“Financial schemes to boost small and medium sized enterprises. Sources of finance by the Nigerian government: a commentary”

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Financial schemes to boost small and medium sized enterprises. Sources of finance by the Nigerian government: a commentary

Abstract

This paper draws on documentary evidence to examine the various schemes implemented by the Nigerian government through the Central Bank of Nigeria (CBN) to alleviate the challenges of access to finance by small and medium sized enterprises (SMEs) in Nigeria. The authors employ this commentary and inductive argument to evaluate how well the special financial institutions that were set up before and after the implementation of financial market liberalization policy have been able to achieve their objectives. Evidence suggests that most SMEs still struggle with access to finance. These SMEs do not only face banks stringent conditions as obstacles to loans procurement, but also high interest rate charges of commercial banks currently between 23-26%. The special financial institutions set by the government as a result of the schemes to help finance the SMEs sector, appears to have performed below expectation due to inadequate funding, misallocation of their limited resources, poor staffing and overlapping functions of the institutions.

Keywords: government, financing schemes, SMEs, access to finance, formal, informal finance, liberalization.
JEL Classification: E2, E4, E5.

Introduction

This paper is a commentary on the various schemes implemented by the Nigerian government through the Central Bank of Nigeria (CBN) to alleviate the challenges of access to finance by small and medium sized enterprises (SMEs) in Nigeria. The paper draws on documentary evidence to comment on how well these schemes have helped to ease the challenges faced by SMEs in accessing formal funds in Nigeria. It has been observed that SMEs lack access to finance for the initial set up of their production line, expansion and working capital (Mambula and Sawyer, 2004; Kinda and Loening, 2010). This is partly traceable to the poor saving habit in Nigeria due to low per capital income where majority of the population live below the poverty line and spend most of their income on basic food items (IMF, 1999). The World Bank (2008; 2013) report indicates that 54 percent of the Nigerian population live on less than 1 dollar per day. The high poverty level makes savings difficult and translates to non-availability of investment funds to prospective investors including SMEs.

It is on this premise of paucity of funds that the Nigerian government implemented financial market liberalization on the backdrop of the neo-liberal policy discourse and practices that swept across Africa in the 1980s. In Nigeria, the liberalization of financial market commenced at the late quarter of 1987 (IDRC, 2005), when traditional monetary and fiscal institutions were strengthened and new regulatory regimes came on stream; all centered on the CBN (Ikhide and Alawode, 2001). One of the policy objectives of the policy was to ease government control of the financial market in favor of market forces (Prasad, Wei and Kose, 2003). The expectation was that financial market liberalization would ultimately encourage the mobilization of investible funds from home and abroad towards vibrant economic opportunities, including towards SMEs (Henry, 2003; Ayadi and Hyman, 2006; Obadan, 2006).

It has been observed that despite the highly 'liquid' nature of banks in Nigeria after the adoption of the liberalization policy, commercial banks still find it difficult to lend to the manufacturing sector including SMEs. The banks claim not to have been able to balance the risk and cost associated with lending to manufacturers (RPED, 2002; Adebiyi, 2004). They perceive the idea of lending to the sector as high risk because of the difficulty of obtaining information on the true financial conditions and performance of firms, besides the inefficient judicial system that make contract enforcement difficult worsens the plight of prospective investors (Ikhide and Yinusa, 1998). The sector was mostly affected by the information asymmetry of the banks is the SMEs sector because of their small capital base.

SMEs are often small in nature and this constitutes an obstacle to their access to long-term capital and even access to short-term finance. As a result of their small size, access to finance whether formal or informal is normally at a very high rate of interest and unfavorable conditions (Aryeetey, 2005; Tagoe, Nyarko, and Anuwa-Amarh, 2005; Colombo, Croce and Guerini, 2012). It has been stated that the SME sector is usually neglected and discriminated against in terms of access to finance, management and mar-

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keting expertise, government support and new technology, as compared to large enterprises in many developing countries (Bhavani, 2006). This has been particularly so in economies in transition, where the large-scale sector had assumed the major role in economic and industrial development (Kinda and Loening, 2010).

