

The Effect of External Agencies' Financial Assistance and Bank Credit on the Development and Growth of Small and Medium Enterprises in Nigeria.

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Abstract

Like most developing and developed countries, Nigeria sees the Small and Medium Enterprises as potential catalysts for national economic growth and development, and, so partners with many external donor agencies and local NGOs to boost the performance of the SMEs' sector and its contributions to national growth. Using bank credit to SMEs and SMEs' investment data, this paper examined the impact of external agencies' financial assistance and bank credit on the development and growth of small and medium scale enterprises in Nigeria. Although findings show that bank credit to SMEs and SMEs' investment have been on the rise throughout the period studied, it suggests that government efforts to boost the sector's performance did not yield significant impacts as there is low co-variability between the foreign financial assistance and the SMEs' growth and development. Though a positive relationship exists between foreign financial assistance and the SMEs' growth, the explanatory variable (financial assistance needed by the SMEs during the period) did not have a significant impact on their growth and development. This will be explained by the inability of the SMEs to have reasonable access to the foreign and domestic financial assistance available during the period. The SMEs' inability to perform creditably could be attributed to the endogenous and exogenous limitations they faced.

Keywords: Small and Medium Enterprises, External Agencies, Official Development Assistance, Financial Assistance, Bank Credit, Growth and Development

1. Introduction

Developing countries battle with severe poverty, slow GDP, high mortality rate and low levels of education (Okokondem, 2012). In the year 1999, 1.2 million people had lived on per capita income of $1 (in DPP US$) per day and 2.8 billion people lived on less than $2 a day (World Bank, 2006). In the same vein, the majority of the people in the least developed countries are unable to read or write. More than 54 million adults in the universe are illiterates. In this number of illiterates, 543 million are women (Human Development Report, 2000). According to a similar report, many persons in developing countries have no access to health treatment, and, by the year 2000, 34 million people were living with HIV/AIDS. All the scenario mentioned above reflect low level of human development which connotes miserable substandard living for the poor citizens of the developing countries.

However, Gberevbie, et al (2005) highlighted the argument of scholars and administrators that Nigerians have no reason to be poor-given the abundance of human and natural resources, including oil and gas, available to Nigeria. Nigeria was said to have realized the sum of $300 billion from crude oil business between 1970 and 1990. In addition, the government earned a total sum of N998.14 billion from crude oil in 2003- yet nothing meaningful to show in terms of development.

One way of promoting better living standards of the poor population has been through development aid. Foreign aid (financial assistance) represents an important source of finance in a number of African countries, Nigeria inclusive, where it is capable of supplementing low savings, narrow export proceeds and narrow tax bases. Particularly in Nigeria, it is considered to be a major source of government expenditure. Some authors posit that, the impact of foreign aid in Nigeria can hardly be over-emphasized especially in the aspect of financing capital expenditures of Nigeria which, many a time, need huge initial capital. Several development projects in Nigeria were mostly financed through aid.

Foreign aid is capable of having positive effects on economic growth through public expenditure if it is properly shifted to the productive sector of the economy. Alabi, (2012) maintains that foreign aid increases investment in physical and human capital and capacity to import capital goods or technology. It is also associated with transfer of technology which increases productivity of capital and promotes endogenous technical change (Njeru, 2003).

Several countries and scholars have identified small and medium enterprises as the main driving force behind job creation, export earnings, poverty reduction, income distribution and reduction in income disparities (See report on the Vision 2020 by the National Technical Working Group on Small and Medium Enterprises (SMEs) (2009), Akoja, 2012; Kadiri, 2012; Okpukara, 2009; Ugwushi, 2009 and Abiodun, 2011). While big businesses are measured to preserve and maintain structure within an economy, they have considerable problems of their own. Since 1960s the mega corporations have lost their edge and more attention is being given by western economies as the main drives catalysis of the economy (Akoja, 2012).

According to Ukpong, and Inang (2005), many developed countries have long ago recognized the significance of Micro, Small and Medium Enterprises (MSMEs) in their industrialization processes. Just like developed countries, many of the developing economies have been making concerted efforts to promote the development of MSMEs via increased funding and incentives. Nzotta (1999) reiterated along with many others that bank credit influences positively the level of economic activity in each country.

Confronted with the problem of poverty in the country by successive governments in the past, the Nigerian government initiated some policies and programmes to ameliorate the sufferings of the people. These policies initiated in Nigeria received support from foreign donors including the World Bank. For example, since 1961 when Nigeria joined the World Bank, the country had received assistance on 120 projects worth $1.87 billion as at 2006 (World Bank, 2006). First on the list of those projects were the Micro, Small and Medium Enterprises.

