Journal of Economics and Sustainable Development www.iiste.org
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.6, No.8, 2015

Deposit Money Banks and Financing of Small and Medium Scale Enterprises in Nigeria

Uzonwanne, Maria Chinecherem
Department of Economics, Nnamdi Azikiwe University, Awka, Anambra State, Nigeria.
E-mail :mc.uzonwanne@unizik.edu.ng onyiifisayo@yahoo.com

Abstract

Nigeria, as well known, is a country flowing with rich human and natural resources. Yet, like a twist of fortune, a good number of our citizens are living below the agreeable WHO human standard (i.e. in sub-human condition) and in abject poverty. The deposit money banks whose duty it is to assist financially the small and medium scale enterprises (SMEs) that serves as pivotal instrument of reducing abject poverty and enhancing economic growth in Nigeria could just be characterized as generally unstable and unreliable, in meeting the needs of these medium and small scale enterprises. Many scholars have carried out a lot of research to proffer some possible solutions to areas that are dysfunctional in the deposit money banks in Nigeria especially in the area of meeting the borrowing needs of SMEs. This paper does not attempt to discuss the cause or effects of the inability of this system to meet the above mentioned needs. Its main objective is to sensitize the attention of every reader to the present state of these financial institutions which serves as a touchstone to other aspects of the Nigerian economy by describing and analyzing the efficiency of these institutions with regard to providing resources to meet the borrowing needs of medium and small scale enterprises. To attain this, data were collected from the statistical bulletin of Central Bank of Nigeria ranging from 1995-2012. The paper employed the descriptive method. Findings from the estimation shows that deposit money banks in Nigeria have been lacking in this aspect. As a result, recommendations were made for its stability and sustainability such that the monetary authority should initiate policies that would redirect the channel of deposit money banks' credits so as to meet the borrowing needs of at least 65% of the medium and small scale enterprises in the economy. This will help to boost economic activities within the country because lack of capital retards investment.

Key Words: Deposit Money Banks, Small and Medium Enterprises, Development

1. INTRODUCTION

Businesses, unlike people, are not created equally. There are some companies that would be missed if they ceased to exist, but life would go on. There are others whose collapse would cause vast sections of economies and societies to implode. Into this second category falls the deposit money bank. Deposit money banks are the most important savings mobilizing and financial resource allocation institutions. Consequently, their roles make them an important phenomenon and strong pillar in economic growth and development.

Deposit money banks which are also known as commercial banks are financial institutions that provide services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of activities deposit. According to mainstream theory, they act as financial intermediaries to channel savers' money to firms and individuals who seek funding for their acts. Their importance as a catalyst to economic growth/development is widely recognized by both monetary and development economists.

The financial system of Nigeria is dominated by the banking sector, especially the deposit money bank which provides the foundation for the development of financial system. Their credit component constitutes a major link between the monetary sector and the real sector of the Nigerian economy.

In performing these roles, deposit money banks must realized that they have the potentials, scopes and prospects of mobilizing financial resources and allocating them to productive investments and, in return, promote sustainable performance and ensures that businesses are flourishing and alive. They not only store our saved cash and lend us money when we need it, but act as the system of arteries that transport money around the economy, that is why they are often known as financial intermediaries. Hence their key function is to transfer money, en masse, from those who want to lend to those who want to borrow.

In order for an economy whether rich or poor to function properly, it must have a well-developed and healthy deposit money banks. Why? The companies like medium and small scale enterprises and individuals need to borrow money to start business and subsequently to build decent, formidable and innovative businesses which constitute the launching pad for any meaningful growth in any developing economy and this is why Oluyemi (1995) regards the deposit money banks as an engine of growth of a country's economy that could greatly assist in the promotion of rapid economic growth. The financial institution has also been described to be a catalyst for economic growth when it is well developed and judged to be healthy (Adeoye, 2007). A World Bank (1997) study emphasizes the role played by the banking sector in the process of financial integration in developing countries.

This is to say that deposit money banks are inseparably linked to economic growth of any nation. Figuratively, they are like the body and soul in the overall functions of the human person. Proper functioning of this banks leads to economic growth of a nation. They play an important role in economic growth of a nation. They are patterns of resources that aim to meet the needs of medium and small scale enterprises.

