 2002).

It has been estimated that SMEs account for about 70 per cent of total industrial employment in Nigeria (Olusoji, 1999). The critical role of SMEs cannot be overemphasized in that they form the bulk of business activities in a growing economy like that of Nigeria. They provide job opportunities, enhance the quality of human resources and promote managerial skills/talents which are lacking in many economies. In the provision of jobs, SMEs are more labour intensive than larger firms; and as such, they employ reasonable number of manpower.

Consequently, SMEs play an important role in fostering income stability, growth and employment. In addition, the efficiency of the domestic market is improved by making use of scarce resources, thereby facilitating long-term economic growth. Audretsch (2000) concluded, from his study on the analysis of SMEs in United States, that they contribute the greatest amount of net employment to the economy.

Successive governments in Nigeria have put in place various policies and support programmes for SME development. Despite these various support programmes, the potentials of the small and medium enterprises sector have not been fully exploited as they contribute about 70 per cent of total industrial employment and account for only 10-15 per cent of total manufacturing output as noted above. Also, the agricultural sector, which engages over 60 per cent of the nation's labour force, produces only about 40 per cent of the gross domestic product (Salami, 2003). In a nutshell, these enterprises are yet to achieve their full potentials. The purpose of this paper therefore is to do a critical appraisal of the policies and strategies for the development of SMEs in Nigeria. Following the introduction is the conceptual issues in section 2. Section 3 presents the policies and strategies of SMEs in Nigeria while section 4 appraises the policies and strategies. Section 5 presents the challenges of SMEs in Nigeria while section 6 concludes the paper

CONCEPTUAL ISSUES/LITERATURE REVIEW

The definition of SMEs varies from country to country. For example, while UNITAR (2004) defined small and medium-scale enterprises (SMEs) as privately-owned businesses that are too small or relatively small to engage in large-scale public offerings of securities, the Central Bank of Nigeria (CBN, 1997) noted the definition of SMEs by the National Council of Industries in Nigeria as enterprises those with total investment of above N40 million but not exceeding N150 million and labour size of between 35 and 100 workers. In general, the classification of SMEs varies by assets, number of employees or annual sales.

The International Finance Corporation (IFC), in Hamid (2004), defines SMEs as firms with less than 300 employees and total assets less than USD One million. Based on this definition, the majority of businesses in Nigeria are SMEs.

According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the definition of SMEs is based on value of assets, excluding real estate and number of employees. SMEDAN categorized medium and small-scale enterprises into three as follows Medium-scale enterprises (MSE) are defined as enterprises with asset value less than 200million and employees less than 300. Small-scale enterprises (SSE) have the assets less than 50 million and employ less than 100 people while micro enterprises (ME) are those with less than 1 million asset value and employ less than 10 people.

The World Bank Group SME department has classified micro enterprises as enterprises with employees less than or equal to 10 and total assets less than or equal to US$ 100,000 or total annual sales less than or equal to US $100,000; small enterprises have employees between 10 and 50 and total assets greater than US$100,000 or equal to US$3million or total annual sales greater than US$100,000 or equal to US$ 3million; while medium enterprise are those with employees above 50 but less than or equal to 300 and total asset between US$3 million and US$15million or total annual sales between US $3million and US$ 15million. In the Nigerian context, SMEs are best defined as enterprises with fewer than 100 employees and less than N50 million in assets (World Bank, 2002). For the purpose of this paper, SMEs are identified as enterprises with employees less than 100 and assets less than N50 million.

The contributions of SMEs to the Nigerian economy as discussed by Chibundu (2006) are as follows: SMEs affords greater utilization of local raw materials, generate employment, encourage rural development, develop entrepreneurship, mobilize local savings, provide linkages with bigger industries, provide regional balance by spreading investments more evenly, and provide opportunity for training managers and semi-skilled workers. According to Ariyo (2000), a study done by the then Federal Office of Statistics (FOS) now National Bureau of Statistics (NBS) shows that 97 per cent of all businesses in Nigeria employ less than 100 employees. Based on an earlier definition of SMEs, it then means that 97 per cent of all businesses in Nigeria are small businesses. The SME sector provides, on average, 50 per cent of Nigeria's employment and 50 per cent of its industrial output.