Nigeria has tried many schemes, over time, in an attempt to boost the flow of development funds to MSMEs. The number of MSMEs in Nigeria as at March 2012 was between 10 and 50 million made up of micro (98%), small (1%) and medium (1%), (Kelley,2012). On numerical bases, the SMEs represent about 87 percent of the forms of business concern in the Nigerian industrial sector. However, the SMEs contribute as low as 1% to GDP- in contrast to countries like Indonesia, Thailand and India where SMEs contribute approximately 40% (HPAC, 2002:13). The ugly situation highlighted above continued to take place in spite of the heavy amount of foreign aid given to Nigeria since the year 1992.

The objective of this paper, therefore, is to carry out an empirical analysis of the effectiveness and impact of the external agencies on the growth and development of the SMEs in Nigeria with emphasis on financial assistance. The rest of the paper is structured as follows: Section 2 reviews previous literature on the impact of foreign aid on SMEs' growth and development in developing countries while section 3 develops a methodology for analyzing the impact of financial aid on SMEs growth and describes the data utilized in the study. Section 4 presents and analyzes the results of the empirical model and the policy implications while section 5 concludes the paper and provides recommendation.

2.0 CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 Conceptual Framework

The National Council of Industries (2005) defines Small and Medium Scale Enterprise as a business enterprise whose total cost, excluding land, is not more than N200,000,000.00 (two hundred million naira) only. There is no consensus among policy- makers and the academia on SMEs' definition with regard to the point at which they are deemed to be small or medium. Both on universal and national basis, there is yet no generally-acceptable standard definition-except that the scale of business requires to be defined for a specific purpose. This problem of SME identification is more severe in the developing countries because, apart from the fact that small and medium scale businesses are more difficult to count, they are also difficult to measure individually. Consequently, the statistics on SMEs' number, size, geographical distribution, their activities and sub-sectors are partial and highly unreliable (USAID, 2005).

The United Nations Industrial Development Organization (USAID) was able to identify fifty definitions of small scale businesses in seventy-five different countries based on such parameters like installed capacity utilization, output, employment, capital, type of country or other yardsticks which have more relevance to the industrial policies of the particular country (Akingunola, 2011). All the same, it has been suggested that the SME subsector might comprise 87 percent of all the firms operating in Nigeria when informal enterprises are excluded (Akingunola, 2011).

This study adopts the definition adopted by the Report of July, 2009 on the Vision 2020 by National Technical

Workshop Group on Small and Medium Enterprises which structures SME subsector according to Table 1 below:-

Table 1: Structure of SME Sub-Sector

S/N	Size of company	Employment	Assets (N Million) Excluding land and building	Estimated number (% of MSMEs) 2004
1	Micro enterprises	Less than 10	Less than 5	6.7 million (80%)
2	Small enterprises	11 to 49	5 to less than 50	1.3 million (15%)
3	Medium enterprises	50-199	50 to less than 500	420,000 (5%)

Source: National Policy on MSMEs. Chemonics International Inc, 2005.

In line with the view of National Policy on MSMEs, Micro Enterprises in Nigeria are predominated by wholesale and retail trade, manufacturing, vehicle repair/servicing, transport, hotels, restaurants, building and construction. Most of them are informal family-owned businesses with low output value and low levels of skills and technology.

For Small Enterprises, most of them are registered businesses which are usually more organized and efficiently run. They have easier access to bank credits as they have a large number of well-educated and technically skilled proprietors. They also have the highest potential for growth- given that they have targeted assistance and support.

Medium enterprises dominate the formal SME sector; majority of them are in the manufacturing, transportation, and ICT sectors. They have better access to credit and are the major recipients of most government initiatives towards SMES (National Technical Working Group on SMEs, 2009).

2.2 Theoretical Framework

In many scholarly and policy discussions, the terms 'aid development' and 'foreign aid' refer to Official Development Assistance (ODA) The data about ODA are collected and published by the Development Assistance Committee Of The Organisation For Economic Cooperation And Development (OECD). In line with the DAC criteria, financing assistance is classified under ODA if it is disbursed by official agencies, has the promotion of economic development and welfare as its main objective and involves grants or concession loans with at least 25 percent grant element (Cassen et al, 1994). Depending on the identity of the immediate donor, ODA can be classified as bilateral or multilateral. While bilateral assistance is administered by agencies of donor governments, multilateral aid is financed by wealthy countries and allocated by international financial organizations such as World Bank, the Regional Banks and the United Nations Development Programme.