The purpose of this paper therefore, is to assess the efficiency of the deposit money banking system in financing the medium and small scale enterprises in Nigeria and its potential in achieving the desired economic growth for the sustainability of Nigerian economy. For better understanding of this paper, we shall adopt the definition of the National Association of Small and Medium Scale Enterprises (NASMSE) which explains SMEs as those enterprises or business ventures with total asset value of less than 150 million naira and employees less than 100 persons who serve the following roles: ensuring a more equitable distribution of income and reducing the migration of manpower from rural to urban areas; alleviating poverty; creating wealth and promoting more pluralistic societies; reducing waste in the economy; employing majority of all non- governmental workers in the country, a trend that seems to be on the increase; and finally, serving as a nursery for entrepreneurial talent and growth, which translate in most cases into large industries.

2. PROBLEM STATEMENT

For more than 55 years since Nigeria became an independent nation, it has been suffering from so many epileptic economic situations that have left her as a grossly underdeveloped country, instead of the economic political giant of Africa which its founding fathers intended it to be. Such persistent factors include endemic corruption, poverty, lack of good management of resources, weak financial policy, sharp dealings of greedy bankers, covetousness of bank directors, lack of proper oversight of the Apex Bank, social conflicts, instability of government and bad leadership. Hence, at 55, Nigeria has remained a "toddler" in almost every sector of her national development and this is a very worrisome situation.

There are daily reports of how Nigerian banks rip off their customers through various charges and practices. Often, customers complain and cry out for appropriate regulatory intervention. Unfortunately, their complaints seem to fall on deaf ears, because they are unaware of any positive regulatory action in response thereto. Emboldened by financial regulatory inaction, government overspending in capital projects that are not directly profit-yielding to the GDP, crude practices and indifference, many Nigerian banks now engage in more exploitative practices. The categories of such predatory bank practices are unfolded daily.

Normally, when a customer secures a loan from a bank, the latter fixes a negotiated lending rate, based on the prevailing interest rate approved by the Apex Bank. Any change in the interest rate should be brought to the notice of the borrower, except otherwise agreed. In Nigeria, however, the lending rate is rarely negotiated, and when it is reviewed upwards by the Central Bank of Nigeria (CBN), the average bank automatically applies the new rate to the outstanding loan without notifying the borrower (Okafor, 2011). Ironically, the same bank hides the fact of any downward review of the lending rate from its mostly uninformed customers, thereby illegally subjecting the customers to a higher interest regime. Unfortunately, some greedy banks play on the credulity and ignorance of their illiterate customers to make fabulous profits through illegal charges and sharp dealings against the overall interest of the customer.

Often, what the bank staff presents to a prospective borrower, during loan negotiations as the total charges, become hydra-headed once he swallows the bait. While processing loans, Nigerian banks impose on borrowers both "processing" and "administrative" fees which are duplicates. Again, they charge borrowers and corporate customers higher than what they pay the lawyer to conduct searches at land and company registries. We believe that the interest rates Nigerian banks display at their offices and report to CBN per section 23 of the Banks and other Financial Institutions Act are different from what most of them impose on customers.

Bank fraud, poor lending of SMEs and credit mismanagement practices in the Nigeria banking sector sometime in the past forced the Central Bank of Nigeria to revisit the capital structure of commercial banks in Nigeria. These, among other things, led the Central Bank of Nigeria (CBN) to give a directive that all banks should recapitalize from N2 billion to N25 billion with effect from January 1, 2006. It was hoped that the consolidation would make the banks stronger so as to be able to provide larger amounts of funds to productive sectors of the economy, which is largely dominated by small and medium enterprises, thereby making them grow into large firms, with enough resources to contribute to economic growth/development.

This development led to various financial activities in the Nigerian financial sector, with most banks initially opting for additional source of funds from the capital market via floating of shares. Most banks, at this stage, started inviting members of the public to acquire new shares in order to meet up with the new minimum capital directed by the Central Bank of Nigeria.