Moreover, a Central Bank of Nigeria (CBN, 2000) study estimates that SMEs account for about 70 per cent of industrial employment and from 10 to 15 per cent of manufacturing output. Table 1 below shows the structure of industrial establishments in Nigeria.

TABLE 1: STRUCTURE OF INDUSTRIAL ESTABLISHMENTS IN NIGERIA (%)

Sector	Small Scale and Micro Enterprises	Medium Scale Enterprises	Large Scale Enterprises
Agriculture, Forestry and Fishing	43.4	53.8	2.8
Mining and Quarrying	29.9	55.2	14.9
Manufacturing	65.2	31.3	3.5
Electricity, Gas and Water	25.0	51.0	24.0
Consumption	41.7	47.7	10.6
Wholesale and Retail Trade	75.9	23.0	1.1
Transport, Storage & Communications	46.9	46.9	6.2
Finance, Insurance & Real Estate	50.9	45.0	4.1
Community, Social & Personal Services	68.2	30.9	0.9
Average	69.68	22.75	7.57

Source: CBN (2000); The Changing Structure of the Nigerian Economy.

In spite of their preponderance, SMEs however contribute only 1 per cent of GDP (NIPC, 2002). This contribution pales into insignificance when compared with what obtains in other countries and regions. In countries like Indonesia, Thailand and India, SMEs contribute almost 40 per cent of GDP and over 50 per cent in the USA and the EU (NIPC, 2002).

IMPORTANCE OF THE STUDY

This paper is important because of the usefulness of SMEs in the economy. The SME sector provides, on average, 50 per cent of Nigeria's employment and 50 per cent of its industrial output. The earlier study conducted by Central Bank of Nigeria estimates that SMEs account for about 70 per cent of industrial employment and from 10 to 15 per cent of manufacturing output.

STATEMENT OF THE PROBLEM/OBJECTIVES OF THE STUDY

Despite the various policies and support programmes that successive governments in Nigeria have put in place for SME development, the potentials of the small and medium enterprises sector have not been fully exploited. SMEs contribute about 70 per cent of total industrial employment and account for only 10-15 per cent of total manufacturing output as noted above. Meanwhile, the agricultural sector, which engages over 60 per cent of the nation's labour force, produces only about 40 per cent of the gross domestic product (Salami, 2003). Moreover, these enterprises are yet to achieve their full potentials. The purpose of this paper therefore is to do a critical appraisal of the policies and strategies for the development of SMEs in Nigeria.

POLICIES AND STRATEGIES OF SME's IN NIGERIA

Prior to the return to civil rule in 1999 in Nigeria, various policies and programmes were put in place with the assistance of international organizations to encourage the development of SMEs. These include monetary, fiscal and industrial policy measures to promote the development of small and medium-scale enterprises (SMEs). Various measures like the Economic Stabilization Act of 1981, the National Economic Emergency Fund (1985) and the Structural Adjustment Programme (SAP) were put in place to encourage local producers to use local inputs in their production. These measures increased the number and size of small and medium scale enterprises and thus they became the focus of enduring industrialization, and income and employment generation that could improve living standard and economic growth.

Policy measures like generous tax incentives and export promotion incentives were targeted towards employment generation, integrated rural development and intensive use of local resources for production. These policy initiatives were favourable to the SMEs and thereby facilitated their growth and development. Credit facilities and institutional support were also developed to encourage credit delivery to SMEs.

