 

# Banking Sector and the Development of SMEs in Osun State

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**Abstract**
The research study investigates the banking sector and the development of small and medium scale enterprises in Osun State. The primary purpose of the study is to know how SMEs can be developed through the intervention of the banking sector. The hypothesis of this study is that SMEs do not play an important role in economic growths and developments of Osun State.Descriptive research design was adopted. The population of the study is the entire SMEs in Osun state and United Bank for Africa (UBA). Questionnaires were used as an instrument of primary data collection. Purposive sampling technique was used to select the sample, correlation analysis was employed. 170 questionnaires were administered but 150 were returned which left 20 questionnaires irrecoverable. Tables and simples percentages were used in data presentation. Four hypotheses were formulated. The finding of the study reveals that there is a positive correlation between loans granted by banks and the growth and development of SMEs in Osun State also, that SMEs cannot be concentrated in Osun State if they are not effectively financed due to the relationship that exists between the banks and SMEs. Based on the findings, it was recommended that guidelines/schemes by commercial banks to finance SMEs needs to be flexible to accommodate the small and medium scale entrepreneurs, the study also recommends that the financial institution needs to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development.
**Keywords:** banking sector, finance, economic growth, SMEs, loans, entrepreneur

## 1.0 INTRODUCTION

The role of commercial banks in the development of SMEs is vital to economic developments. It is acknowledged that the availability of financial capital is a pre-requisite for rapid development. Since efficient management of scarce resources are best facilitated by financial institutions. It therefore follows that banks have vital role. Things they do to small and medium scale enterprises among others by making their vast financial resources available for financial and promotes developments. The peculiar circumstance which characterized the situation of under-development which make this role more pertinent. Nigeria is characterized with low level per capital income. There are also disparities in the distribution of income as well as variations in savings propensities at different level of income. Quite often the relief from the handicaps is the best provided by banks. The quest for economic development to ensure overall improvement in individual well-being of citizens has been the preoccupation of every nation. The process involves a number of approaches. One of these is the adoption of an industrialization strategy at a point in time relevant to the prevailing needs of development. Developing countries are under much pressure in this regard because of their general peculiar features.

Among these features include; The concentration of high proportion of the population in agriculture, often ranging between 40 and 90 per cent in some countries; The prevalence of disguised unemployment in agriculture and high levels of unemployment outside agriculture; High population growth; Low level of savings and capital formulation; High level of technological dependence on the advanced countries; Evidence of 'economic dualism'; Inadequate provision of such infrastructures as good roads, pipe-borne water, electricity and telecommunication; General poverty of various dimensions; Poor credit and marketing facilities; Generally low output per head; Low per capital incomes with an associated highly uneven distribution of incomes; Rural-urban migration; and Generally low standard of living.

In fact, many developing countries have attached high priority to the industrial sector in their developments plans possibly as a result of their attraction to many development theories that have tended to see industrialization as the gateway to modernization. Nigeria, like many of them, had on gaining political independence, adopted import-substitution as her industrialization strategy. This should not be surprising, because even as of today, most of the advanced countries are rich because they are industrialized. Industrialization portends a lot of disadvantages in modern economies. Incidentally the past polices and strategies failed to generate self-sustaining growth largely because of their preference for the establishment of large scale firms to the detriment of small and medium scale enterprises resources (human and material), lied largely idle in the face of mounting problems. Since the 1970s, therefore, developing countries have been compelled, in the face of these problems, to look for alternative approaches to development. One of these approaches has been redirection of efforts and encouragement of small and medium scale enterprises (SMEs).

Small and Medium Enterprises (SMEs) is acknowledged to have huge potential for employment generation and wealth creation in any economy. Yet in Nigeria, the sector (SMEs) has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sectors is also quite limited-dominated by import dependent processes and factors. Although there is no reliable data, imprecise indicators shows that capacity utilization in the sector (SMEs) has improved perceptibly in the period since 1999, but the sector (SMEs) 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 failure 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 management, would help to strengthen the international financial system as well as the Small and Medium Enterprises in the long-run. An increasing amount of research on credit risk is being carried out within financial firms, central banks, regulators and universities.

Thus, objectives of this paper are to:

i. Determine how SMEs can be developed through the intervention of the banking sector.
ii. Investigate the extent at which banking sector gives loans for the development of SMEs.
iii. Examine whether the SMEs actually promotes economic growth and development in Osun State.
iv. Determine whether the loan/credit facilities given to the SMEs are being used efficiently.
**v.** Examine if proper monitoring of loan facilities by bank management will effectively develop SMEs.