However, it has been argued that SMEs are an effective instrument for economic growth and development in developed and less developed countries because they account for more than half of a country's output and employment (Beyene, 2002; Nitani, 2005; Hussain, Matlay and Scott, 2008; Khan, 2015). The sector also contributes significantly to the Gross Domestic Product (GDP) and produces substantial amounts of locally consumed products (ECA, 2000; Wattanapruttipaisan, 2003; Tagoe, Nyarko and Anuwa-Amarh, 2005; Saleh and Ndubisi, 2006). This is in addition to their role of job creation for the unemployed, provision of goods and services within and across national boundaries of countries (Saleh and Ndubisi, 2006; Woldie, Leighton and Adesua, 2008; Vasilescu, 2014).

The development of the SMEs sector is an essential element in the growth strategy of most economies, which holds particular significance for developing countries like Nigeria (Udechukwu, 2003). This sector is a vital part of any market economy because it is represented in all major branches of manufacturing and service sectors (Obokoh, 2008a). The realization of these roles prompted the Nigeria government to implement schemes aimed at easing the problem of access to finance which is one of the major challenges of SMEs in developing countries (Thorsten and Robert, 2014). How well these schemes have achieved their objectives under the liberalized financial market is contestable as most SMEs still struggle with the issue of access to finance in Nigeria. SMEs do not only face banks' stringent conditions as obstacles to loans procurement, but also bank interest rates which currently range between 23-26%, making it impossible for SMEs to access finance.

1. Methodology

The method used in this commentary is purely review of extant literatures and deductive arguments to evaluate the various schemes implemented by the Nigerian government through the CBN to alleviate the challenges of SMEs constraints to finance under the liberalized financial market in Nigeria. The authors employ this commentary to inductively articulate the extent these schemes have succeeded and/or failed to ease the challenges of SMEs access to formal finance in Nigeria. We reviewed 1980 to 2012 to cover the pre and post liberalization period. This commentary is justified in view of the recent drop in crude oil prices in the international market to about $49 that led to serious drop in revenue accruing to the Nigerian government. The drop in revenue affected the budget and all facets of the economy. This resulted in further depreciation of the Naira to N203 against one US dollar which is a clear evidence of the failure of the manufacturing sector including SMEs to cushion the effects of international oil shocks. Our review is restricted to those financial schemes specifically designed by the government to impact on SMEs access to formal finance because a recent report from the Global Entrepreneurship Monitor (2012, p. 19) suggests that access to finance still remains top on the list of problematic factors hindering small businesses in Nigeria.

2. Definitions and structure of manufacturing SMEs in Nigeria

There are different definitions of SMEs because the term covers a wide range of definitions and measures, varying from country to country (Watson and Everett, 1996). For instance Beyene (2002) asserts that in the USA, the small business administration defines 'small businesses' as any business with less than 500 employees. The figure represents medium to large scale enterprise in African context. The European Union in 2003 used staff head count and a financial ceiling to categorize micro enterprise as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet does not exceed EUR 2 million. Small enterprise is defined as an enterprise that employs fewer than 50 persons and has annual turnover and/or annual balance sheet total does not exceed EUR 10 million. Medium-sized enterprises employ fewer than 250 persons and have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million (European Commission, 2003; Eurostat, 2006).

In Nigeria, the Small and Medium Industries and Equity Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum asset base of N500 million excluding land and working capital and with the number of staff employed not less than 10 or more than 300 (CBN, 2005). This definition is the basis of classifying enterprises as SMEs for the purpose of this study. It should be noted that definitions change over time due to changes in price level, advances in technology or other consideration that may become necessary for the purpose of defining SME

The Nigerian manufacturing industry can be structured into producer goods and consumer goods industries. The producer goods industry is the heavy capital intensive industries in the automotive and electrical equipment sector. The consumer goods industry on the other hand, is largely the informal sector enterprises, which make use of simple technology. This is the sector that has the highest concentration of manufacturing SMEs in Nigeria (Akinlo, 1996).

These SMEs are either owned by a sole proprietor, by partners or controlled by family even when they are registered as a limited liability company which tends to make them small. The concentrated control makes transition to large scale businesses often very difficult, because the owners are not willing to lose control of their business through large ownership structure. This is part of the reason the management of SMEs are often centralized with the method of production in most cases labor-intensive (Newman, Borgia and Deng, 2013). According to Gélinas and Bigras (2004), SMEs structures are often very simple. This puts the owners more directly in contact with the firm's operational functions, which can be an advantage in terms of operation and logistics integration.