Other measures include establishment of specialized financial institutions, Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) to provide long term credit, Funding and setting up of industrial estates to reduce overhead costs, National Economic Reconstruction Fund (NERFUND), to provide medium to long-term local and foreign loans for small, and medium scale businesses, particularly those located in the rural areas;World Bank Loan Scheme (SME I & II Loan Scheme), including the Small Scale Industry Credit Scheme (SSICS), Facilitating and guaranteeing external finance by the World Bank, African Development Bank and other international financial institutions; the establishment of the National Directorate of Employment (NDE) and Directorate of Food, Road and Rural Infrastructure (DFRRI), which also initiated the setting up of new SMEs; Provision of technical training and advisory services through the Industrial Development Centres. The aim was to provide either long term credit or specialized services to the SMEs.

Since 1999, government has continued to implement measures at addressing various issues identified as constraints to SME development and economic growth. These measures include repeal of all anti-investment legislations, especially the 1972 and 1978 Nigerian Enterprises Promotion Act; Public Sector Reforms; empowerment/streamline of Approving/Facilitating Regulatory Agencies; Nigeria Investment Promotion Council (NIPC)/Nigeria Immigration Service Co-operation; Nigerian Port Reforms; Nigeria Bank of Industry; Nigerian Agricultural & Rural Development Bank; National Poverty Eradication Programme (NAPEP); setting aside of 10% of profit before tax by commercial banks for SME Equity Investment Scheme (SMIEIS Fund); Small & Medium Enterprises Development Agency of Nigeria (SMEDAN), which serves as a central coordinating agencies for SMEs.

Furthermore, domestic economy is protected through the prohibition of certain imported items, i.e., bicycles, foot wears, imported meat, textile materials, men footwear, ties, soap, detergents furniture, flowers, fresh fruits, cutlasses, pick axes, spades, vegetable oil, barite, tantatile, shovels, knives, wheel barrows, bucket, cups bins, hanger, container, ball point pen, pencils, and toothpaste, among other things (Adelaja, 2003).

To handle capacity building and research in the area of small and medium-scale enterprises, government established training and research institutions like the Industrial Training Fund (ITF), Raw Materials Research and Development Council (RMRDC), Federal Institute of Industrial Research, Oshodi (FIIRO), Project Development Agency (PRODA), and Centre for Management Development (CMD). To remove bias against the SMEs, the second tier security market was introduced in the capital market in 1985 to assist the SMEs in assessing fund from the capital market for expansion.

The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) is an amalgamation of the former Peoples Bank of Nigeria, Nigerian Agricultural and Cooperative Bank and the Family Economic Advancement Programme (FEAP). NACRDB was set up to finance agriculture as well as small and medium enterprises in year 2000.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) was initiated in 2001 by CBN through its persuasion to the Bankers Committee, after observing that the dearth of long-term finance was an hindrance to small and medium-scale enterprises' development in Nigeria. The scheme requires that all banks in Nigeria should set aside 10 per cent of their profit before tax annually for equity investments in small and medium industries. This was for the purpose of facilitating the flow of funds for the establishment of new SMI projects, reactivation, expansion and modernization or restructuring of ongoing projects and stimulating economic growth, develop local technology and generate employment (CBN, 2003). Table 2 presents the summary of the major strategies on SMEs since the attainment of independence in Nigeria.