Notwithstanding, some banks were not capable of raising the new minimum capital by themselves; hence the need for merging and consolidating of banks resulted to reducing the total number of banks in Nigeria to twenty-three (23). However, the consolidation of the banking sector presented new challenges to the banks which required more efforts to control cost and increase their efficiency. These, in turn, affected the volume of credit facilities granted to small and medium-scale enterprises in Nigeria. A study conducted by Iloh **et al** (2012) reveals the gap between deposit money bank deposits (DMBD) and commercial bank lending to SMEs from year 2000 upward (the year that saw the end of merchant banks). There is a wide margin between the two variables, and while deposit money bank deposits rose very high, commercial bank lending to small and medium enterprises (SMEs) declined from 2004 to 2013.

Similarly, Joshua (2008) contends that about 70% of the small and medium scale enterprises in Nigeria are between operational and are on the range of folding up, while the remaining 30% operate on low level capacity and are vulnerable to folding up in the nearest future.

Therefore, in order to get out of this economic and development quagmire, policy makers and experts in Nigeria must continue to search for workable strategies of interventions that will catalyze the development process in Nigeria. Of late or recently, Nigeria policy makers and experts in and outside government, including members of the organized private sectors, seem to agree that, the catalytic process must start with the urgent setting up and empowering of as many small and medium scale enterprises (SMEs) as possible in Nigeria. This is because available facts, figures and cases and trends in global economic development have shown that SMEs indeed hold the key to the development of developing nations like Nigeria

3. THEORETICAL AND EMPIRICAL LITERATURE

To understand why mobilizing and allocating funds by deposit money banks to small-medium enterprises under certain conditions may be positively related to economic growth, it is necessary to understand the critical function the deposit money banks provides to the economy by looking at the Supply Leading Theory and Keynesian Theory of Consumption, Savings, Investment and Interest Rate

3.1 Supply Leading Theory

The supply leading theory postulates that the existence of financial institutions like deposit money banks and the supply of their financial assets, liabilities and related financial services in advance of demand for them would provide efficient allocation of resources from surplus units to deficit units, thereby leading the other economic sectors in their growth process (Patrick, 1996). This theory performs two functions: first it transfers resources from traditional sectors to modern sectors; and second, it promotes and stimulates an entrepreneurial response (SMEs) in the modern sectors.

The proponents of this theory believe that the activities of the financial institutions serve as a useful tool for increasing the productive capacity of the SMEs in the economy. They opined that countries with better developed financial system tend to grow faster in this aspect. Early economist like Schumpeter (1911) has strongly supported the view of finance led casual relationship between financing of small-medium enterprises and a country's economic growth.

The supply-leading financial intermediation can be linked to the term "innovation finance" (Schumpeter, 1912). Hence, one of the most significant effect of supply-leading approach is that, as entrepreneurs have new access to the supply-lading funds, their expectations increase and new horizons as to possible alternatives are opened, thereby making the entrepreneur to think big**.** A number of studies have argued in favour of financed-led approach (Levine, 1997). It should however be emphasized that the rationale for the supply leading approach to the development of country's financial system and hence overall economic growth, lies in its potential benefits to the economy in stimulating real economic growth/ development.

The supply-leading theory presents an opportunity to induce real growth by financial means. Its use, analysts believe is more result-oriented at the early level of a country's development than later. According to Gerschenkron (1962) "the more backward the economy relative to others in the same time period, the greater the emphasis on supply-leading finance." Several researchers have supported the findings using this theory, for example, Mckinnon (1973) observed that a farmer could provide his own savings to increase slightly the commercial fertilizer that he is now using and the return on the marginal new investment could be calculated. However, there is a virtual impossibility of a poor farmer financing from his current savings, the total amount needed for investment in order to adopt the new technology. As such access to finance is likely to be necessary ingredient in encouraging the small-medium scale enterprises.

3.2 Keynesian Theory of Consumption, Savings, Investment, and Interest Rate

The essential element of this theory is the idea that macro economy can be in disequilibrium for a considerable time if government does not intervene to help overcome the aggregate demand to reduce unemployment which results from many factors such as lapses in financial institutions like banks to increase economic growth. According to Keynes, an increase in investment results in an increase in incom**e,** while peoples' propensity to consume will lead to lack of savings. Nevertheless, in economic market when a fraction of the individuals is spending, they put back part of the income into the economy. In this way, a small increase in investment has a larger cumulative effect on income and the increased income leads to more purchase and consumption which will definitely raise the GDP.