The above objectives are guided by the following questions:

i. To what extent can banks give loans to entrepreneurs for the development of small and medium scale entrepreneurship?
ii. What are the roles small and medium scale entrepreneurs play in economic growth and developments?
iii. Does poor loan management hinder the development of small and medium scale entrepreneurs?
iv. Will proper monitoring of loan by banks reduce loan mismanagement of SMEs?

Stieglitz and Weis (1981) observed that small and medium scale firms with opportunities to invest in positive net present value projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Nonetheless, the liquidity ratio of these financiers plays a major role. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risks due to some pervasive incentive structure in the system.

On the other hand, because SMEs do not have access to public capital markets they naturally depend on banks for funding. Dependence on banks makes them even more vulnerable for the simple reasons that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in equilibrium and these problems are exacerbated during periods of financial instability.

Berger and Udell (2001) further note that shocks to the economic environment in which both banks and SMEs exist can significantly affect the willingness and capability of banks to lend to small and medium scale firms.

These shocks come in a variety of forms such as technological innovation, regulator regime shifts, and shifts in competitive conditions and changes in the macroeconomic environment.

Financial institutions respond to these shocks in a number of ways, one of which is to develop stringent lending rules that not only avail them of full information about the firm and the owner, but also ensure that their investment in such firms are guaranteed in both the short and the long-run.

In less developed countries where there is a dearth of information on the operations of SMEs, the situation degenerates into total risk-aversion by financial institutions in funding SMEs. Such risk-averse behaviour can ultimately affect the performance of monetary policy through the credit channel of policy transmission and perhaps snowball into financial instability in the system.

## 2.0 LITERATURE REVIEW

### 2.1 CONCEPTUAL FRAMEWORK

It is important to note that the development of entrepreneurs cannot be overemphasized and the role they play in economic development and how they are financed through both formal and informal sources. The development experience of many countries indicates that SMEs can meaningfully contribute to the attainment of many development objectives. These include output expansion, employment generation, even location of industries among regions of the countries, income redistribution, promotion of indigenous entrepreneurship and technology as well as production of intermediate goods to strengthen inter and intra industrial leakages (Nnanna, 2000) never the less, the extent to which the opportunities offered by SMEs are exploited and their contributions maximize in any economy depends on the enabling environment created through the provision of requisite infrastructures facilities such as roads, telecommunication, power etc. and pursuit of policies such as concretionary financing that encourage and strengthen the growth of the sector.

Although the recognition of the economic importance of SMEs to the Nigerian economy is only a recent development, today the contributions of the sector to the economy are no longer contestable. The contribution of

SMEs to manufacturing output and gross domestic product (GDP) is appreciable. In the area of employment generation, SMEs accounted for about 70 per cent of the industrial employment in 1987 and the situation has remained largely the same (Omwumere, 2000), the same is the case in other developing economy as it is estimated that SMEs employ 22 per cent of the adult population in those countries, specifically, the sector employs about 15.5 per cent and 13.9 per cent of the labour force, which is higher employment growth than micro and large scale enterprises (5 per cent and 11 per cent) in Ghana and Malawi respectively (Kayanula and Qaurtey, 2000)

However, importance of SMEs as catalyst to economic growth and national development has been long recognised and is obviously a basic reason for their promotion in developed economy. For instance, the Bolton committee of inquiry established in United Kingdom in 1968 to examine the role of small scale enterprise in the British economy ideally describes two important roles of these enterprises as breeding ground of new industries and source of dynamic competition, even in the most buoyant economy, such as the United states of America, SMEs have played an important role in the country's transition from the industrial age to the post-industrial technology era.

SMEs are divided into Medium Scale Enterprise (MSE), Small Scale Enterprise (SSE) and Micro Enterprises (ME).The federal ministry of industries defines a Medium Scale Enterprise as any company with operating assets less than 200 million and employing less than 200 persons. A Small Scale Enterprise on the other hand, is one that has total assets less than 50 million, with less than 100 employees. Annual turnover is not considered in its definition of a SME. The National Economic Reconstruction Fund(NERFUND) defines a SSE as one whose total assets is less than 10 million but made no reference to either its annual turnover or the number of employee(WORLD BANK,2010. Two fundamental financing concepts in the development of SMEs, the formal and informal forms of financing have been identified by the previous researcher, scholars and practitioners(Gelinas, 1998;Aruwa, 2004).The findings were that among the most popular of the formal sources of financing, the commercial banks and the development banks remains the formal sources of finance for enterprises. The informal source comprising personal savings, borrowing from friends and relatives and comparative credits has also been identified as potential sources of financing SMEs. Research works have been conducted on SME financing policies and strategies for its development (Boiko, 1998) and SME credit delivery strategies in Nigeria (Inang and ukpong, 1992).