The centralized management of SMEs also constitutes a disservice because they lack appropriate managerial skills for decision making. The management is often ignorant or does not have the resources to acquire new technology and skilled manpower to support their operations (Mambula, 2004; Newman et al., 2013). These SMEs' management often purchases obsolete and inefficient equipment due to inadequate finance or improper advice. This sets the stage for low productivity and poor product quality which in most cases has serious adverse consequence on output and market acceptability (Kinda and Loening, 2010). SMEs' inability to employ skilled manpower due to constrained resources also hinders their capability to maintain adequate records of their transactions necessary for loan applications to banks (RPED, 2002). These constraints, as a result of their small resources, make them unable to expend their limited resources on expenditures that are not directly productive. This is besides their low propensity to use external debt compared to large businesses (Colombo et al., 2012; Newman et al., 2013).

3. Sources of SMEs finance in Nigeria

SMEs in Nigeria derive their finance from either informal or formal sources and in some cases combine both sources to fund their operations (Ikhide and Yinusa, 1998; Aryeetey, 2008; Khan, 2015).

3.1. Informal sources of finance. The informal sources, which are basically internal, are either the personal savings of the entrepreneur, gifts or soft loans from family and friends, constitute the main source of start-up funds. As the firm becomes more established, the owners are able to obtain interest-bearing loans from local moneylenders, called "Esusu" in Nigeria and "Susu" in Ghana, while the interest rates from this source range between 100-120% per annum (Aryeetey, 2008). Loans from these local moneylenders at times constitute part of the start-up funds as they are unable to attract funds from the formal sector at this early stage. The inability of SMEs to attract or access formal funds at their early stage of development, partly explains the high failure rates at infancy (Aryeetey, 2005; Yongqiang, Armstrong, and Clarke, 2014). Khan (2015) observed that informal sources of finance negatively affect the performance of SMEs. The moneylenders do not normally request for assets as collateral because loans are only given to whom they know, or the borrower must be introduced by somebody known to the moneylender who stands as guarantor for the borrower (Obokoh, 2008a; Kinda and Leoning, 2010).

Furthermore, under the informal source, we have the cooperative and credit societies that require borrowers to be members. The system encourages members to save towards the principal amount the individual wants as a loan. It also does not require collateral demanded by banks and other financial institutions; instead it requires two or three, guarantors to support a member's loan application. This is done to ensure the borrower pays back the loan and in the event that he/she fails, the guarantors pay the borrowed amount. The advantage of this system is that it uses peer pressure to discourage loan defaults (RPED, 2002). The interest rate on the loan from cooperative and credit societies ranges between 3 to 12% per annum on either flat rate or on a reducing balance basis depending on the cooperative society interest rate policy. The loans are recouped from members' installmental payments over an agreed period of time. The member also shares from the interest paid on the loan, because profits from investment of the society are normally shared among members at the end of every financial year (Obokoh, 2008a; Kinda and Leoning, 2010).

3.2. Formal sources of finance. The formal sources of finance could be from overdraft, short-term or long-term loans and attract cost in the form of interest rates. These sources include commercial banks, small-scale industries credit schemes and financial institutions (local and/or foreign), although a large proportion of available credit to investors/SMEs comes from domestic financial institutions (Aryeetey, 2005; Colombo et al., 2012). Another source of external credits for SMEs are trade credits received from suppliers, either as a discount for early payment or discount on bulk purchases and in some cases, deferred payment for raw materials supplied to the SMEs (Dawson, 1994).

It has been observed that commercial banks and other private financial institutions regard SMEs as high risk ventures. This makes them reluctant to grant credits to SMEs without adequate collateral that would serve as protection against the loss of investment should the SMEs fail as a business or default in the loan repayment (Buckley, 1997; Ikhide and Yinusa, 1998; Yongqiang, Armstrong, and Clarke, 2014). The reluctance on the part of formal financial institutions to grant loans to SMEs compels them to make use of their retained earnings or seek loans from the informal sources at higher interest rates (Aryeetey, 2005; Obokoh, 2008a; Newman et al., 2013).

Paucity of funds is a critical challenge not only for SMEs but also to the manufacturing sector in Nigeria. Most firms have business relations with banks that avail them the opportunity to access financial institution credits, which are costly and often not sufficient. The limited and the high cost of credits are part of the factors that raises the cost of businesses in Nigeria, at the same time lowers the competitiveness of manufacturing SMEs (RPED, 2002; Mambula, 2004; Thorsten and Robert, 2014).

