**THE ROLE OF COMMERCIAL BANKS IN THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA: A STUDY OF FIRST BANK NIGERIA**

**ABSTRACT**

The critical causes on why financing small and medium scale industries by commercial banks in Nigeria have not been very effective were evaluated. Not only are the SMEs starved with financial back-up, they are also faced with other external problems such as high interest rates, inconsistency in government industrial policies, lack of infrastructural facilities and internally; poor management practices, high rate of business failure, poor accounting standards, shortage of skilled manpower and financial indiscipline.

In view of these numerous problems, this research work was conducted so as to come out with solutions as this will pave way for banks to have more confidence in financing these SMEs efficiently and effectively as against hitherto , their stringent lending policies and the risk averse behavior of funding. This has become necessary as it is a well known fact that the survival, growth and development of SMEs of any country depend largely on funding with other

factors put in place.

In the light of the findings in this research work, some recommendations and suggestions were made to the government, commercial banks and the small and medium scale entrepreneurs themselves which if implemented will not only sustain the survival, growth and development of this sector, it will also provide employment opportunities and improve the economic situation of Nigeria.

**CHAPTER ONE**

##### 1.1 GENERAL OVERVIEW

For both developing and developed countries, small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic and growth.

However, the seminal role played by SMEs not with standing its development is everywhere constrained by inadequate funding and poor management. The unfavourable macro economic environment has also been identified as one of the major constraints which most times encourage financial institutions which most times encourage financial institutions to be risk-averse in funding small and medium scale businesses.

The manufacturing sector (Including Micro, Small and Medium Enterprises) is acknowledged to have huge potential for employment generation and wealth creation in any economy, yet in Nigeria, the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sector is also quite limited dominated by import dependent processes and factors. Although there is no reliable data, imprecise indicators show that capacity utilization in the sector has improved perceptibly in the period since 1999, but the sector is still faced with a number of constraints with lack of credit availability as the principal constraint. Credit is the largest element of risk in the books of most banks and failures in the management of credit risk, by weakening individual banks and in some cases, the banking system as a whole, have contributed to many episodes of financial instability. A greater understanding of the nature of credit risk, leading to improved measurement and international financial system vis-a-vis the small and medium enterprises in the long run.

Generally, the stage of development and, thus the efficiency of the system varies among countries and changes over time in the same country. The more developed and sophisticated financial systems tend to be associated with the nature economies, while underdeveloped financial systems feature in developing economies. As a process, the financial system adjusts to changes in the real economy just as the economy responds to developments in the financial sector. All over the world, size had become an important ingredient for success, the banking sector included.

In Nigeria every known regime recognizes the importance of promoting SMEs as the basis of economic growth. As a result, several micro-lending institutions were established to enhance the development of SMEs. Such micro credit institutions include the Nigerian Bank for Commerce and Industry

(NBCI), National Economic Reconstruction Fund (Nerfund), the people’s Bank of

Nigeria (PBN), the community Banks (CB) and the Nigerian Export and Import

Bank (NEXIM), and the Liberalization of the banking Sector.

This study attempts to find out how Commercial Banks finance small and medium scale Enterprises taking First bank of Nigeria Plc as a case study.

##### 1.2 STATEMENT OF THE RESEARCH PROBLEM

One of the main obligations of commercial Banks in Nigeria and else where in the maximum contribution to the economic development of the nation. Others are maximum profitability owned to the shareholders and maximum liquidity owned to the depositors.

This research work will concentrate on the maximum contribution to the economic development of the nation, i.e. through financing SMEs by commercial Banks. The analysis of the research problem will thus pose some questions like.

Do commercial Banks finance small and medium scale enterprises

adequately, if not what are the limitations.

##### 1.3 OBJECTIVE OF THE STUDY

Since the importance of SMEs forwards the development of any country’s economy, as already discussed in chapter one cannot be overemphasized, this write-up is aimed at achieving the following objectives:

1. To highlight the different sources of finance available to small and medium scale industries in Nigeria.
2. To examine the role of Commercial Banks in satisfying the financial needs of SMEs in Nigeria taking First bank of Nigeria Plc as a case study.
3. To improve the financial assistance to the entrepreneurs by commercial Banks.

##### 1.4 FORMULATION OF HYPOTHESIS

H1: That financing small and medium scale Enterprise by Commercial Banks has been a failure.