Besides, this theory makes it clear that higher interest rate makes it more expensive for SMEs to borrow money, which means that companies invest less and when they do that, income are reduced such that the amount left over for savings equals the lesser amount now invested. In recession, the aggregate demand of economies falls, in other words, business and people tighten their belts and spend less money. Lower spending results in demand falling and a vicious circle ensure job losses and further falls in spending. Therefore, this theory propounded that government should borrow money and boost demand by pushing money into the economy.

In this theory also, investment and savings have been considered two critical macroeconomic variables with microeconomic foundation for achieving price stability and promotion of employment opportunities which contribute to sustainable economic growth. The conventional perception through which investment, savings and economic growth are related is that savings contribute to higher investments, hence higher GDP growth in short run (Mohan, 2006).

The theory finally concludes that the financial institutions especially banks help in the reduction of risks faced by firm and businesses in their process, improve the portfolio of diversification and isolation of the economy from the vicissitudes of international economic changes. It also provides linkages for the different sectors of the economy and encourages a high level of specialization expertise and economies of scale (Nzotta and Okereke, 2009).

3.3 Empirical Literature

The financial institutions are unique because of the risk and uncertainty faced by both savers and investors (Stiglitz, 1998). Savers are often unable to select the investment project that best matches their personal risk appetite and without pooling their money, savers cannot take advantage of increasing returns to scale in investment (Stiglitz, 1998). Banks provide an intermediation service that brings savers and investors together, theoretically channeling investment funds to the uses that yield the highest rate of return, thus increasing specialization and the division of labour (Todaro, 2006).

Adofu and Audu (2011) used ordinary least square method to assess the contribution and efficiency of financial institutions in enhancing economic growth in Nigeria. One of the variables of the study was commercial bank credit to agriculture (SMEs). The study used annual data and found that commercial banks' credits to agriculture impact positively on GDP. The study therefore, concludes that financial institutions play a significant role in enhancing economic activities and hence recommend that monetary authorities should ensure appropriate determination of interest rate that will break the double-edge effect of interest rate on savers and local investors.

A study of the trend of commercial banks' credit to small and medium enterprises in Nigeria suggests that an increase in commercial banks' credit allocation to SMEs, would increase SMEs contribution to total GDP (Ijaiya, M.A, 2003). Therefore, the reasons for the low contribution of the SMEs to the total GDP includes lack of credit facilities, shortage of skills among the entrepreneurs, weak infrastructural facilities, inability of small and medium industrialists to transform ideas into reality, poor demand for finished goods, restricted access to land, difficulties in input procurement and lack of continuity after the death of their owners.

Iniodu and Udomesiet (1995) carried out a research on commercial banking system efficiency and financing of small scale enterprises in the 21st century. Their research shows that the Nigerian commercial banks are not measuring well in this aspect and it therefore, recommends the design of a supportive policy and institutional framework to enhance capital formation, product innovation, technological advancement and growth for the development of SMEs in Nigeria.

Afangideh (2009) examined the impact of financial institutions on economic growth in Nigeria using three stage least squares technique on data spanning 1970-2005. They found out that a developed financial institution alleviates growth financing constraint by increasing bank credit (BNC) and investment (INV) activities with resultant rise in output in Nigeria GDP. For this reason, they recommend that financial institutions proxied by bank credit and investment are important determinants of economic growth in Nigeria.

Mobolaji, (2010) contends that one of the major objectives of any government is the acceleration of economic growth and development. Each country tries to achieve this by various ways and channels. He conducted an empirical study that analyzes the impact of Small and Medium Enterprises (SME) on economic development in Nigeria for the period 1980-2008. The paper employs a time series econometric approach to assess this impact. The study finds that though SME is a catalyst for development, its impact on the development path in the country is still negligible. This dismal performance may reflect the phase and stage of our economic development, and suggests that the country is still a factor-driven economy. This performance may also be due to several reasons such as poor funding facilities, low level of education and weak government support amongst others. The paper suggests more positive government supports and more enlightenment, for the sector to actually play its expected role of facilitating economic development and for a smooth transition to innovation-driven economy

Ahmed (1990) in his own view about the lending problem of commercial banks to small scale industries observed that the industrialist fails to meet the conditions laid down for lending to small scale industries. Some of these conditions he stressed as adequate collateral security, feasibility studies for project and accurate record keeping.