The World Bank(2001)conducted research survey on SME access to formal financing institutions credits and found that 85 per cent of Nigerian firms had relationship with banks, not all of them had access to external credit. Schneider- Bartholdi (2002) and others have on the hand confirmed the significant contribution of SMEs to macro-economic development of nations.

The problem of SME financing has received the most tremendous research efforts from researchers. Some recent works in these respects includes Arnold (1998), Dorn (1998),Inang and ukpong (2002) and Aruwa(2004).In their findings four problems in financing SMEs have become recurrent: the cost of capital, risk, the inappropriate terms on bank loans and the shortage of equity capital. The research gap that still exists in spite of these research efforts is the capacity of other financing options to fill the vacuum created by the failure of the formal financial institutions to supply the financial needs of SMEs in Nigeria. Aruwa (2004) notes that since the banks have demonstrated their inability to assume and manage the interest of SMEs, the informal savings schemes not only do they fill the vacuum created but they also constitute a new form of capital accumulation based on solidarity and co-operation between communities and businesses. Golis (1998) identified financing opportunities in ventures capital for SMEs. The Small and Medium Industries Equity Investment Scheme (SMIEIS) designed by the federal government of Nigeria in 2001, is also an attempt at expanding the financing spectrum for SMEs in Nigeria.

## 2.2 Historical Background of SMEs in Nigeria

SME has a long history like every other part of the world. Historically, "small and medium enterprises has it origin in the eastern and Mediterranean", small and medium enterprises, all over the world is divergent arrays of business concerns involve in economic activities spanning from micro and rural enterprises to contemporary industrial organizations that uses sophisticated technologies. As a result of their relevance aid contribution i.e., small and medium enterprises to national economies, policy planners, academic and national government have shown interest in issues pertaining to small and medium scale enterprises (SMEs) all over the world.

It was the means of survival for the people since ages, it has managed to save many poor homes that have the innovation to start a unique business but with different problems with establishment or survival. In Nigeria there is no generally acceptable definition of SMEs but it varies over time from organization to organization. The NCI (national council of industry) in 2001 include the capital investment band of SMEs at between NGN 150 to 200 million, excluding land but including working capital and also the working force band between 11 and 300 inclusive. But on the other hand, the (NASME) national association of small and medium scale enterprises also defines a small scale enterprise as a business with less than fifty employed people by the enterprise and with an annual turnover of NGN 100 million. NASME came up with another definition, which states that small medium

scale 13 enterprises is a business with less than 100 employees and an annual turnover of NGN 500 million.
The Central Bank of Nigeria (CBN) defines SME as an enterprise with a maxi-mum asset base of NGN 200 million, without land and working capital, also the number of employees not less than 10 and not more than 300. Due to the flexible nature, SMEs are quite able to withstand economically diverse situations. In Nigeria SMEs are more likely able to survive in smaller urban and rural areas where they can effectively contribute to the distribution of economic activity in any region and That has helped the reduction in the migration to the larger cities like Lagos and Kano.
SMEs in Nigeria can be categorized into urban and rural enterprises, but in a more formal way they can be called Organized and Unorganized enterprises. The organized enterprises have paid employees with a registered office while the unorganized enterprises are mainly made up of artisans who work in open spaces. Operating in temporary wooden workshop or structures, the unorganized enterprises rely mostly on apprentices or family members and mostly low rate or no salary paid workers. Rural enterprises are made up of family groups, women that are engaged in food production from local farm crops, and individual artisans. The major activity involved in this sector include; soap and detergents, fabrics, textile and leather, local blacksmith, tinsmith, ceramic, clothing and tailoring, timber and winning, bricks and cement, food processing, wood furniture, beverages, bakeries, electronic assembly, agro processing, chemical based products and mechanics. (Source: www.cenbank.org accessed online 20-05-09)
According to history, SMEs in Nigeria have existed since the country's independence in 1960, probably before independence but since independence Nigeria has had series of seminars, studies and workshops, each of which appraise the excellence, importance and need to facilitate the establishment and sustainability of SMEs. All the National four year development plans from 1962-63 to 1984-85 have laid strong emphasis on strategies of government-led industrialization mount on import as substitution. In addition the structural adjustment program (SAP) initiation in 1986, the state did not appreciate the structural adjustment program active involvement in industrialization by a process of commercialization and privatization. Special attention was then shifted from large scale industries to Small and Medium Scale Enterprises, which has a prominent potential for developing domestic linkages for effective growth, sustainable industrial development. Bigger and greater leaning were then placed on the organized private sector (OPS) to head previous industrialization programmes.
The sector was further actively encouraged by more incentives; these were directed at solving or at least alleviating the huge problems that were encountered by the industrialists in the country and therefore enabling them greater leeway towards increasing their contribution to the national economy. (**Source:** URL:http://siteresources.worldbank.org accessed online 05-06-09).