H2: That obtaining financial assistance by small and medium scale Enterprises from Commercial Banks is very difficult and that most of the assistance is obtained through savings and borrowing from other sources.

##### 1.5 JUSTIFICATION OF THE STUDY

In the modern times, industrial production requires the procurement of equipment, machineries and other inputs. The capital required in procuring the requirements in limited in supply and very few industrialists have access to it considering the type of collateral security required by the banks which must be fulfilled before granting loans.

Since Commercial Banks act as intermediaries between surplus and deficit or as a bridge between scattered pockets of savers and the business community desirous of loans for investment, at the end of this research work the following will be attained;

* SMEs industrialist will be able to know some sources of finance and choose amongst them the best.
* Commercial Banks will know how effective and efficient they have been towards economic development.
* Commercial Banks will be able to make some adjustments in their lending processes.

##### 1.6 RESEARCH METHODOLOGY

As it is fully aware, the significance, reliability and validity of any research work to a great extent depends on the methodology used.

There are two methods of data collection; the primary and secondary methods. The primary method consist of structural questionnaire and personal interview, while the secondary method include published government documents and journals, periodicals notable from Central Bank of Nigeria’s publications like bulletins, financial and economic review text books, magazines, budget speech and so on. This research work will not be exceptional.

* There will be two sets of questionnaires; one set will be for some top management and employees of UBN, Plc. The other set will go to some small and medium scale industrialist through the chairman of NASSIS.
* There will also be personal interview with some staff in the credit department of UBN, Plc and also some staff of industrial development centre.
* The secondary method will also be consulted as this will give room to obtaining financial data easily. Also data will be obtained from manuals, reports and handbooks of UBN, Plc. IDC inclusive.

##### 1.7 SCOPE OF THE STUDY

This research work is intended to examine the financing of SMEs by Commercial Banks with emphasis on UBN, Plc. As seen in the earlier part of this chapter, the importance of SMEs towards economic development of a nation cannot be overemphasized, the study covers all kinds of industries, production, processing, servicing, e.t.c.

##### 1.8 LIMITATIONS OF THE STUDY

One of the major limitations in carrying out this work is time. There is time constraint in carrying out this research work due to the fact that there are other academic engagements like attending lectures, writing assignments, tests, e.t.c. Another limitation of this study is that only UBN, Plc is used. The operation in this bank will certainly not represent the genuine situation obtainable in other banks. This can be as a result of different polices or the financial capabilities in lending.

However, UBN, Plc is chosen because of its financial backing and thus represent Commercial Banks that can fulfill their obligations as seen in the earlier part of this chapter.

##### 1.9 DEFINITION OF TERMS

1. **COMMERCIAL BANKS:**

Commercial Banks are generally referred to as those banking institutions that create money in the form of demand deposits. Simply put, a Commercial Bank in an institution engaged in all aspect of the commerce of its own country and its business relations with other countries with a view f making profit.

1. **SMALL AND MEDIUM SCALE INDUSTRIES (ENTERPRISES) SME:**

Small and medium scale enterprises are defined as those enterprises with fixed assets other than loan but including the cost of new investments not exceeding N36Million.

1. **ENTREPRENEUR:**

This can be defined as a person who set and start his own new and small business enterprise.

1. **ECONOMIC GROWTH:**

This is defined as a sustained increase in a nation’s gross national income per capital over a long time period.

1. **ECONOMIC DEVELOPMENT:**

This is defined as the st5ructural transformation of all the economic indexes from a low to the high strata.

1. **FINANCING:**

This is the process of sourcing for fund or acquisition of funds for financial purpose.

1. **CAPITAL:**

This can be defined as wealth or property in form of money or property, sometimes the basic sum in an investment enterprise.

1. **COLLATERAL SECURITY:**

Property or something valuable which is used as guarantee that someone will repay such a landed property, insurance policy e.t.c., which the bank is authorized to take in the event of a customer defaulting in the loan agreement.

1. **LOAN:**

The sum of money borrowed at an agreed rate of interest. It can be of long term or short term.

##### 10. OVERDRAFT

This is a financial assistance granted by way of allowing customers withdraw in excess of the balance in their accounts.

**11. ASSETS:**

Resources or things of value owned by an economic nit, such as a firm, individual or household as cash property and rights to property.