The credit situation in Nigeria is such that banks discriminate in the rates of interest charge on their loans facilities between large firms and SMEs, which in most cases is above 5% (Ikhide and Yinusa, 1998; CBN, 2013). The interest rate differential serves as a risk premium and not as a charge for meeting the cost of smaller loan administration. Hettige (1992) asserts that the extra costs of lending to SMEs are often offset by higher interest rates. These higher interest rates in most cases lead to adverse selection of applicants with corresponding higher risks of failure and non-repayments as only entrepreneurs ready to undertake high risk ventures are most likely to accept such loans (Stiglitz, 2002; Obadan, 2006).

The continuing problem of finance by SMEs, especially in the manufacturing sector, necessitated the reform of the financial sector due to the assumption that financial repression from government regulation generally hinders the development of the proper functioning of the financial market (Saibu, Bowale and Akinlo, 2009). Furthermore, banks have so far failed to develop the capacity for risk assessment and optimal monitoring of their loan portfolios due to their inability to invest in information capital crucial for the development of the financial systems.

4. Government schemes implemented through the CBN to alleviate SMEs funds constraints

In recognition of the funds constraints faced by SMEs, the need to ensure the realization of the potential benefits of SME to the development of the economy and realization that SMEs do well under government intervention (Colombo et al., 2012) the Nigerian government through the CBN designed some financial schemes aimed at easing the credit problems of SMEs to assist in their development in Nigeria. For instance, the CBN requires that all commercial banks allocate a stipulated amount of credit to SMEs. In 1979/1980 fiscal year, the CBN directed that 10 percent minimum credit limit be maintained by banks for SMEs. This was raised to 16 percent in 1980 and later to 20 percent of total loan and advances in 1989.

In order to ensure compliance, any bank that defaults on the percentage had the shortfall directly deducted from the banks' deposit with the CBN and Nigerian Bank for Commerce and Industry (NBCI). As a result of this measure, credit for SMEs expanded because of the compliance to the directives by most banks. For instance, aggregate credit to the SMEs rose from N23.9 billion in 1992 to N41.5 and N177.1 billion in 1995 and 1997 respectively. This represented 45.1, 24.2 and 16.0 percent of the total loans and advances for 1992, 1995 and 1997 respectively (Udechukwu, 2003).

4.1. Rural banking scheme. This scheme started in Nigeria in 1977 to solve the credit problem of SMEs in the rural areas and the agricultural sector in addition to the problems of rural underdevelopment. The scheme mandated commercial banks operating in Nigeria to establish branches in the rural areas. After 12 years of the scheme in 1989, there were a total of 756 rural banks branches operating in the rural area with total deposits amounting to about N5.7 billion (Anyawu, 2003; Mbam, 2012). This development provides opportunity for banking services to SMEs in the rural areas. The scheme led to a phenomenal growth in the number of rural bank branches, most of such branches simply served as a conduit for channeling rural savings to the urban areas. The usefulness of the rural bank branches in helping to achieve the government policy objective of assisting rural development have at best been doubtful (Uche, 1999). This is because the banks never really provided credits to SMEs in the rural areas due to stringent loans conditions burrowers had to meet to secure the loans besides the inability of the rural dwellers to provide the documentary evidence needed for loan procurements. Instead rural deposits were channeled to the urban areas to support commercial banks and other banking activities.

4.2. The Nigerian Industrial Development Bank Ltd (NIDB). The NIDB was established in 1964 with the objective of assisting enterprises engaged in industry, commerce, agriculture and the exploitation of natural resources in the country. Under its memorandum of association, the CBN, the Ministry of Finance and the Ministry of Industry supervise its operations.

The bank failed to help the government achieve its objectives of providing finance for SMEs. The reasons given for the poor performance was the predominance of sole and family proprietorships in many new and emerging industrial firms that hindered the continuity of a firm after the death of its proprietor. This resulted in high level of loan default and subsequent depletion of credit for further disbursement to SMEs. Inadequate funding of the institution by government and poor infrastructure in the country were also given as reasons for the failure of the bank (Adebiyi, 2004).