According to Mishkin, (2007), countries with better efficient financial system grow faster while for Kasekende (2008), those with inefficient financial system bear the bank failure. Porter (1966) and Goldsmith (1969) in addition to that, opined that the level of financial institution development is the best indicator of the general economic development because it facilitates the migration of funds to the best user like the SMEs.

Orjih (1994) identified that in spite of the persuasive and coercive measure adopted by the monetary authority in Nigeria to boost fund allocation to small enterprises, commercial banks still fail to channel sufficient financial resources to the sub-sector thereby causing serious financial starvation to the small scale enterprises in Nigeria.

Eseoghene (2010) also in a related study of bank frauds in Nigeria, adopting t-test statistics, the study revealed the underlying causes, effects and possible remedies in a survey of a sample of 100 respondents and found bank frauds to be common in Nigeria while identifying greed, infidelity, poverty, poor internal control and poor working condition as factors responsible for the prevalence. Hence, this discourages the SMEs from borrowing.

Haron and Ahmed (2002) investigated the effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia by using 'Adaptive Expectation Model' to measure the effects of the rate of profit declared by Islamic banks on the level of deposits placed by their customers. The result showed that relationship between the amounts of deposits placed in the banking system in Malaysia and returns given to these deposits is guided by profit motive. He then recommend that Muslim banks should not place profit maximization as the sole factor in establishing relationship with their customers.

Fadare (2004) empirically identified the effect of banking sector reforms on economic growth by using data ranging from years 1999-2009. He used a lot of variables such as inflation rate, cash reserve ratio. Results indicate that the relationship between economic growth and other exogenous variables show negative sign. Hence, he recommended that the criteria which encourage the banking sector to give more capital or start huge amount of lending to the individual is to minimize cash reserve ratios. The financial policies should consider reform and enforce borrowing in small industries with proper regulatory policies and also secure type of collaterals and confirmation of guaranteed repayment of finances given to them.
Dele (2007) also investigated the banking system reform in many West African countries, by using the data of 40 commercial and merchant banks. Variables used in the study are lending, interest rate and the foreign exchange policy. The study used the descriptive statistics to test the hypothesis, hence results indicate that recapitalizations have shown significance to reform in the banking services and to the growth of economy as a whole. Hence, he suggested a procedure to implement the policy in which banks' interest rate should be operated through monetary policy in order to move the GDP growth continuously towards the unique price and single market for local and international markets.

The review of the related literature has revealed that currently the impact of poor lending rate and high interest rate of financial institutions to SMEs has engaged the attention of researchers. Evidently, these research efforts were focused on banking frauds, cash reserve ratio, interest rate and foreign exchange rate. This study has filled in a gap by focusing on the ability of the banking sector in Nigeria in meeting the borrowing needs of the Small Medium Enterprises (SMEs) in Nigeria. Beyond this, the study aims at initiating policies that would increase lending of the commercial banks to the SMEs since the descriptive method employed in the work through empirical research have shown the measures of relationship between the SMEs growth and Deposit money bank which will eventually lead to sustainable economic growth in the country. It has also filled a gap by employing the theory of supply leading theory and Keynesian theory of consumption saving, investment and interest rate by portraying the fact that when funds are supplied to the SMEs, it will go a long way in stimulating investment under the SMEs credit scheme.

4. METHODOLOGY

This paper employed descriptive statistical method since the primary intention of descriptive statistics is to describe characteristics of a group or groups and gives the researcher the opportunity to meaningfully describe many scores with small number of indices. Hence, this paper described the characteristics and efficiency of the deposit money banks, by giving an over view of the amount of money deposited by their customers and the amount they were able to lend to their customers from 1982-2012. It also described the situation of their foreign assets from 2011-2012. The descriptive statistics has also helped to show the inefficiency of the deposit money bank in lending fund to SMEs for the sustainable development in Nigeria. This was made possible through the empirical literature and data provided. Finally, it has helped us to recommend some possible solutions for the development of the Nigerian deposit money banks in its quest to meet the financial needs of SMEs. The data were collected from the Central Bank of Nigeria.