Foreign Aid Debate

There is much debate on the effectiveness of foreign aid. While some economists argue that aid does not significantly increase economic growth rate or improve human development indicators, for example, Boone (1996), others believe that it does, especially when the recipient country implements appropriate policies (Burnside and Dollar, 2000). A third group argues that bilateral and multilateral aids have different effects. This group is of the view that while one type of aids may promote growth and development, the other one may not (Cassen, 1994; and Ram, 2003).

All the same, Burnside and Dollar (2004) discovered that aid would have a positive impact on economic growth in developing countries so long as they have good fiscal, monetary and trade policies. However, this group believes that aid is ineffective when policies are poor. Together with Cassen (1994), Ram (2003) suggests that the positive effect of bilateral aid on growth comes from a better comprehension by the donors of the recipients' need.

Official Development Assistance (ODA) Flow to Nigeria

Aid flow in the form of ODA is capable of playing important role as a compliment to domestic financing for development in the Nigerian economy (Aremu, 2012). For Aremu (2012), ODA can play crucial role by amplifying the business environment for the private sector and quickening development. Aremu also states that ODA qualifies as an instrument for supporting education, health, public infrastructure development, agricultural development and food security.

The International Development Partners and NGOS

Prominent among the international donor agencies and development partners which promote the growth of SMEs in Nigeria are the following:-

1. The World Bank
2. The United Nations Industrial Development Organisation (UNIDO);
3. The United Nations Development Programme (UNDP);
4. The Department for International Development (DFID);
5. United State Agency for Industrial Development (USAID);
6. Food and Agricultural Organisation of the United Nations (FAD);
7. International Finance Organisation (IFC);
8. German's Technical Corporation (GTZ);
9. The African Development Bank (ADB); and
10. New Partnership for African Development (NEPAD).

In a bid to obtain the required funds and release, Nigeria entered into partnership with those agencies on multilateral basis. Those international organizations provide support to entrepreneurial development in Nigeria through funding and training programmes for potential and actual entrepreneurs. Each of them provides some assistance to the SMES in one or more of the following forms:-

a. **Funding**: Loans are offered at rates which are lower than the prevailing market rates.
b. **Technical aids** in manufacturing and production inputs (equipment, machinery, etc)
c. **Specialised Training Programmes**,**etc;** Among all the donor Agencies, World Bank is the oldest and largest of the multilateral development banks,

Sources of Funds for Small Scale Business

Small scale business is mostly popular in developing countries as it encompasses the sole proprietorship business, some level of partnership or the entrepreneurship venture. According to Baadom (2004), their sources of funds include:

a. Personal savings from previous jobs done which have been accumulated by way of surplus overtime. (When it becomes sizeable, it is then used to start the business).
b. Loan or overdraft from the banks or lending financial houses, with an agreed periodical repayment.
c. Leasing is another source of funds. This happens where the proprietor of a business will take some of the assets used for the period on lease coupled with an agreement on how periodical interest will be paid on the leased items. (This is an option to an outright purchase of such assets).
d. Accumulation of family savings is yet another source of funds for small scale business.
e. The hire purchase method is a popular source of funds for the entrepreneur. He takes the required asset on credit and makes instalment payments as agreed over a period until complete repayment is made.
f. It could also be through credit purchase where the proprietor is allowed to buy goods on credit from the sellers and repayment is made after sales.
g. The apprenticeship scheme is another source of funds to start a new business. An apprenticeship relationship is a two-faced transaction. One is provision of labour services by the apprentice to the guardian, while the other is the provision of training services and critical business capital by the guardian to the apprentice.

Aid Flow to Nigeria (2002 To 2010)

The net official development assistance disbursed to Nigeria up to 2010 in current US Dollars according to Index Mundi was US$2,068,660,000. This figure reflects the remainder of the gross disbursement after paying back the principal amount.