The CBN (2000) attributed the failure of the bank to be the drying up of government funds which was its major source of fund and the friction in federal budgetary allocation to development financial institutions (DFIs) in the country. This could be linked to the crash in the world oil market in the late 1970s and early 1980s. This development weakened the bank's ability to adopt proactive market-oriented approaches and the ability to operate profitably because most of the industries floated with the aid of the oil revenue also experienced serious financial problems. Ezeoha (2007) believes that one of the major problems of the bank was the government's inability to separate the affairs of the bank from politics because the bank was structured to depend heavily on government financial support and that of the World Bank, with less emphasis on competition and challenges to the financial system. It was as a result of the inability of the NIDB to cater for the funding needs of the industrial sector that led to the establishment of Bank of Industry (BOI) – an outcome of the merger of NIDB, the NERFUND (National Economic Reconstruction Fund) and the Nigerian Bank for Commerce and Industry (NBCI).

4.3. The Nigerian Bank for Commerce and Industry (NBCI). The Nigeria Bank for Commerce and Industry (NBCI) was established in 1973 during the indigenization era to counter the unfavorable treatment given to local SMEs by non indigenous banks. It was also meant to provide financial services to the indigenous business community, especially SMEs. It acted as the apex financial body for SMEs and administered the SMIEIS World Bank loan scheme. Before the bank became insolvent in 1989, it had approved a total of 797 projects with a credit value amounting to N965.5 million between 1973 and 1989 and disbursed N141.82 million between 1987 and 1988. Furthermore, under the World Bank loan scheme it also financed a total of 126 projects, some of which were, however, cancelled due to the failure of project sponsor to contribute their counterpart funding. It is now part of the newly established Bank of Industry (Anyawu, 2003).

NBCI failed to achieve its objectives due to operational and liquidity problems. The bank continued to operate with huge negative position and high proportion of long-term borrowings and unclassified liabilities (Adebiyi, 2004).

5. Financial market liberalization and government financial schemes for SMEs

Financial markets liberalization in the form of the significant relaxation of government controls was a shift from the 'repressive' regimes, a characteristic of the pre-adjustment era. With this development, government no longer plays a major role in determining credit flows through system of subsidies, interest rate ceilings, credit allocation and direct intervention (Akinlo and Odusola, 2003).

The theoretical reasoning behind financial market liberalization in Nigeria and other Sub Saharan Africa countries (SSA) is the McKinnon (1973) and Shaw (1973) postulates, known as the McKinnon-Shaw hypothesis of financial liberalization, and the pressure brought on the governments by the fall in primary product prices in the international markets. These scholars stressed that higher interest rates would lead to increased savings and financial intermediation, and hence efficiency in the use of savings which would therefore enhance economic growth. McKinnon (1973) and Shaw (1973) highlighted the negative effects of "financial repression" on economic growth and development. They refer to financial repression as a set of legal government restrictions preventing financial intermediaries in the economy from functioning at their full capacity.

The argument is that the distortion of domestic financial markets through measures such as ceilings on interest rates and credit expansion, selective allocation of credit, and high reserve requirements, have adverse effects on growth. They argued that such measures lead to lower investment ratios and have a negative impact on growth. They suggested that positive real interest rates should be established on deposits and loans by eliminating interest rates and credit ceilings, removal of selective credit allocation and the lowering of reserve requirements of banks. In other words, the central argument of the McKinnon-Shaw thesis is that the indiscriminate distortions of financial prices, including interest rates and foreign-exchange rates through ceiling, reduces the real rate of growth and the real size of the financial system relative to non-financial magnitudes.

The common trend in Nigeria, after the adoption of economic liberalization, was the change of business objectives from manufacturing to retail/service outfits by some SMEs. In some cases, those with less ability to cope with the new competitive business environment cease their operation (Manbula and Sawyer, 2004). The liberal economic policy that prompted the Nigerian government's removal of all forms of protection for SMEs against competition for foreign exchange and production inputs with well established Multinational Companies partly explains the new trend (Briggs, 2007). On this premise, the government through the CBN launched the following financial schemes to alleviate the problem of access to finance for SMEs.