### 2.3 Conceptual Framework on Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) constitute the backbone of an economy. They not only provide employment and therefore income opportunities to a large number of people, but are also at the forefront of technological innovation and export diversification.
The definition of SMEs varies from country to country both among academics and practitioners. The classification can be based on the firm's assets, number of employees, or annual sales. SMEs can be defined- according to International Finance Corporation- as firms with less than 300 employees and total assets less than US$15 million. In smaller economies, SMEs are defined as firms with less with less than 20 employees.
Whatever the definition, and regardless of the size of the economy, the growth of SMEs is becoming increasingly crucial to economic growth. The issue of SMEs development ranks high among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation. There is also an urgent need to create a strong competitive SMEs sector that is able to play a leading role in the development process, in order to be able to face the various challenges posed by global economic developments. It is within this context that SMEs development became of focal attention for governmental as well as nongovernmental organizations including donor agencies.
There is a broad consensus on the significance of entrepreneurship skills among the driving forces for SMEs to develop. For entrepreneurship to flourish they need the right conditions. This requires bringing the specific needs of the enterprise to the centre of the policy-making process, and the recognition that SMEs are to be assisted not because they are small, but because of their capability to be efficient, innovative and able to compete in the local and international markets.
According to Oshagbemi (1983), identifiable criteria often adopted on an arbitrary mix in definitions include number of employees, relative size, initial capital outlay, sales value, financial strength, independent ownership and type of industry.
As reported by Boswell (1973) regarding developed countries, generally and particularly those countries where there has been rapid urbanization, a conspicuous and pervasive phenomenon has been the increasing importance of small-scale enterprise. Small-scale entrepreneurs have made immense contributions to the development of today's developed nation, although there are varying degrees of contributions from country to country (Solze, 1996).

It was also observed that developing nations, which are going through transitional phases of growth, are usually accompanied with a dearth of motivated entrepreneurs and entrepreneurial opportunities, contributing to a lack of balanced economic growth (Umar, 1997). This situation further deepens the under-development of such countries as mass unemployment rises and raw materials waste away. Ironically, as it has been observed by Aladekomo (1999), the salvation of developing countries, such as Nigeria, lies heavily in the development of entrepreneurial abilities and opportunities at all levels, including very large, large, medium, small and very small enterprises.

In an attempt to define it, of course to suit particular circumstances, individuals, institution and governments have adopted several classifications. Prior to 1992 in Nigeria, both the federal government and its agencies had adopted varying definitions at the same time or at different time periods due possibly to their variations in developmental focus/strategy. For example, the 1989 industrial policy of Nigeria defines enterprises as follows:

- Small scale- those whose total investment was between N100,000 and N200,000 excluding land but including working capital
- Medium scale- those with total investment of between N200,000 and N500,000 excluding land but including working capital

At the same time, the decree establishing the national economic and reconstruction fund (NERFUND) in 1989 defines SMEs as "those whose fixed asset excluding land and including cost of investment project, do not exceed N10,000,000"

Other agencies with varying definitions were the central bank of Nigeria (CBN), the Nigerian bank for commerce and industry (NBCI), the Nigerian industrial development bank, etc. The situation changed in 1992 when the Nation Council on Industry unified the definitions in the light of prevailing circumstances into:

- Small scale enterprises as comprising those with fixed assets above N1,000,000 but not exceeding N10,000,000 including working capital but excluding cost of land
- Medium scale enterprises as those having fixed assets of over N10,000,000 but not exceeding N40 million excluding land but including working capital.

In 1996, these definitions were revised as follows:

- Small scale enterprises as comprising those enterprises with total cost inclusive of working capital but exclusive of cost of land, of above N1,000,000 but exceeding N40,000,000 and having man power strength (labour size) of 11 and 35 workers.
- Medium scale enterprises as those having man power strength of between 36 and 100 workers and total cost inclusive of working capital but excluding cost of land, of above N40,000,000.

## 2.4 Economic Development

The term economic development is one that cannot be understood in isolation of another term, economic growth. By economic growth, economists mean the increases over time in a country's real output per capita. This is conveniently measured by the Gross Domestic Product (GDP) though other measures could be used. In a way, economic growth is measured by increases in a country's per capita GNP. For a long time, the notion was strongly held that economic growth and economic development were exactly the same (economic growth generally accepted as the only index of development).

While Kindleberger (1958) and Thirwal (1978) are of the view that economic development cannot exist without economic growth. To Little (1982), economic development (or economic progress or real economic growth) occurs when there is a rise in the present value of the average (weighed) consumption per head. In this way, Little also views economic development as synonymous with economic growth. Almost agreeing with Little and the rest, Toyo (1984) sees the concept of growth without development used by the dependency theorists as meaningless when subjected to rigorous definition.