According to computations from the OECD statistics (2012) as reported by Alabi, (2012), foreign aids were disbursed to all sectors in Nigeria between 1999 and 2008, as contained in table 2 below, by both the DAC countries, non-DAC countries and some multilateral institutions,

Table 2: Total Foreign Aid Disbursement to All Sectors in Nigeria (in Constant 2009 USD millions)

	Year	2002	2003	2004	2005	2006	2007	2008
	Total Aid	388.7	392.6	604.8	7169.5	13655.9	2020.0	1401.0
DAC Countries	Total from DAC	272.8	241.9	277.9	6615.4	12955.9	1431.6	753.7
	Australia	..	..	0.3	0.0	0.3	0.7	0.1
	Austria	3.6	5.8	12.1	7.7	0.7	335.3	0.6
	Belgium	0.7	0.9	1.4	179.5	231.0	0.9	3.6
	Canada	29.9	16.0	16.7	19.3	15.7	15.5	21.5
	Denmark	..	..	..	..	100.8	100.1	70.3
	Finland	0.4	0.2	..	..	0.2	0.3	0.5
	France	5.2	4.5	6.3	1789.5	2397.2	12.4	11.4
	Germany	69.5	21.5	23.9	1386.1	2150.7	27.6	29.2
	Greece	0.1	0.5	0.6	0.8	0.3	2.0	2.2
	Ireland	2.0	2.8	2.0	2.1	2.5	1.8	3.1
	Italy	0.2	0.2	0.5	650.6	909.9	1.8	3.8
	Japan	21.0	23.7	9.6	106.4	2878.4	33.3	31.8
	Korea	..	..	..	..	1.4	0.7	1.7
	Luxembourg	..	..	0.0	..	0.0	..	..
	Netherlands	4.6	9.4	6.0	239,7	301.3	357.6	1.6
	New Zealand	0.1	0.1	0.1	0.1	0.1	0.1	..
	Norway	5.4	6.7	7.5	3.5	3.2	3.2	5.5
	Portugal	0.0	..	0.0	0.0	0.1	0.1	0.1
	Spain	0.8	0.6	0.7	2.3	161.3	0.3	24.7
	Sweden	1.3	0.9	0.5	0.5	1.0	1.0	0.9
	Switzerland	0.2	0.4	0.0	62.0	62.3	0.2	0.1
	United Kingdom	37.2	32.6	53.5	2056.9	2901.7	288.6	173.9
	United State	90.5	115.0	136.0	108.0	835.7	248.1	367.2
Non-DAC Countries, total	Non-DAC Countries, total	..	..	..	..	..	..	..

Authors'compilation.

Table 2 Continues

United Arab Emirates								
Multilateral, Institutions	Multilateral total	115.8	150.7	327.0	554.1	700.0	588.4	647.3
	AFDB	..	..	..	..	..	..	..
	AfDF	40.1	2.2	2.2	16.3	15.7	52.6	31.9
	AsDB	..	..	..	..	..	..	..
	AsDF	..	..	..	..	..	..	..
	EBRD	..	..	..	..	..	..	..
	IDB	..	..	..	..	..	..	..
	EU Institutions	13.4	20.7	91.0	168.4	178.8	82.7	89.2
	GAVI	..	..	..	..	..	10.3	49.7
	GEF	0.1	0.1	0.5	1.7	3.0	2.1	0.3
	Global Fund	..	3.2	10.7	23.9	45.6	40.5	66.2
	IBRD	..	..	..	..	..	..	..
	IDA	27.4	80.4	181.7	300.5	400.0	341.7	343.6
	IDB Sp.Fund	..	..	..	..	..	..	..
	IFAD	..	..	..	..	..	..	..
	IMF (Concessional Trust Funds)	..	..	..	..	..	..	..
	Nordic Dev. Fund	..	..	..	..	..	..	..
	OFID	..	..	..	..	..	..	..
	UNAIDS	0.4	1.1	..	1.3	0.9	1.2	1.0
	UNDP	..	..	3.7	1.3	0.9	1.2	1.0
	UNECE	..	..	..	..	..	..	..
	UNFPA	7.8	13.6	6.5	5.8	6.1	6.1	9.0
	UNICEF	26.7	29.5	30.7	26.8	34.4	34.6	42.1

Authors'compilation.

Financing Agencies and SMES in Nigeria

The Federal Government had set up development finance institutions in Nigeria, at various times, with the aim of encouraging the entrepreneurial developments, which are in the guise of Small and Medium Scale Enterprises. The recent massive economic reform programmes of the Federal Government of Nigeria to harmonize the duplicated financial institutions ended in the merger of majority of them into larger and more vibrant institutions towards entrepreneurial development.

As Nigeria entered the new millennium with a sustainable democratic rate, the wealth of opinion among stakeholders in the economy favoured strengthening the Development Financial Institutions (DFIs) (CBN Annual Report, 2008). Consequently, by the end of December 2010, some of the reporting DFIs included:-

1. The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)
2. Nigeria Export Import Bank (NEXIM)
3. The Federal Mortgage Bank of Nigeria (FMBN),
4. Bank of Industry (BOI) and,
5. Urban Development Bank of Nigeria (UDBN).