5.1. National Economic Reconstruction Fund (NERFUND). Many SMEs found it difficult to secure finance for their working capital and investment purposes after the introduction of structural adjustment program (SAP) in 1986 and the resultant devaluation of the Naira worsened the situation further. In this regard, the Nigerian government then set up the National Economic Reconstruction Fund (NERFUND) in January, 1990 with the CBN as one of the facilitating institutions, in order to bridge the widening resource gap among SMEs. The aim of the fund was to provide long-term loans (5-10 years) to SMEs at concessionary rates of interest; this has helped to some extent in ameliorating access to long term finance which is one of the major problems of SME development in Nigeria. Between 1990 and 1998, NERFUND disbursed US$144.9 million (Foreign exchange component) and N681.5 million (Naira Component) to support 218 projects. NERFUND credit extension activities have been constrained by the devaluation of the Naira and the effect on loan servicing by beneficiaries. Due to policy inconsistencies, the institution appeared to have operated at cross-purpose with other development financial institutions because the establishment of the NERFUND adversely affected NBCI's operations (Olorunsola, 2001; Adebiyi and Babatope-Obasa, 2004). However, in order to ensure its continued relevance and survival, the bank was merged with NBCI and NIDB in 2000 to form the Bank of Industry (BOI) (Adebiyi, 2004; Adamu, 2008).

5.2. World Bank-Assisted SME II Loan Project. The Federal Government negotiated and secured financial assistance in 1989 from the World Bank to complement other sources of funding for the SMEs sector. The facility involved a loan of US$270 million, made available to SMEs through eligible participating banks as loans. The CBN established an SME apex unit in 1990 to administer the credit and other related activities of the World Bank. The unit approved a total of 211 projects valued at US$132.8 million between 1990 and 1994, when the project approval stopped. Total disbursement of US$107.1 million as at June 1996 resulted in the establishment and modernization of 102 projects (Olorunshola, 2003). The state of this facility is unknown because not much is discussed about it by the CBN since the establishment of the Small and Medium Industries and Equity Investment Scheme.

5.3. People's Bank of Nigeria. The Government established the People's Bank of Nigeria (PBN) in October 1989 with the aim of granting credit to very small (micro) enterprises which includes the rural and urban poor, artisans, farmers, petty traders, vehicle mechanics, etc. As at 1993, the operations of the bank had extended to all the states of the federation. The bank's loans were granted to groups of entrepreneurs rather than individuals on a deliberate policy based on the concept of "peer pressure". This policy was to make sure the loans were repaid because funds were disbursed on installment basis to a set of members within the group. The next set within the group were only granted their loans when a substantial portion of the initial loans granted to the earlier set of beneficiaries had been re-paid (Salami, 2003).

However, similar to the NIDB, the bank was structured as a supply-led institution and depended heavily on government subventions for its operations. The bank's loans recovery system was very inefficient despite the "peer pressure" model. The bank was faced with the problem of decapitalization due to heavy overheads that outstripped earnings (Yunusa, 1998). The bank was scraped by the government following massive fraud and sharp practices of the bank officials. Community bank was established to replace the bank in 1991 to answer some of the observed weaknesses in credit delivery to the grass-roots.

5.4. Community banks. The community bank scheme took off in 1991 under the auspices of the CBN. The objective of the community banks was to promote rural development by providing financial and banking services to communities inadequately supplied with such services. The community banking scheme was more amenable to serving the interest of the rural poor compared to the rural banking scheme. Despite the problems some of these community banks experienced at that time, they were better placed to aid rural development than conventional commercial banks (Uche, 1999). A National Board for Community Banks (NBCB) was inaugurated in 1991 charged with the responsibility of setting up community banks in the country.

The activities of all the community banks were later placed under the control of the CBN before the reform that brought about the microfinance banks (Olorunshola, 2001, 2003; Adamu, 2008).

However, the community banks were also faced with some problems such as managers and directors approving unauthorized loans without proper assessment, documentation and appropriate recovery provisions; contravention of rules and regulations, and other operating guidelines by opening illegal cash centers contrary to section 6.1 (a) of the Community Banks Decree, 1992; inadequate monitoring and supervision of the activities of the bank by NBCB. Also there has been a lot of in-fighting among board members and court suits involving sections of community represented in the community development association and liquidity problems arising from low income of rural communities and poor bank habits of rural dwellers (Okoye and Okpala, 2001).

5.5. Microfinance banks. The CBN commenced the process of reforms in the Community Banking sector in 2005. The latter resulted in the licensing of Microfinance Banks (MFBs) to replace Community Banks, with the goal of making MFBs more effective in granting credit to SMEs in order to develop the sector. Thus, private sector operators were statutorily empowered by the provisions of section 33 subsection (1) (b) of the CBN Act 7 of 2007 to operate Microfinance Banks in place of the Community Banks in Nigeria (CBN, 2008).