TABLE 2: SUMMARY OF THE POLICY ACCOUNT OF SMES STRATEGIES IN NIGERIA FROM 1962-DATE

S/No	Regime Period	Plan Document	Policy/ Strategy	Remark
1.	1962-68	1st National Development Plan	Nigeria Industrial Development Bank (NIDB)	This is the first NDP introduced after independence in 1960 and it is mainly private sector driven
2	1969-1974	2nd National Development Plan	Industrial development Centres, Small scale industries Credit Scheme (SSIC)	The plan policy strategies changed from private sector led to public sector driven due to reconstruction and rehabilitation after the civil war
3	1975-1980	3rd National Development Plan	Small Industries Credit Fund (SICF), Nigerian Enterprises Promotion Act, sectoral allocation of credit	Continuation of public sector led economy with high inflow of foreign exchange from crude oil exports. It was a period of economic buoyancy
4	1981-1985	4th National Development Plan	Second Tier Securities Market (SSM)	Continuation of public sector led economy as engine of growth with heavy investment in public enterprises
5	1986-1998	Structural Adjustment Programme (SAP)/Guided Deregulation/National Rolling Plan	Various institutions to promote SMEs such as NDE, DFRRI, Small-Scale Industries Corporation, Nigerian Bank for Commerce and Industries, Nigerian Agricultural Co-operative Bank(NACB), National Economic Reconstruction Fund(NERFUND), World Bank SME II Loan Scheme, African Development Bank (granted an export stimulation loan) among others were introduced	The period of market led economy where government was divesting from public enterprises
6	1999-2007	National Economic Empowerment and Development Strategy (NEEDS 1)	Establishment of a Small and Medium Scale Industries Development Agency (SMIDA), The Small and Medium Scale Investment Scheme(SMIEIS), Nigeria Investment Promotion Council(NIPC), and financial capitalization is a major impact on SMEs	The reform period
7	2007-2009	NEEDS 11/ 7 Point Agenda/Vision 20:2020	The direction of SMEs has not been well articulated	Current focus of government is on development and perspective planning framework
8	2011-2015	Transformation Agenda	Encouraging large-scale industries and Small and Medium Enterprises (SMES) to manufacture goods, revitalize ailing industries, promote agriculture and agro businesses	The strategy for encouraging SMEs is not well articulated in the agenda

Source: Author's Compilation.

APPRAISAL OF SMES' DEVELOPMENT POLICIES AND STRATEGIES

The collapse of the international oil market in the mid 1980s, which resulted in massive unemployment and low capacity utilization of large scale enterprises, forced government to look inward for the recovery of the economy. Tax incentives and export promotion incentives among other things were targeted towards employment generation and intensive use of local resources for production. Credit facilities and institutional support were also developed to encourage credit delivery to SMEs. With the introduction of SAP in 1986, the federal government established certain guidelines for the development of SMEs. These include:

i. establishment of more industrial development centres (IDCs);
ii. establishment of model industrial estates to encourage prospective small-scale enterprises;
iii. exploitation of the existing World Bank-assisted programmes for small-scale enterprises;
iv. introduction of work-for-yourself programme introduced by the Federal Ministry of industries assisted by the International Labour Organization (ILO) and the British council;
v. introduction of SMEs related programmes such as the small-scale industries scheme and the National Economic Reconstruction Fund (NERFUND); and
vi. establishment of institutions like the People's Bank, Community Banks, National Directorate of Employment (NDE), Better Life for Rural Women Programme (supplanted by the Family Support Programme and the Family Economic Advancement Programme).

Before the introduction of the above, the Central Bank of Nigeria had been instrumental to promoting the development of Nigerian enterprises since 1970. The CBN in its policy guidelines directed that credit by Nigerian banks to indigenous borrowers was to be at least 35 per cent of the bank's total loans and advances with effect from 30th April 1970. It was raised to 40 per cent in the 1972/73 fiscal year, 49 per cent in 1973 and 90 per cent in 1984. Although the proportion of loans was raised, the concentration was on the large scale enterprises. It was in 1979/80 fiscal year that the CBN specifically directed that at least 10 per cent of the loan advances should be allocated to small-scale industries. This percentage was increased to 16 per cent between April 1980 and the end of 1989. It was further increased to 20 per cent in January 1990.

However, the inability of formal banking institutions to adequately make credit available to small-scale industries led to the establishment of the People's Bank and the Community Banks. The People's Bank was established to provide job opportunities and give interest free loans on the basis of group membership to ensure repayment (CBN, 2003). The loans and advances given by the bank kept expanding for several years and many small-scale enterprises were able to improve their activities by investing the loans obtained in their businesses.