However, in the opinion of Seers (1972), a country's development should be looked at from the standard point of what has been happening to poverty, unemployment and inequality. Where all these three have declined from high level, then, the country concerned has been experiencing a period of development as opposed to a situation where one or two, or all these three have been growing worse, even if per capita income doubled.

Generally, economic development should be viewed as a process of growth reflecting in a high degree of self-reliance and abundant utilization of natural resources, including changes in the cultural, social, political and institutional arrangements in an economy, manifested in the character of the people and the attainment of better life for a vast majority of the population. Thus economic developments will involve the development of the different sectors of an economy including technology, manifesting itself as a process of increasing the choices available to individuals through better education, training, health, nutrition and gainful employment (Onwumere and Ige, 2000).

## 2.5 The Business of Banking

Banking as an institution is a very vital member of any nation's financial institution. To a very high extent, the nation's commercial and economic activities depend on the institution of banking. In conjunction with other financial institutions, banks assist the government in its fiscal policies and direct economic activity.

Like any other business, the banks must make reasonable profits to survive. Any bank whether indigenous or expatriates must maintain reasonable liquidity sound practices to retain public confidence and reasonable profits to continue in business. Adewunmi and Ojo (1982) in the review of the role of financial institutions in Nigeria asserted that in both developed and less developed countries, the basic role of the financial sector in mobilizing funds for investment is the same. They went further that whatever differences exist are mainly those of techniques and methods. These are devised to meet different levels of developments, imperfection of the financial institutions and markets.

This in turns determines the extent to which the financial authorities are directly involved in the allocation of financial resources. Osayameh K.O (1986) asserted that the provision and the efficient management of scarce resources are best facilitated by making vast financial resources available for financing and promoting development.

**2.5.1 Role of the Banking Sector in Financing SMEs:**

The banking sector- specifically commercial banks and specialized banks- have several ways to get involved in SMEs finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank.

Banking Sector services provided to SMEs, take various from, such as:

- Short term loans compatible with SMEs business and income patterns
- Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow
- Very small loans, or bank overdraft facilities are also appropriate for meeting the day-to-day financial requirements of small businesses
- Factoring and invoice discounting, asset finance (including commercial mortgages), and equity finance, all being within the framework of a customer-friendly approach.

In providing all these services, it is recommended that banks take into consideration

- That outlet is located close to entrepreneurs.
- To use extremely simple loan applications.
- To limit the time between application and disbursement to a few days
- As well as to develop a public image of being approachable to low-income people.

**2.5.2 The Main Sources of Financing SMEs in Nigeria**

The main sources of business organization cannot be overemphasized. Business finance is however, not easy to come by especially in respect of SME's. Yet, they require funds from every source available to meet their asset needs, for capital expansion. According to Ekpenyong and Nyong (1992), there is wide consensus in Nigeria that government policies are made in favour of the formal sector and against the informal sector. This unfavourable weighs heavily, against the SME's in Nigeria, the formal financial institutions such as commercial banks, merchant banks, development banks and insurance companies and the informal financial institutions consisting of money lender, landlords, and credit and savings cooperative societies, friends and relatives and personal savings.

The commercial banks, merchant banks and development banks provide formal source of finance to SME's but commercial bank is the core of the banking industry. The banks have three social and economic functions: to collect and secure savings and other deposits; to finance the economy by handing out credits; and to facilitate payments and to transfer funds. The financial intermediation role of financial institution has been faulty for a number of reasons (Aruwa, 2004); inadequacy in building up and securing national savings; bureaucratic obstacles to the financing of small and medium scale enterprises, inability to establish positive relationship between lenders and borrowers; and absence of risk sharing.

Their role is to reduce the gap between supply (the money deposited and potential available) and demand (the money needed for investment) that exists between idle money and productive investment (Gelinas, 1998). Otherwise, the banks offer loans by way of either term loans or an overdraft. An overdraft is essentially a short-term finance to meet working capital requirement over a few months and should not be used for a long term investment purpose. According to (Sanusi ,2004)a breakdown of the SMIEIS fund investment by sectored distribution, 68.82 percent went to the real sector while service related investment accounted only for 31.18 percent. This he noted is a sharp reversal from the initial trend recorded under the scheme. The bankers committee has allocated the investment of banks with respect to the fund as 60, 30 and 10 percent of their funds in core real sector, service related and micro enterprises respectively. Analyzing the geographical spread of the SMIEIS fund, Sanusi (2004) report that Lagos based investments have gulped 56.63 percent of the fund, and Abuja and 18 states receive a balance of 43.47percent.