5. RESEARCH FINDINGS AND DISCUSSION

Deposits and Loans of Commercial Banks

The table below shows the overview of the deposits and loans made by the commercial banks of Nigeria from 1982-2012.

DEPOSITS AND LOANS OF COMMERCIAL BANKS (in Millions)

YEAR	DEPOSITS (N)	LOANS (N) (Naira)
1982	111.70	35.9
1983	131.20	44.2
1984	276.60	114.9
1985	311.40	114.9
1986	873.50	373.6
1987	1,229.2	492.8
1988	1,378.4	659.9
1989	5,722.0	3,721.1
1990	8,360.1	4,73.8
1991	10,580.7	5,962.1
1992	4,612.2	1,895.3
1993	19,542.3	10,910.4
1994	4,855.2	1,602.2
1995	8,807.1	8,659.3
1996	12,442.0	4,411.2
1997	19,047.6	11,158.6
1998	18,513.8	11,852.7
1999	15,860.5	7,498.1
2000	20,640.9	11,150.3
2001	16,875.9	12,341.0
2002	14,861.6	8,942.2
2003	20,551.8	11,251.9
2004	64,490.0	34,118.5
2005	18,461.9	16,105.5
2006	3,118.6	24,274.6
2007	3,082.3	27,263.5
2008	13,411.8	46,521.5

2009	3,296.2	15,590.5
2010	20,000.8	16,556.0
2011	20,000.2	19.980.3
2012	19,000.7	22,580.0

Source: Central Bank of Nigeria (Various Issues)

The data show, from the year 1982 to 2005, a sharp but fluctuating rise in the deposits. From 2006 to 2012, a sharp decline came up in the number of deposits made. At the loan side of the table, it is noticed that there is a sharp but fluctuating rise in the number of loans given, starting from 1982 to 2012. For instance, from 1995 to 1996, from there was a reduction of 4,248.3; and from 1998 to 1999, there was also a reduction of 4, 354.6; and in 2001 to 2002, it came down again with 3,398.8; and the highest reduction was experienced from 2008 to 2009, when it came down to 30,931.0. When this type of fluctuation in lending loans to credible customers remains constant in a country that has such a huge population and needs a lot of investment to alleviate poverty and unemployment which the SMEs can ensure, it is a big sign that something is wrong with the deposit money banking sector. Hence, it will stifle innovation, investment, productivity and growth in the economy instead of guaranteeing loan growth that will lead to increase in productivity which will boost returns on investment and enhance the repayment capacity of the borrowers. The table above demonstrated also the existence of excess savings (deposit), this could be due to the reluctance of commercial banks to grant credit to small and medium enterprises.

Foreign Assets of Commercial Banks

Going through the data provided by the Central Bank of Nigeria in its statistical bulletin ranging from 1995-2012, it was also observed that the foreign asset base of the financial sectors of Nigeria can be said to be increasing. For instance, in the year 2000, it was 1,275,016.9 and in 2009, it came up to 8, 550,430.3; and in 2012, it rose again to 9,043,678.7. This, then, is a sign that the Nigerian foreign assets are increasing gradually. If the foreign assets are increasing, it is evident that this financial institution has adequate financial resources to support small and medium scale business development in the country. The big question then is: Why deposit money banks deprive customers the opportunity to obtain loans for productive investment, which is necessary for growth by justifying their reluctance to grant credit to the domestic economy under the guise of protecting 'depositor's funds'? The economic implications of this are that unemployment and other endemic corruption will continue to increase and as a result, Nigeria will grossly continue to remain an underdeveloped country. Hence, there is the need that Nigerian government intervenes by making the banking system and all associated institutions function effectively and efficiently by directing the deposit money banks to grant a given proportion of their total loans and advances to preferred sector like SME, which is the source of economic growth.