The community bank came into existence in 1992 to enhance rapid development of the productive activities of rural dwellers, improve the economic status of small-scale producers, and generate credit within the community to enhance the development of productive activities. The loans advanced by the community banks rose from N20.1 million in 1992 to N70.7 million in 1995 (Olusoji, 1999).

The Better Life for Rural Women Programme, which came into existence in 1987, was specially designed for rural development. This programme was later modified and renamed Family Support Programme in 1994, with the aim of focusing on strengthening the family. Through this programme, a number of cottage and small-scale industries were established with the aim of improving the productivity of the rural women and their capability to generate more income. In 1990, 544 cottage industries were established and, as at 1995, the number of cottage industries increased to 1081. In addition, food processing mills were also established during the same period.

The Family Economic Advancement Programme (FEAP) was also aimed at enhancing the development of small-scale industries and it was to facilitate the establishment of cottage enterprises that will use local labour, locally available raw materials and fabricated equipment in the rural areas. The implementation of the IDCs was poor because many of them were not adequately equipped and funded.

The Small-Scale Industry Credit Scheme (SSICS) was also not successful because of lack of executive capacity to appraise, supervise and monitor projects and as such many projects that were funded were not viable and this led to massive loan repayment default. Consequently, the scheme had to be stopped because of lack of fund.

The NDE launched varieties of programmes to generate employment and thereby enhance the development of SMEs. These programmes include small-scale industries scheme (SSI), agriculture and youth employment vocational skills development and special public works. Others are Open Apprenticeship, the waste to wealth programme, the Graduates Job Creation Loan Scheme (GJCLS), and Entrepreneurship Development Programme. The NDE has cumulatively supported 2300 SMEs' projects in soap making, food processing, flour milling, etc. (Olorunshola, 2003).

The NIDB has played a major role in SMEs financing. Its assistance covers 17 sub-sectors of industry. The NIDB disbursed a total of N 174.6 million to the SMEs between 1980 and 1988. The level of NIDB's direct project sanctions and disbursement to the SMEs since 1989, however, has tended to fluctuate downwards due to the establishment of NERFUND, and the SME II Loan Scheme, amongst other reasons (Olorunshola, 2003).

At the initial stage, approval of projects and disbursement of funds were very slow because of inadequate publicity, lengthy and cumbersome approval processes, assumption of all credit risks by the participating banks and the floating of the naira, which affected the viability of many projects. Participating banks are expected to bear the full credit risk involved in financing SMEs under the scheme. Loan approvals were granted by the fund to a number of projects spread across the country. The number rose from 5 in 1989 to 75 in 1990, after which it maintained a downward trend. NERFUND's investments in the projects have been substantial; the total naira component was N774.2 million, while the counterpart approval in foreign exchange was $97.5 million NERFUND had approved 373 projects with disbursements initiated on 200 and commitment of US$80.9 million and N333 million. About 70 of the sub-projects have been fully disbursed while 21 of them have fully amortized the total loan value. However, NERFUND was confronted by a number of problems in the sense that there was poor and untimely loan recovery rate, while demand for loans reduced after1990 because of the foreign exchange risk which was borne by the borrower (Olorunshola, 2003).

The number of SMEs listed on the Second Tier Market (SSM) increased to 16, 19 and 20 in 1990, 1991 and 1995, respectively, while at least 4 SMEs have moved to the Main List of the market. As at 2005, 16 SMEs remained in the SSM. This shows increasing use of the capital market by the SMEs to raise funds for expansion and modernization even though it is still highly insignificant relative to the number of SMEs in the country.