The point is about the model of growth of SMEs and financing options available, Golis (1998) submit that venture capitalists do not seek enterprises on the start up and survivor stage but only in the stability and rapid growth rises from venture capitalists. Yet the method of financing remains the critical success factors of SMEs.

## 3.0 RESEARCH METHODOLOGY

### 3.1 RESEARCH DESIGN

This section focuses on the research techniques adopted and used for study with the aim of achieving the research objectives. Descriptive research design is adopted. The study considers the use of non-probability sampling methods {purposive sampling} to grant any element of the population an equal and an independent opportunity to be selected. Data collected from the questionnaire were analyzed, summarized and interpreted with the aid of descriptive statistical technique such as total score, simple percentages, and correlation analysis.

### 3.2 STUDY POPULATION

The theoretical population of the study consists of the entire SMEs in Osun State and United Bank for Africa. However, the study was restricted to some selected areas of Osun State, covering two senatorial districts (Osun Central and Osun West). The choice of Osun State stems from the fact that Osun State is an undeveloped state in Nigeria and that the concentration and predominance of SMEs in Osun State are low. For effective coverage and lower cost, purposive sampling technique was used to select the participating SMEs and branches of United Bank of Africa in Osun State.

### 3.4 SAMPLING DESIGN AND PROCEDURES

A sample size of 170 respondents was selected from the total population for the study. Purposive technique was adopted to select the respondents from the study population. This method makes use of typical cases among the population to be studied, which the researcher considers will provide him with the needed data. The method was used especially because of its efficiency in maximizing the required time, therefore from the two senatorial district, two local government areas was selected respectively (Osun Central: Odo-Otin Local Government Area and Osogbo local government area. While Osun West: Ejigbo Local Government Area and Ede North Local Government Area). Following the instructions on the instrument, the questionnaires were filled and returned.

### 3.5 SOURCES OF DATA

Data were collected (i.e. from questionnaire administered to both the workers of the United Bank for Africa and the small and medium scale entrepreneurs within the state), to determine the relationship between SMEs development (the dependent variable) and banking sector (the independent variable). To arrive at a conclusion at the end of the study the use of primary data was employed.

### 3.6 RESEARCH INSTRUMENT

The study elicited data from the respondents using structured questionnaire. The questionnaire used was divided into two sections. The first section dealt with the demographic characteristics of respondents, while the second section elicited data on the Banking Sector and the Development of Small and Medium Scale Enterprise in Osun State.

Descriptive research design is adopted. Descriptive research design involves the use of scientific method and procedure to collect raw data and create data structure that describes the existing characteristics of a define target market structure or population.

**Measurement of variables**

Measurement of variables is the allocation of quantitative attributes or numbers to the variables of study using scales or tools by which these attributes are distinguished. The questionnaire used in this research study was designed to contain question and statement of assertions. These statements are designed primarily to provide answers for testing hypothesis. The method used in this study for measuring the variables is Likert scale which requires the respondents to indicate a degree of agreement of disagreement with a variety of statement related to the object.

### 3.7 METHOD OF DATA ANALYSIS

Data collected were analysed, summarized and interpreted. Tables were formulated for easy understanding of the information that was acquired from questionnaires. Descriptive statistical techniques involving total score and simple percentage will be employed. Each table was followed by logical explanations or interpretations of the result of the table.

Hypotheses were formulated and were tested using statistical tool, correlation analysis ($r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$), which were computed with the help of Statistical Packages for Social Sciences (SPSS).

## 4.0 DATA PRESENTATION AND ANALYSIS

Data presentation and analysis are important aspect of any research work serving as the deciding point of any research effort and giving meaning and shape of the raw data collected. In the course of this research work, data were collected from personnel in selected branches of United Bank for Africa (UBA) and small and medium scale entrepreneurs through administering 170 copies of questionnaires to sampled respondents.

It implies that the hypotheses formulated for this study will be tested based on the information gathered from the questionnaire administered. This will be done with the aid of tables using simple percentages (%) and correlation analysis test.

 

To investigate the extent at which banking sector gives loans for the development of SMEs.

**Table 4.1 Banking Sector gives sufficient loans/ credits for SME's development**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 17 | 9.9 | 11.3 | 11.3 |
| | Strongly Disagree | 21 | 12.3 | 14.0 | 25.3 |
| | Undecided | 32 | 18.7 | 21.3 | 46.7 |
| | Agree | 55 | 32.2 | 36.7 | 83.3 |
| | Strongly Agree | 25 | 14.6 | 16.7 | 100.0 |
| | Total | 150 | 87.7 | 100.0 | |
| Missing | System | 21 | 12.3 | | |
| Total | | 171 | 100.0 | | |

Source: Researcher's compilation, 2014

Out of the total respondents, 32.2% agreed that banking sector gives sufficient loans/ credits for SME's development, 18.7% undecided, 14.6% strongly agreed, 12.3% strongly disagreed and 9.9% disagreed.