The aim of the CBN in the reform process that ushered the Microfinance Banks was to make it vehicles for social-economic growth and rural transformation through the provision of credit to SMEs. The intent was to reduce the burden of high interest rates and other financial charges hitherto charged by banks under normal bank lending as well as to provide financial, advisory, technical and managerial supports to SMEs. In a broader context the goal was or still is to release latent capacity of entrepreneurs enabling them to engage in productive economic activities and to be self-reliant, increase employment opportunities, and boost household income, including creation of wealth. The significant role expected of MFBs made the CBN to adopt it as the main source of funding for SMEs in Nigeria, especially those in the manufacturing sector. Manufacturing SMEs have a long gestation period, thus the need for more accessible and cheap sources of finance especially long-term at affordable interest rates is a necessity (Abereijo and Fayomi, 2007; Obokoh, James and Ojiako, 2014).

5.6. Nigeria Export-Import Bank. The Nigeria Export-Import Bank (NEXIM) was set up in 1991 to provide advisory services, trade information, lessen risks associated with export and import activities and finance to Nigerian exporters. NEXIM's Rediscounting and Refinancing Facility was introduced to assist banks to provide pre and post shipment finance in support of non-oil exporters.

The scheme was put in place to find solutions to the problems of credit delivery to the SME and has achieved a reasonable amount of success in terms of credit delivery. The need to reduce the credit risks on loans to SMEs by the financial institutions has become more pronounced given the extremely slow rate of the draw down on facilities like the World Bank-assisted SME II loan and NERFUND loan facilities. It should be noted that the technical committee on the establishment of National Credit Guarantee Scheme for SMEs in Nigeria, has pointed out that less than 50 percent of aggregate effective demand for investment loans in the manufacturing sector are currently not met. This calls for the government to enhance the flow of funds to the agency (Anyawu, 2003). However, available data reveal that the performance of non-oil exports since the inception of the bank have so far failed to improve or contributed significantly to the revenue base of the country (Usman and Salami, 2008). Crude oil still remains the major export and revenue earner for the government. Due to high international oil price, Nigeria is able to balance its import trade which is mainly machinery, heavy equipments, consumer goods and food products from export revenue (CBN, 2013).

5.7. Small and Medium Industries and Equity Investment Scheme (SMIEIS). This is a scheme formed by the Banker's Committee in 2000 to provide loans to SMEs in Nigeria. The Committee agreed that each bank should set aside 10 percent of its annual pre-tax profit for equity investment in SMEs. To ensure the effectiveness of the program, banks are expected to identify, guide and nurture enterprises to be financed under the scheme. The activities targeted under the scheme include agro-allied, information technology, telecommunications, manufacturing, education establishments, services, tourism and leisure, solid minerals and construction. The scheme was formally launched in August 2001. The introduction of the scheme was expected to improve funding to SMEs so as to facilitate economic growth. As of August 2002, the sum of N11.572 billion had been set aside by 77 banks out of which N1.692 billion was invested in SMEs (Salami, 2003; Adamu, 2008).

However, reports have it that the CBN fined some banks that failed to invest their funds that were set aside for SMEs credits under the SMIEIS scheme. Despite the stringent measure by the CBN to make the scheme work for SMEs, financial institutions have not been able to address the gap in terms of credit, savings and other financial services required by SMEs in Nigeria (Bamisile, 2006).

5.8. Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB). This is an amalgam of the former Peoples Bank of Nigeria (PBN), Nigerian Agricultural and Cooperative Bank (NACB) and the Family Economic Advancement Program (FEAP). The agency was established in October 2000 to finance agriculture and SMEs. The NACRDB accepts deposits and offer loans or advances, while the interest rates on the loans are graduated to Nigerians and their businesses according to their purpose. Apart from this the bank offers other financial products such as target savings, start-up as well as smallholder loan scheme (Anyawu, 2003).

5.9. Bank of Industry. This is an amalgam of the former Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). It was also set up in 2000 with the main objective of providing credit to the industrial sector, including SMEs (Olorunshola, 2001; 2003).

The bank assists in the following area:

- Small, medium and large enterprises, excluding cottage industries.
- New or existing companies, seeking expansion, modernization or diversification.
- Credit worthy promoters who will be required to prove their commitment to the project by contributing at least 25% of the project cost excluding land.
- Borrowers whose management capability, financial situation (including availability of collateral and guarantee), character and reputation are incontrovertible.
- Clients with demonstrable ability to meet loan repayments.
- Borrowers with no record of unpaid loans to erstwhile development finance institutions and other banks (BOI, 2015).