There exist, in addition, some key-players of the SME sector in Nigeria. According to National Technical Working Group on SMEs (2009), those key players include:

1. Small and Medium Enterprises Development Agency (SMEDAN) an institution established by the SMEDAN Act 2003 to promote the development of the MSME sector of the Nigeria economy.
2. The Nigeria Economic Summit Group (NESG) - an umbrella of the organised private sector as well as

Nigeria's number one formal sector economic think tank.

3. National Association of Small Scale Industrialists (NASSI)- a government agency which helps to source the needs of federal government ministries, states and local governments.
4. Manufacturers' Association of Nigeria (MAN), Established in 1971, MAN is a focal point of communication and commutation between government, the industry and the general public.

In partnership with the stakeholders mentioned above and the external donor agencies, the Nigerian government made frantic effort to facilitate the growth and development of the Nigerian SMES. However, in spite of the contributions made by the foreign agencies to Nigeria, only marginal impact has been felt. A study by Ekpenyong and Nyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial Banks) to the SMEs.

Kelley (2012) while writing on the topic "Enhancing Financial Innovation and Access" estimated the lending from the Deposit Money Banks (Commercial Banks) to MSMEs at 5 percent only. He summarized the Deposit Money Bank SME statistics thus:

- Average SME loan size: N6 million (USD 40 thousand)
- Average interest rate charged for the lowest risk SME Customers: 20%.
- Average loan maturity period for SMS loans: 12 months.
- Average non-performing loan ratio: 16% (with large variations across the industry)

Over the years the ratios of commercial bank loans to SMEs total credit have continued to decline (Kadiri, 2012). This assertion is demonstrated by table 3 below:

Table 3: Ratio of loans to SMEs by Commercial Banks (N= Million)

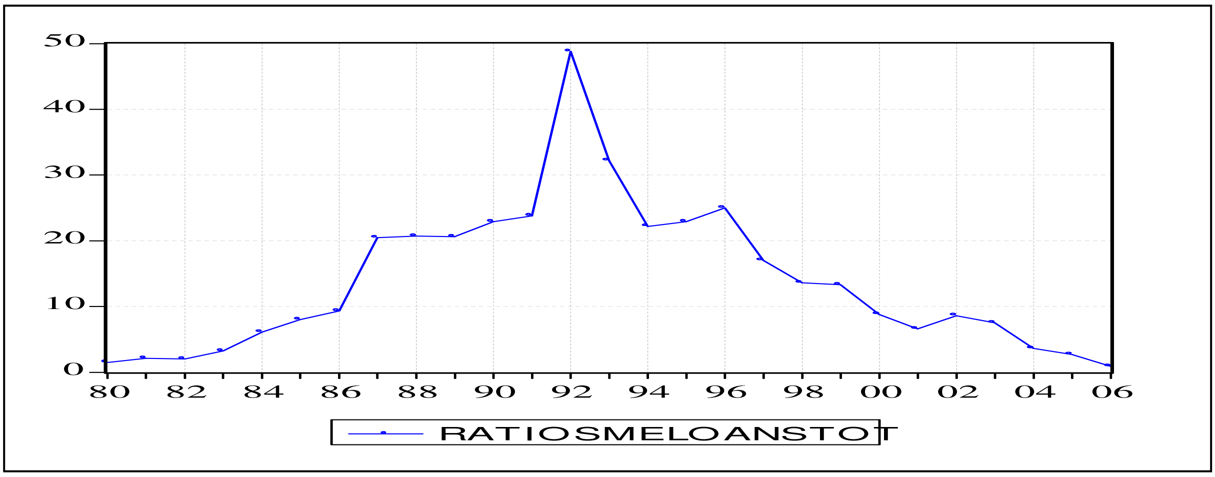
YEAR	Commercial Banks Loans to SMEs (N:M)	Commercial Banks Total Credit (N:M)	Commercial Banks Loans to SMEs as percentage of Total Credit (%)
1980	6,344.00	102.00	1.50
1981	8,604.80	185.00	2.10
1982	10,277.00	206.70	2.00
1983	11,100.00	351.30	3.20
1984	11,550.00	705.70	6.10
1985	12,170.30	972.20	8.00
1986	15,701.00	3,587.30	9.30
1987	17,531.00	1,445.30	20.46
1988	24,602.30	5,090.00	20.69
1989	28,108.80	5,789.50	20.60
1990	28,640.80	5,900.00	22.90
1991	32,912.40	7,572.30	23.80
1992	20,400.00	41,810.00	48.80
1993	15,462.90	48,056.00	32.20
1994	20,552.50	92,624.00	22.20
1995	32,374.50	141,146.00	22.90
1996	42,302.10	169,242.00	25.00
1997	40,844.30	240,782.00	17.00
1998	42,260.70	272,895.50	13.60
1999	46,824.00	353,081.00	13.30
2000	44,542.30	508,302.20	8.80