This implies that banking sector gives loan/credit at a very sufficient level.

**Table 4.2 Loans Granted by Banking Sector Have Accelerated the Development of SME's in Osun State**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 18 | 10.5 | 12.0 | 12.0 |
| | Strongly Disagree | 15 | 8.8 | 10.0 | 22.0 |
| | Undecided | 31 | 18.1 | 20.7 | 42.7 |
| | Agree | 60 | 35.1 | 40.0 | 82.7 |
| | Strongly Agree | 26 | 15.2 | 17.3 | 100.0 |
| | Total | 150 | 87.7 | 100.0 | |
| Missing | System | 21 | 12.3 | | |
| Total | | 171 | 100.0 | | |

Source: Researcher's compilation, 2014

35.1% of the respondent agreed that the loan granted have accelerated the development of SMEs, while 18.1% undecided, then 15.2% strongly agreed, followed by 10.5% dis agreeing and 8.8% strongly disagreed.

This implies that the loans granted by banks have accelerated the development of SMEs in Osun state.

**Table 4.3 Banking Sector are Willing to Assist SME's in Granting Credit/Loan Facilities**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 17 | 9.9 | 11.3 | 11.3 |
| | Strongly Disagree | 18 | 10.5 | 12.0 | 23.3 |
| | Undecided | 38 | 22.2 | 25.3 | 48.7 |
| | Agree | 54 | 31.6 | 36.0 | 84.7 |
| | Strongly Agree | 23 | 13.5 | 15.3 | 100.0 |
| | Total | 150 | 87.7 | 100.0 | |
| Missing | System | 21 | 12.3 | | |
| Total | | 171 | 100.0 | | |

Source: Researcher's compilation, 2014

Out of the respondents, 31.6% agreed that banking sectors are willing to assist SMEs in granting loan/credit facilities, 22.2% undecided, 13.5% strongly agreed, 10.5% strongly dis agreed and 9.9% disagreed.

This implies that banking sector(s) are willing to assist SMEs in granting credit/loan facilities in anyway.

**4.4 SMEs play an important role in economic growth and development of Osun State**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 16 | 9.4 | 10.7 | 10.7 |
| | Strongly Disagree | 22 | 12.9 | 14.7 | 25.3 |
| | Undecided | 36 | 21.1 | 24.0 | 49.3 |
| | Agree | 53 | 31.0 | 35.3 | 84.7 |
| | Strongly Agree | 23 | 13.5 | 15.3 | 100.0 |
| | Total | 150 | 87.7 | 100.0 | |
| Missing | System | 21 | 12.3 | | |
| Total | | 171 | 100.0 | | |

Source: Researcher's compilation, 2014

31.0% out of the respondents agreed that SMEs play an important role in economic growth and development of Osun state, 21.1% undecided, 13.5% strongly agreed, 12.9% strongly disagreed and 9.4% disagreed.

This implies that if government and other financial sectors assist in the development of SMEs in Osun state, the economic growth and development of Osun state will be elevated.

**4.5 The growth and development of SMEs in Osun State will be elevated if the banking sector come into play**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Disagree | 21 | 12.3 | 14.0 | 14.0 |
| | Strongly Disagree | 18 | 10.5 | 12.0 | 26.0 |
| | Undecided | 33 | 19.3 | 22.0 | 48.0 |
| | Agree | 58 | 33.9 | 38.7 | 86.7 |
| | Strongly Agreee | 20 | 11.7 | 13.3 | 100.0 |
| | Total | 150 | 87.7 | 100.0 | |
| Missing | System | 21 | 12.3 | | |
| Total | | 171 | 100.0 | | |

Source: Researcher's compilation, 2014

Out of the total respondent, 33.9% agreed, 19.3% undecided, 12.3% disagreed, 11.7% strongly agreed and 10.5% strongly disagreed.

Let me say that banking sector plays a major role in the development of Osun state.

**Test of Hypotheses**

**4.1 HYPOTHESIS I**

**$H_0$**: Provision of credit facilities by commercial banks will not enhance the development of entrepreneurs

**$H_1$:** Provision of credit facilities by commercial banks will enhance the development of entrepreneurs

**Table 4.1 Correlations**

| | | credit/loans facilities by banking sector | SME's development |
|---|---|---|---|
| credits/loans facilities by banking sector | Pearson Correlation | 1 | .540** |
| | Sig. (2-tailed) | | .000 |
| | N | 150 | 150 |
| SME's development | Pearson Correlation | .540** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 150 | 150 |

The correlation between the two variables is 0.54 which indicates that there is a strong positive correlation between the provision of credit facilities by commercial banks growth and the development of SME's. Hence we reject the null hypothesis and conclude that provision of credit/ loan facilities by commercial banks will enhance the development of entrepreneurs.