5.10. Refinancing and Rediscounting Facility. The CBN introduced the Refinancing and Rediscounting Facility (RRF) at concessionary interest rates to support medium to long term bank lending to the productive SMEs sectors of the economy. The facility was established to provide liquidity to banks to support the finance of real sector activities. Also to encourage medium to long term lending to productive sectors of the economy in order to expand and diversify the productive base of the economy. This is in view of the fact that aggregate bank deposits were short term, which makes most banks channel their loans to general commerce and trade. The RRF also provides temporary relief to banks possibly having liquidity problems, having committed most of their resources to long term financing in specified productive sectors, such as agricultural production, semi manufacturing and manufacturing, solid minerals and information technology. Under this facility, banks would have access of up to 60 percent of qualifying loans held for not less than one year by the debtors (Anyawu, 2003).

Conclusion

The paper restricted the review to only those financial schemes specifically designed by the government through the CBN to impact on SMEs access to formal finance because access to finance still remains top on the list of problematic factors hindering small businesses in Nigeria. The CBN in addition to managing the monetary and fiscal policy of the nation is also involved in the development of SMEs in Nigeria, through provision of training to entrepreneurs. The CBN efforts have been able to move the SME sub-sector forward to some extent, but much still needs to be done in the area of infrastructure to complement these efforts by the government. It is well documented in the literature that SME growth in Nigeria has been hindered by inadequate infrastructure facilities, limited access to credit as well as abuse of the various programmes by both beneficiaries and the operators arising from insincerity of purpose, among others (Olorunshola, 2003; Obokoh, 2008a; Colombo et al., 2012). In view of the problem of finance, the CBN has come up with the various financing initiatives to help SMEs gain access to the much needed funds for their operations on the backdrop of the liberalization policy.

It has been argued that financial market liberalization did not effectively improve credit delivery to SMEs and the manufacturing sector (Ikhide and Yinusa, 1998; Obokoh, 2008b). The consequence of the initial growth resulting from the SAP was a significant increase in the demand for finance by businesses, which the formal financial sector failed to satisfy (Aryeetey, 2008). Ajakaiye (1987) predicted that SAP policies would exacerbate the problems of SMEs access to finance because the deregulated credit market that allowed banks not to comply with any credit allocation guidelines would reduce SMEs chances. This caused them to be crowded out of the credit market due to high interest rates (Colombo et al., 2012; Ikpeze et al., 2004). In addition, they were constrained by foreign exchange and out-competed by imported substitutes of their products.

Most of the financial institutions set by the government to help finance the manufacturing SMEs sector performed below expectation due to inadequate funding, staffing and overlap of functions. The government and policy makers failed to separate these institutions from politics and were structured on supply led basis that made the institution heavily dependent on government subventions. Some of the development institutions misallocated their limited resources by building sophisticated edifices instead of employing qualified professionals and training their existing staff. Most of the institutions appear to operate at cross-purposes because the establishment of the NERFUND adversely affected NBCI's operations.

A lot of fears have been expressed with the possible negative effects of high interest rates and the general decline in purchasing powers of the consumers as a consequence of financial market liberalization policy on SMEs performance (Olukoshi, 1996; Ekpenyong, 2002). For instance, prior to the policy, SMEs were granted concessionary interest rates, but now face a lot of difficulties securing credits due to the relaxed government directives on credit allocation and the frequent changes in government monetary policies, which at times are contradictory, tend to hinder SMEs access to credits (Ekpenyong and Nyong, 1992). This is because, while the government increased total credit allocation to SMEs from 16 to 20 percent, the government at the same time mopped up excess liquidity in the banking system by increasing the Minimum Rediscount Rate (MRR), transferred all government and parastatal accounts with the commercial banks to the CBN and the creation of stabilization security account which empowers the CBN to debit banks with the amount of excess liquidity in their system. This move by the government reveals one of the many inconsistencies of monetary and fiscal policy implementation as was earlier pointed.

The Nigerian government should improve infrastructure to complement credits granted by financial institutions set by the government in response to the challenges of SMEs access to finance. Enforcement of banking regulations within the enabling laws that govern the institutions should be applied to curb misallocation of funds. These would enable SMEs benefit and really contribute meaningfully to economic development. The government should separate the affairs of the DFIs from politics and institute policies that would make less dependent on government financial support, with more emphasis on competitive credit schemes that can challenge the Nigerian financial system.

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