2001	52,482.40	796,1664.80	6.60
2002	82,368.80	954,628.80	8.60
2003	90,176.50	1,210,033.10	7.50
2004	54,981.20	1,519,242.70	3.60
2005	50,672.60	1,899,346.40	2.70
2006	21,201.70	2,385,643.30	0.90

Source: Central Bank of Nigeria Statistical Bulletin, various issues.

Although the lending portfolios of financial institutions are sizeable, MSMES have access to very little. This lack of access of SMES to finance has hampered their contribution to economic growth and development since it has affected their productivity and supporting functions (Akingunola, 2011; Inang and Ukpong, 2005; Ohoro and Ighoroji, 2007). The low credit rating of the SMEs which make their access to credit difficult is attributable largely to such characteristics as weak capital base, high mortality rate, low productivity and shortage of managerial skill (Inang and Ukpong, 2005).

Fig. 1: The Ratio of Commercial Bank Loans to SMEs as a percentage of Total Credit (%). (1980-2006).



The ratio of SME loan to total bank credit as depicted in the figure above shows that there was a steady rise in bank loans to SMEs from the beginning of the period in 1980 while peaking at 48% in 1992. This ratio dropped steadily afterwards until it was at 9% as at 2006 the end of the study period. This explains the need for alternative financing of SMEs.

Table 4: SMEs financing and investment in Nigeria.

Year	Credits to SMEs	Investment (N'b)
2002	955.76	306.62
2003	1211.99	310.02
2004	1534.45	326.02
2005	2007.36	359.11
2006	2650.82	387.74
2007	5056.72	259.24
2008	8059.55	731.18
2009	10206.09	775.4

Source: Central Bank of Nigeria Statistical Bulletin, various issues.

Table 4 above presents a picture of SMEs financial and investment growth from 2002 to 2009. These credits given represent the loans obtained by the SMEs from the formal sources. The loans and advances were obtained on short and medium-term basis from banks (Commercial and development), national agencies created to aid

SMEs such as Export Simulation loans (ESL) of the Central Bank of Nigeria, the National Directorate of Employment (NDE), National Poverty Reduction Programme (NAPEP) etc. and Cooperative Credit Societies (Akingunola 2011). Other sources of finance of the SMEs are informal, viz: money lenders, landlords, credit and savings association, esusu, and relations (Ekpenyoug and Nyong, 1997).

The Vision 2020 for the SME Sector

According to the National Technical Working Group on SMEs (2009),the vision for the SME sector in Nigeria is to be the main engine of economic growth, a 'driver' of sustainable industrial development and a globally competitive SME sector.

The actual SME sectoral performance in 2006 as against the performance expected from the sector by the year 2020 indicated that:

(i) the economic contribution of SMEs to GDP was less than 10% as against the 20% target for 2020; and

(ii) the SMEs are responsible for 95% of employment generation in Nigeria.

Furthermore, the global competitiveness benchmark comparison reveals that, among the thirty-four countries compared based on some selection indices, Nigeria's SMEs performed poorly. They were ranked low not only with respect to institutional framework, but also with regard to the quality of overall infrastructure, health and primary education, good market efficiency, technological readiness, innovation and financial market sophistication. (See World Economic Forum Global Competitive Report: 2008-2009).

3.0 METHODOLOGY

This study used annual data collected from Central Bank of Nigeria publications such as statistical bulletins and statements of accounts. Other sources include newspaper publications, the National Bureau of Statistics, the Organization for Economic Cooperation and Development (OECD) websites, etc.

The data covered a period of eight years ranging from 2002 to 2009. The basic estimation strategy involved a standard Ordinary Least Square stated in linear form as follows:

$Y_i = \beta_0 + \beta_1 X_i + u_i$………………….(1)

Where;

Y_i = nlog Financial Investment by SMEs

X_i = nlog Bank credit to SMEs.

U_i = Error term.

3.1 Statement of Hypothesis

This statement of hypothesis is built on the assumptions that:

(i) growth in investment by the SMEs can be a proxy for SMEs growth and development;

(ii) the fund disbursed to SMEs depended significantly on the amount of external financial aid received by Nigerian government. Therefore, the hypothesis is as follows:-

H_o: There is no significant impact of external financial assistance on the growth and development of Nigerian SMEs during the period under review.