**4.2 HYPOTHESIS II**

H0: SMEs do not play an important role in economic growths and developments of Osun State.

H1: SMEs play an important role in economic growths and developments of Osun State.

**Table 4.2 Correlations**

| | | Economic Growth and Development of Osun State | SME's Development |
|---|---|---|---|
| Economic Growth and Development of Osun State | Pearson Correlation | 1 | .511** |
| | Sig. (2-tailed) | | .000 |
| | N | 150 | 150 |
| SME's Development | Pearson Correlation | .511** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 150 | 150 |

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher compilation 2014

**INTERPRETATION**

The correlation between the two variables is 0.511 which indicates that there is a strong positive correlation between the increased economic growth and development and SMEs development. Hence we reject the null hypothesis and conclude that SMEs play an important role in the economic growth and development of Osun state.

## 5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

### 5.1 SUMMARY

The research work has been able to identify the impact of banking sector on the development of SMEs in Osun State. The analysis of data indicates that financial institutions are moderately financing SMEs. The concentration and predominance of SMEs in Osun State is very low. For economic growth and development of Osun state to increase there would be need for entrepreneurship development. The persistent rate of failure of SMEs in Osun State is a major hindrance of economic growth and development. Though banks are willing to give loans to SMEs but the ignorance of the entrepreneurs of the fact that they can get funding from the bank and the mismanagement of the funds/loans given by banks to the SMEs have caused banking sector to reduce the rate at which loan is given. This calls for taking a critical look at the problems, prospects of SMEs financing schemes and the means of financing SMEs etc.

The hypothesis were tested and the findings were as follows: **(EMPIRICAL FINDINGS)**

1. There is a positive relationship between the provision of credit facilities by commercial banks growth and the development of SME's.
2. There is a positive relationship between the increased economic growth and development and SMEs development.
3. There is a positive relationship between the loan mismanagement by SMEs and the sufficient loans/credits given for SMEs.
4. There is a positive relationship between the monitoring of loans by banks and the development of SMEs.
5. That SMEs cannot be concentrated in Osun state if they are not effectively financed due to the relationship that exists between banks and SMEs.

From the literature review (**THEORETICAL FINDINGS**), the following findings were realized:

1. That the concentration of the SMEs in Osun state is germane and it is necessary government intervene.
2. That SMEs have several sources of finance, but the banking sector plays more important role. So they should be relevant for their purposes.
3. There is need for the provision of more schemes in financing SMEs in Nigeria as it is in other lands

More so, analysis obtained in chapter four revealed that banking sector gives loans to an extent, for SMEs development, and at the same time has accelerated their development in Osun State. Still from the analysis in chapter four, it revealed that SMEs actually promotes economic growth and development in Osun State.

However, the major contribution of banking sector to the developing economy like that of Nigeria is it role in promoting entrepreneurship development in the nation. One of the goals of entrepreneurship routed by successful Nigeria government has been the reduction of unemployment and poverty alleviation; a cordial trust in public policy for the achievement of indigenous entrepreneurship through the provision of long term loans and equity capital by banks for enterprise. Given the gap between savings and invertible funds, the short fall is provided by credit delivery. Many newly developed and developing countries have therefore made credit delivery and endurable strategy in the development of entrepreneurship.

### 5.2 CONCLUSION

Conclusively, this research work makes useful contribution to knowledge by appraising the various means of financing SMEs in Nigeria in comparison with financing in other lands or countries. It explicates the importance of SMEs to economic development of Osun State. It gives a proper insight of what the banking sector entails of the economy.

Banking sector globally are identified to be major key players in the financial industry that have positively affected individuals, business organization, other financial institution, the government and the economy at large through services they offer and the function they perform in the economy. Finally, despite the effectiveness of the sector, it still suffers some setbacks. This means that the banking sector and their activities still have a long way to go in providing new services for good customer relationship, better financing schemes and development in the Nigerian economy.

### 5.3 RECOMMENDATION

The financial institution need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development. The financial institution whose role needs to be visible in promoting SMEs growth and development are the banking sector such as commercial banks, microfinance etc. SMEs themselves should be more receptive to new ideas and prepared to make financial commitments to ensure growth. This study recommends that guidelines/schemes by commercial banks to finance SMEs need to be flexible to accommodate

the SMEs only when financial institutions appreciates and give technical assistant to the SME would be contributing to the SMEEIS to ensure success in the SMEs sector.
It is the researcher's hope that the banking sectors in Nigeria will develop more interest in supporting the growth of SMEs**.**

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