The SMIES was characterized with the problem of misinterpretation by the entrepreneur and some of them still want to hold on to the proprietorship of their organization. The fear of losing ownership made some of them to shun the fund. As such, fund was available but majority of them did not have interest in accessing the fund. From the report presented by Osa-Afiana (2003), out of the 80 projects financed by SMIES as at 2003, Lagos State alone had a share of 60 projects, which constitutes 75 per cent of the total project financed. This was followed by Delta with four projects, while majority of the states had a share of one project each. This shows that the geographical distribution is lopsided. In addition, 75 per cent of the projects financed were in the service sector which is contrary to the real sector the scheme was initially designed for. Moreover, by December 2004, only N8.5 billion (29.5 per cent) of the N28.8 billion of the fund had been utilized while and 10 per cent of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose(CBN, 2005). By 2007, out of a cumulative amount of N37.42 billion set aside, only N18.13 billion was invested by the bank on 258 projects (CBN, 2007). A closer look at the investment on sectoral basis shows that the manufacturing subsector dominated by receiving 38.37 per cent of the amount invested, followed by tourism (21.63 per cent), while the micro enterprises remained at zero per cent. It is also important to note that SMEDAN, which serves as a coordinating agency for SMEs, was only set up in year 2003.

Furthermore, the activities of training and research institutions, Industrial Training Fund (ITF); Raw Materials Research and Development Council (RMRDC); Federal Institute of Industrial Research, Oshodi (FIIRO). Project Development Agency (PRODA), and Centre for Management Development (CMD) initiated by government did not yield much result because of lack of adequate fund to carry out the activities.

CHALLENGES TO SMEs DEVELOPMENT IN NIGERIA

Despite the fact that finance is a major constraint to the development of SMEs in Nigeria, it is not the only or most important constraint. The effective utilization of substantial financial resources provided under the various past programmes was constrained by such factors as lack of adequate entrepreneurship and managerial skills as well as absence of the enabling environment for investment in small and medium-scale industries.

There are various dimensions to the finance/funding problems faced by small and medium-scale enterprises in Nigeria. First is the problem of access to credit, while the second is the cost of credit although the latter is often considered as being less important than the first. The deregulation and liberalization of the financial sector in Nigeria has several implications for SSEs access to credit as well as the cost of credit. In terms of access to credit, financial sector deregulation has meant the phasing out of the system of administratively determined sectoral credit allocation targets.

The reduction in the scope of directed credit and selective credit policies is likely to have increased the problem of access to credit for SSEs in certain sectors of the economy. Although available evidence on the impact of financial sector liberalization and deregulation suggests that access to credit for small-scale enterprises actually improved (Oyejide, 1993; NIPC, 2002), the sectoral distribution of bank credit to SSEs is highly skewed towards the trading sector rather than the more productive sectors (NIPC, 2002, *Nigeriabusinessinfo.com*, 2002). Table 3 below presents data on actual credit to SSEs by commercial and merchant banks in Nigeria.

TABLE 3: CREDIT TO SSES BY COMMERCIAL AND MERCHANT BANKS (1981-2012)