Hi: There is a significant impact of external financial assistance on the growth and development of Nigerian SMEs during the period under review.

4.0 PRESENTATION AND ANALYSIS OF DATA

The data gathered were analysed in this section from which conclusion and policy implications were drawn from. The analysis started with the presentation of the banks' loans to SME and the investment from the sector in table 4 below.

Table 4: SMEs financing and investment growth.

YEAR	CREDITS TO SMEs (N' b)	INVESTMENT (N' b)
2002	955.76	306.62
2003	1211.99	310.02
2004	1534.45	326.02
2005	2007. 36	359.11
2006	2650.82	387.74
2007	5056.72	259.24
2008	8059.55	731.18
2009	10,206.09	775.40

Source CBNs Statement of Account

The figures in table 4 above show that credit to SMEs and SME investments had considerably been on the increase during the period under review. However, the figures were represented in their natural log values for the total credits received by the SMEs and financial investment made by them for OLS computation.

Table 5: OLS Results

Dependent Variable: INVESTMENTS

Method: Least Squares
Date: 08/12/13 Time: 02:16
Sample: 2002 2009
Included observations: 8

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CREDITSTOSMES	0.117849	0.139376	0.845552	0.4302
C	2.111355	0.470141	4.490898	0.0041

R-squared	0.106473	Mean dependent var	2.506075
Adjusted R-squared	-0.042449	S.D. dependent var	0.154551
S.E. of regression	0.157797	Akaike info criterion	-0.642698
Sum squared resid	0.149399	Schwarz criterion	-0.622837
Log likelihood	4.570791	F-statistic	0.714959
Durbin-Watson stat	2.455452	Prob(F-statistic)	0.430226

Source: Authors' Eview Result.

Drawing from the eview result, the findings suggest as follows:-

(1) There is a low co-variability between the foreign financial assistance and the SMEs growth and development during the period under study with R2 at 0.106 indicating that only 10.6% of the variability in SMEs growth is caused by foreign financial assistance.

(2) Though a positive relationship exist between foreign financial assistance and SMEs growth, the explanatory variable i.e. financial assistance received by the SMEs during the period did not have a significant impact on their growth and development. This could be explained by the inability of the SMES to have reasonable access to the foreign and domestic financial assistance available during the period. This situation could also owe its explanation to the general economic meltdown which took place in the world during the period which also affected Nigerian investment climate negatively and given that bank credit to SMEs declined greatly from 2009 (See fig. 1).

Policy Implication of the Study

The foreign donors give foreign aid to Nigeria principally because they want to assist the country. Even at that, the donors are not familiar with the specific problems or cultural values which cause or help the poverty level to grow in the country. The assistance offered may not only be useless but may be harmful if it is delivered into wrong hands. In other words, the policies which exist in the recipient counties play a significant and vital role on whether the foreign assistance will help the poor or otherwise.

Recent information on Official Development Assistance (ODA) in Nigeria demonstrates a lot of institutional weakness at the federal and state levels. These include weak aid co-ordination capacities as well as infrastructural deficiencies.

For foreign aid to have welfare impacts on the Nigerians, it is necessary for proper aid coordination and management to be in place in Nigeria. This implies that there will be planning and integration by a recipient government of international assistance from donor partners into national or state development goals and strategies.

There is a consensus among many scholars that there is the need for a substantial reform of foreign aid in order to revitalize programs and realign priorities.

There is division into major groups as far as the general body of studies on foreign aid and economic growth is concerned in this part of Africa. One group hypothesizes that foreign aid has a negative effect on economic growth while the other group postulates that foreign aid has a positive impact (Alabi, 2012). However, what is relevant to policy makers in a recipient country like Nigeria is the information on what to do to make foreign aid work in their country. They are interested in knowing in which sector foreign aid is performing well and which sector of the economy is not doing well even after the foreign aid has been invested.

5.0 CONCLUSION/ RECOMMENDATIONS

It is not possible to over-emphasize the importance of small and medium scale enterprises in the economic growth and development of any country. The formal financial sector in Nigeria, has performed abysmally in terms of satisfying the financing requirements of the SMEs' sub-sector while its micro-enterprises counterpart appear to have been completely abandoned. This scenario has necessitated looking for alternative financing method, especially of equity type, in order to meet the ever-increasing employment and income needs of Nigeria and its populace. This study reveals that, despite the wealth of external financial assistance to Nigeria, there is still a yawning gap between the financing need of SMEs and the quantum of such funds that they access owing to a number of endogenous and exogenous limitations. There is therefore the need to restructure as well as strengthen policy in order to boost the growth and development of the SMEs sector.