Having carefully x-rayed the efficiency of deposit money banks in supporting SMEs, it is evident that the efficiency of the Nigerian deposit money bank is not stable. This has led to a comparatively low level of confidence in the Nigerian financial institution due to the poor level of the regulatory body of the financial sector. Statistically speaking, the efficiency level of Nigerian banking sector is below average, and there is no improvement in operational efficiency. On the same note, their intermediation is not that encouraging in real terms; because till date, funds are not readily available and accessible to SMEs as they ought to be. More to this is that the lending rates as well as the savings rate are not encouraging for SMEs to make savings and investments for the economic growth of the Nigerian nation.

6. RECOMMENDATIONS

Since the development of entrepreneurial skill is very important and crucial for the establishment of SMEs, and the deposit money bank funding is necessary for their development, it is essential here to offer some recommendations to guide the policy makers in channeling deposit money banks' resources for effective development of SMEs in Nigeria.

- The Nigeria government should recognized the importance of SMEs and attach priority to the development of SMEs by encouraging the deposit money banks to assist them with loans because they constitute a major tool in boosting employment in the country.

- For the deposit money banks to be more efficient under this area, the loan departments of every money deposit banks should assess each SMEs on its own merit to determine its viability and grant direct credit to each on the basis of the project's viability without sacrificing credit standard.

- The CBN should initiate policies that would redirect the channel of commercial banks' credits towards meeting the borrowing needs of at least 65% of the SMEs in the economy. This will help to boost the economic activities in the economy as lack of capital retards investment that will yield more employment.

- Since it is assumed that provision of collateral to secure commercial banks' credit continues to pose serious problem because most of these SMEs have nothing to offer as collateral, we recommend that they are assisted to move forward by granting credit to those of them who are registered with financial association to which the entrepreneurs already belong for on-lending to members of the association. As each association wants to maintain its reputation and members have adequate knowledge of the character and creditworthiness of each other.

- The monetary authority should initiate policies that would encourage the commercial banks to match savings with investment by striking a balance between savings rate and lending rate, as this will further contribute to economic growth in Nigeria.

- Guaranteed government's loans to SMEs would go a long way in stimulating investment under the SMEs' credit scheme and will promote growth.

- The deposit credit ceiling imposed on the commercial banks needs urgent attention if the nation really wants to promote small-medium scale enterprises, which are true foundation of growth and development.

- The interest rates have little or no impact on the economy of Nigeria, thus any policy targeted on the interest rates may not yield the desired results. Therefore, there is need that commercial banks ensure that interest is elastic for SMEs while ensuring the availability of credits.

- In all, the commercial banks in particular, should be properly monitored to ensure that they operate within a designated framework as this would help promote the best banking practices in the banking industry.

7. CONCLUSION

From the foregoing, it is obvious that deposit money banks play a great role in the financing and encouragement of SMEs that constitute the foundation for the sustained growth and development of any economy. Hence, it is notable that an urgent regulatory system/mechanism by the Central Bank of Nigeria is needed to ensure that deposit money banks are effective in administering their required role especially in the area of interest rate charges and credit allocation towards these SMEs. In the era of industrialization, rigidity in giving out loans to SMEs particularly cannot encourage investment in key areas that will give way or contribute to economic growth in the country. If all these are done, success may be achieved in attenuating the problems arising from poor control of the national economy and the dark economic clouds that bedevil the banking sector of Nigeria and as well, discourage some SMEs that have made themselves perpetual beggars to various international monetary organizations for assistance. Every financial institution ought to be interested in facilitating economic development and not for profit maximization. Hence, any system that does not have this view in mind is bound to crumble. For business to function effectively finance is required; and this should be made available through the instrumentality of the banks. When finances are made available, industries like SMEs manufacture goods which help to offer individuals the best standard of living. Finally, the deposit money banks should not only be interested in its gains, but should also be occupied with the various needs of SMEs in order to protect her nation against risks.

REFERENCES

Adewunmi, W. (1981). Money matters in economic development: Some tentative empirical evidence from Nigeria. Journal of Savings and Development, 5: 2-3.

Adeoye, B.W. (2007). Financial sector development and economic growth: The Nigerian experience. A paper presented at the 50th annual conference of Nigerian Economic Society.

Agu, C.C. (1983). Rural banking: A strategy for rural development in Nigeria: An appraisal. Savings and Development, 1:45-62.