	Credit to SSEs by Commercial Banks			Credit to SSEs by Merchant Banks		
Year	Credit to SSEs N'm	Total Credit N'm	Ratio of SSE Credit to Total (%)	Credit to SSEs N'm	Total Credit N'm	Ratio of SSE Credit to Total (%)
1981	203.2	8582.9	2.37	n.a	72	n.a
1982	206.7	10275.3	2.01	n.a	1026.8	n.a
1983	351.3	11093.9	3.17	n.a	1185.5	n.a
1984	729.1	11583.6	6.29	0.052	1685.8	0.00
1985	462.5	12170.2	3.80	0.061	1802.9	0.00
1986	1413.1	15701.6	9.00	0.101	2771.5	0.00
1987	4084.9	17531.9	23.30	0.553	4165.8	0.01
1988	4166.5	19561.2	21.30	0.983	4289.8	0.02
1989	4731.7	22008	21.50	1251	5668.2	22.07
1990	5412.1	26665.5	20.30	2090	8081	25.86
1991	7572.3	37646.9	20.11	2808	9895.9	28.38
1992	20400	41810	27.04	3493.9	11188.8	31.23
1993	15462.9	48056	17.41	4900	25189.8	19.45
1994	20552.5	92624	14.32	5489.3	30185.1	18.19
1995	32374.5	141146	15.86	9159.6	30612.2	29.92
1996	42302.1	169242	16.60	5595.8	41139.5	13.60
1997	40844.3	240782	13.12	7137.9	54491.5	13.10
1998	42260.7	272895.5	11.53	7800.8	60290.6	12.94
1999	46824.0	353081.1	10.43	6389.1	49257.7	13.0
2000	44542.3	508302.2	7.58	51001.1	565871.7	9.0
2001	52428.4	796164.8	6.21			
2002	82368.4	954628.8	8.68			
2003	90176.5	1210033.1	7.49			
2004	54981.2	1519242.7	3.62			
2005	50672.6	1899346.4	2.54			
2006	25713.7	2524297.9	0.99			
2007	41100.4	4813488.8	0.85			
2008	13,512.2		0.17			
2009	16,366.5		0.17			
2010	12,550.3		0.14			
2011	38321.15		0.41			
2012	14699.93		0.15			

Notes: Mandatory credit allocations were abolished from October 1, 1996, Small scale enterprises started in 1992.

***Source**: CBN Statistical Bulletin,* Vol. 12, 2002 & Table A.2.8, 2012

The share of commercial banks' credit to SMEs rose gradually from 2.37 per cent in 1981 to 27.04 per cent in 1992 and fell thereafter to 16.6 per cent in 1996 (the year CBN *Credit Guidelines* were abolished) and then continued to decline steadily to 7.58 per cent in 2000 and 0.85 in 2007. For merchant banks, it rose from barely zero per cent in 1984 to 25.86 per cent in 1990 and 31.23 per cent in 1992. It fell thereafter to 13.6 per cent in 1996 and stood at 9 per cent in 2000. Udechuckwu (2003) argued that the bulk of commercial and merchant banks' lending to the industrial sector is in the form of short-term working capital, which goes mostly to well-entrenched blue-chip industries. He further argued that the bias of commercial and merchant banks against SMIs as risky ventures was demonstrated by their preference to pay penalty rather than make risky investments to meet the 20.0 per cent statutory lending to SSEs when the Central Bank's *Guidelines* were in force. It is therefore not surprising that their lending to SSEs drastically declined after the abolition of the sectoral allocation of credit.

For the most part, SSEs in Nigeria continue to lack adequate funding, partly owing to their perception by banks as high-risk ventures. Consequently, the various formal funding sources are usually limited in scope and are not always available causing SSEs to rely more on informal sources of finance and personal savings that are often meagre and insufficient. Carpenter (2001) identified several factors which constrain lending to SSEs in Nigeria by formal financial institutions. These challenges include:

i. unfavourable bank lending strategies which do not meet SME requirements;
ii. associated high risk;
iii. lack of adequate collateral by SSEs;
iv. low returns on SME investments due to high operating costs;
v. promoter's low education, management and entrepreneurial skills;
vi. poor and unreliable financial records which make financial review both difficult and unreliable; and
vii. inadequate business records to meet capital market listing requirements.

Another factor contributing to the funding problem is that a large proportion of the small-scale enterprises operate in the informal sector of the economy. This puts them out of the ambit of such programmes as the small and medium industries equity investment scheme, which requires registration with the Corporate Affairs Commission (CAC) and compliance with the Companies and Allied Matters Act.

Also, the lack of a credit guarantee scheme has been identified as a major factor contributing to the problem of access to credit by SSEs as they are still perceived as high-risk ventures by banks (Carpenter, 2001). Banks regard many SMEs as high risk ventures because of the absence of a succession plan in the event of the death of the proprietor. As a result, working capital is still a major constraint on production, as most SMEs are restricted to funds from family members and friends and are therefore unable to respond to unanticipated challenges in a timely manner.