Nigerian government is expected to provide an enabling environment for the exploitation of alternative sources of finance locally - such as venture capital and business angels financing - to compliment other external and internal sources. It is equally advisable that Nigerian government ensures active operation of the SMEs credit guarantee scheme. This will improve the exposure of credit providers so that they no longer term debt issued by small firm managers in such areas as business plan development, feasibility studies, project monitoring and analysis, book keeping and accounting, performance evaluation etc. It is possible to organize this before one enters into business or early in the business life when one is having access to funds. Since the SMEs source the initial business capital from the informal financial sources, which they believe are largely insufficient, government is expected to integrate the operation of the formal financial institutions with that of the informal financial agents. Doing so would widen the credit base of the informal financial agents. Banks should rely on the informal agents for loan repayment by the SMEs as they have in-built arrangement to ensure full repayment of loans as at when due.

It is a world-wide generally-accepted phenomenon that the growth of the small and medium enterprise sector contributes rampantly to reduce poverty. In Nigeria, the achievement of this growth objective is retarded by many factors especially funding inadequacy. In a bid to mobilize significant funds for the SMEs, Nigeria had relentlessly struck bilateral and multilateral aid agreements with the members of the Development Assistance Committee of the Organization for Economic Cooperation and Development and international Donor agencies on bilateral and multilateral basis respectively. Nigeria had, in addition, put up a number of incentive schemes locally, aimed at achieving the same objectives. Yet, the rate of growth and development of her SMEs has been rather low. This is as a result of a number of endogenous and exogenous limiting variables. To fast-track the growth and development of the SMEs sector, the following approaches are recommended:-

(1) One agrees with Kelley(2012) that government can design some interventions that would

successfully encourage banks to lend more to SMEs, in the following manner:

(a) Regulatory environment. The current proposed reversion to segment definitions by SMEDAN should be handled with caution to avoid shifting banks targets adversely. The revised micro finance policy is important but it is important for the policy to achieve the right trade-off between focus, scale and risk.

(b) Enabling environment. There is the need to monitor the effectiveness of credit bureaus and to encourage their use as they will help to reduce information uncertainty (information asymmetry). Collateral registration and realization is an important area for reform and modernization. Customer identification is a national project which will bring enormous benefit to the financial sector. Furthermore, it is worthwhile to remove redundant processes in the taxation laws and ensure unique taxpayer identifications.

(c) Partial credit guaranty schemes. The eligibility criteria should not be discriminatory.

(d) State banks and development finance institutions. State banks need wide-scale infrastructural distribution in order to lend directly. Bank of industry, principally, should provide refinancing and liquidity facilities to financial institutions.

(e) Apex and whole-sale funding. The N200 billion manufacturing refinancing facility helps SMEs in the manufacturing sector who had existing loans. However, additional loans should be extended. NERFUND should consider providing funds to micro finance banks directly rather than through Deposit Money Banks.

(f) Supply side capacity building. SMEDAN should expand its outreach.

(g) Encourage innovation. Innovation funds have the potential for far-reaching impact, given the necessary monitoring and assessment criteria. Innovation funds should be made available because they can serve as the spring board for new and innovative ways of lending in constrained markets.

(2) Government should provide adequate infrastructural, sustained and sufficient institutional support, upgraded education and skills, technological adaptation and innovation.

(3) SMEs should establish innovative schemes which are capable of assembling small businesses into various industries. This will enable the latter to take advantage of many national business opportunities.

(4) SMEs need to come together to establish business links. Incentives need to the put in place to facilitate the coming into existence of more enterprises.

(5) Sustainable power supply has to be put in place to reduce the high cost of running business in Nigeria.

(6) There should be more widespread adoption of the collaborations between external and internal financing agencies, government and non-governmental organizations and associations of small and large firms

(7) Assistance from both external and internal agencies should be tailored to the needs and capacities of the SMEs (Levitsky, 1983).

(8) Culture, tourism, corporate governance and national orientation in favour of attitudinal change against corruption are equally worthy of consideration by the Nigerian government.

(9) The issues of enterprise clusters, industrial parks and incubation areas should be taken seriously as they will motivate SMEs to pool their resources together in order to minimize cost.

(10) Government should avoid unfavorable fiscal policies and policy inconsistencies.

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