Agu, C.C. (1986). The structure and performance of the Nigerian banking system (1970-81). Journal of Business and Economic Studies, 21: 32-43.

Agu, C.C. (1987). Financial institutions and economic development: The experience of Nigeria. The South African Journal of Economics, 54:319-331.

Ahmad, D.S. (2010). The effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia. International Journal of Islamic Financial Services, 1 (4).

Arestis, P.D. & Luintel, K. (2004). Financial development and economic growth: The role of stock markets. Journal of Money, Credit and Banking, 33 (1).

Central Bank of Nigeria. (2012). Statistical Bulletin.

Eseoghene, J.I. (2010) Bank frauds in Nigeria: Underlying causes, effects and possible remedies. African Journal of Accounting Economics, Finance and Banking Research, 6 (6): 11-14.

Fadare, S.O. (2004). Recent banking sector reforms and economic growth in Nigeria, Middle Eastern Finance and Economic Journal.

Fry, M.J. (1998). Money, interest and banking in economic development. New Haven: Yale University Press.

Iniodu, P.U. & Udomesiet, C.U. (1995). Commercial banking system efficiency and financing of small-scale enterprises (SSEs) in the 21st Century.

Goldsmith, R.W. (1969). Financial structure and development. New Haven: Yale University Press.

Ijaiva, M.A (2003). Commercial banks' credits to the agricultural sector and the Nigerian economy: An analysis of the future trend. Advances in Management, 3: 86-93.

Jhingan, M.L. (2001). Money, banking, international trade and public finance (6th Revised and Enlarged Edition). New Delhi, India: Vrinda Publications, Ltd.

Joshua, M. (2008). Small and medium scale business as instrument of economic growth in Nigeria. Lagos: Kinston Publishers.

Kasekende, L. (2008). Developing a sound banking system. A paper presented at IMF seminar, Tunisia.

Kharbanda, V.P. (2001). Facilitating innovation in Indian small and medium enterprises- The role of clusters. Current Science, 80 (3): 343 – 348.

Mishkin, F.S. (2007). The economics of money and financial market. Wesley: Pearson/Addison.

Mobolaji, H. (2010). Entrepreneurship and economic development in Nigeria. A paper presented at College of Management and Social Sciences Seminar, Fountain University, Osogbo, Nigeria.

Nzotta, S. & Okereke, E. (2009). Financial deepening and economic development of Nigeria: An empirical investigation. African Journal of Accounting Economics, Finance and Banking Research 5(5).

Oluyemi, S.A. (1995). Deregulation and performance of insured banks in Nigeria: An overview, NDIC Quarterly, 5(1).

Orji, B.C. (1994). Dynamics of Nigerian financial system. The Nigerian Finance Association (NIFA), Lagos.

Powers, J. A. (1969). Branch versus unit banking: Bank output and cost economies, Southern Economic Journal, 35: 153-64.

Porter, R.C (1996). The promotion of the banking habit and economic development. Journal of Financial Economics 80 (30), 677-722.

Revell, J. R. S. (1973). The British financial system. London: Macmillan.

Revell, J.R.S. (1980). Costs and margins in Banking: An international survey. Paris: O.E.C.D.

Soludo, C. C. (2004). Consolidating the Nigerian banking industry to meet the development challenges of the 21st century. An Address delivered to the Special Meeting of the Bankers Committee held on

July 6 at the CBN Headquarters, Abuja. Retrieved from: http//www.cenbank.org/out/speeches/2004/Govadd (Access 21/2/2015).

Stiglitz, J. (1998). Distinguished lecture on economics in government: The private uses of public interest, incentives and institutions. The Journal of Economic Perspective.

Shaw, E.S. (1973). Financial deepening in economic development. London: Oxford University Press.

Todaro, M.P. and Stephen, C.S. (2006). Economics for a developing world (9th Ed.). London: Longman Press.

Udegbunam, R.I. (2004). Asset portfolio composition, size and bank stock risk evidence from Nigerian commercial banks. African Review of Money, Finance and Banking.

World Bank (1989). Sub-Sahara Africa from crisis to sustainable growth: A long term perspective study. Washington, D.C