Olorunshola (2003) posited that one of the lingering problems of the SMEs is the inability of the enterprises to adequately tap available finance from the capital market. This had been attributed to their aversion to disclosure and ownership dilution, although many SMEs blamed this phenomenon on the cumbersome requirements and procedures for listing on the Stock Exchange. The establishment of the second-tier security markets of the Nigerian Stock Exchange, which was expected to solve this problem, has been shunned by most of the SMEs. Inadequate financial resources, as well as desire to operate with limited openness on the part of proprietors lead many SMEs to employ semi-skilled labour. This in turn affects productivity, restrains expansion and hinders their competitiveness. Other constraints faced by the SMEs as discussed by Olorunshola (2003) are as listed hereunder.

Financial indiscipline: Some SME proprietors deliberately divert loans obtained for project support to ostentatious expenditure. Others refuse to pay back as and when due, the interest and the principal, because of political involvement and the misconceived notion of sharing the so-called national cake.

Lack of infrastructural facilities: Inadequate provision of infrastructural services such as telecommunication, access roads, electricity and water supply constitutes one of the greatest constraints to SME development. Most SMEs resort to private provisioning of these at great expense. This results in high cost of doing business.

Poor implementation of policies: The poor implementation of policies, including administration of incentives and measures aimed at facilitating SMEs growth and development, has affected the sector adversely. This has resulted, for instance, in confusion and uncertainty in business decisions and planning as well as weakened the confidence of the SMEs operators on government's capacity to execute its programme faithfully.

Poor management practices and low entrepreneurial skill hinders effective control and planning as many SMEs do not keep proper accounts of their transaction. In addition, lack of relevant educational background and thorough business exposure hinders their ability to seize business opportunities that may lead to growth and expansion.

Insufficient demand for the products of SMEs: This also imposes constraint on their growth. Although many SMEs produce some inputs for larger industrial enterprises, the non-standardization of their products, the problem of quality assurance as well as weak purchasing power, arising from consumers' dwindling real incomes, effectively restrict their market access.

Overbearing regulatory and operational environment: The duplication of regulatory agencies, multiple taxes, cumbersome importation procedure, and high port charges have continued to exert pressures on the industrial sector in general and SMEs in particular.

Other challenges are insufficient information on markets, high cost of machinery/equipment, lack of reliable data, uncompetitive products, lack of industrial site and enabling environment, societal attitudes, i.e., preference for imported goods and little knowledge of electronic trade, etc.

RECOMMENDATIONS AND CONCLUSION

This paper has discussed the policies and strategies for SMEs' development in Nigeria. While some of the approaches have yielded positive result, the implementation of some of these policies is faulty. However, there is need to do the following for the purpose of assisting SMEs to develop in Nigeria:

i. the listing procedure on the Second Tier Securities Market on the Stock Exchange should be refashioned in order for more SMIs to access the capital market for needed funds;
ii. there is need to strengthen the capacity of relevant institutions like SMEDAN, NERFUND, NDE, among others, in order to effectively implement and administer programmes and incentives for the SMIs;
iii. promotion of extractive and agro-processing, textiles and garments, leather, oil products as well as computer components and other light industries;
iv. entrepreneurial development through intensive, non-formal training of existing and prospective SME promoters' programmes;
v. provision of adequate infrastructure to reduce the cost of doing business;
vi. strengthen the linkages between small and large-scale industries through subcontracting.
vii. provision of adequate fund to carry out research activities in the area of SMEs development; and
viii. proper coordination of the activities of various agencies responsible for SMEs development

In conclusion, government should take the implementation of policies and programme for SME's development seriously. In addition, proper monitoring and evaluation of these programmes will go a long way in ensuring that the objectives are achieved.

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