

ABSTRACT

The impact of Banking Sector Reforms on Small and Medium Scale Enterprises is a phenomenon that needs proper and adequate attention in the wake of global economic depression affecting the world generally as proper attention can put a full stop to problem of unemployment confronting Nigeria as a whole. The study conducted and assessed the impact of banking reforms on Small and Medium Scale Enterprises in Lagos State, a case study of Otto - Awori, Local Government Development Area. And to show the relationship that exist between capital and growth of Small and Medium Scale Enterprises.

The project reviewed the nature, causes and effect of loan delinquency by Nigeria banks towards Small and Medium Scale Enterprises.

Data were predominantly gathered, using questionnaire administered on 35 selected Small and Medium Scale Enterprises in Otto - Awori Local Government Development Area.

The data collected were analyzed using the descriptive and inferential statistical analysis; chi-square statistic was precisely employed in the analyzing of the data collected.

This study revealed that reforms of banks have not helped small and medium scale enterprises in terms of loan disbursement to them so as to facilitate their going concern as a business enterprise.

However, this study concluded that the government should proffer solution to the challenges and constraints militating against SMEs and to have a better understanding of the lending practices of banks which ultimately prevent banks from expanding SMEs portfolio.

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CHAPTER ONE

1.0 INTRODUCTION

For both developing and developed countries, small and medium scale firms play important role in the process of industrialization and economic growth. Apart from increasing per capital income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth. However, the role played by SMEs, notwithstanding its development is everywhere constrained by adequate funding and poor management. The unfavorable macro-economic development has also been identified as one of the major constraint which most times encourage financial institutions to be risk - averse in funding small and medium scale businesses. The reluctance on the part of financial institutions to fund SMEs can be explained in terms of insufficient capital base of banks and information asymmetry that often exists between SMEs and lending institutions.

In Nigeria, the financial system is dualistic and consists of formal and informal systems. The informal

financial system comprise of the institutions such as money lenders, rotating savings and credit associations for example, that are virtually outside the control of the established framework. The formal financial system refers to an organized, registered and. regulated sector of the financial system. The formal financial system comprises the banking sector, non - banking sector, and the financial markets. Structurally, the financial systems as at December 2008 comprises the Central bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), The Security and Exchange Commission (SEC), the National Insurance Commission (NAICOM), 25 deposit money banks, 6 development banks, 757 Micro - Finance Banks, 1 stock exchange, 1 commodity exchange, 5 discount houses, 9 primary mortgage banks, 112 finance companies and 581 stock brokers (CBN, 2008).

However, the formal sector is largely dominated by the deposit money banks in Nigeria in terms of total deposits, credit and total assets. In attempt to make the banking sector sound, stable, reliable, dependable and internationally competitive, the Central Bank of Nigeria (CBN) announced on July 6, 2004 that with effect from January 1, 2006, the minimum paid up capital should be N25 billion. To meet the N25 billion capitalizations, banks were allowed to merge, consolidate or even acquire another bank. At the end of the consolidation exercise, out of the 89 existing commercial banks, 25 groups of banks emerged, while 14 banks that could not merge were set for liquidation. To raise the funds, the banks used strategies such as merger, acquisition, floating of new shares and so on.

The hope for consolidation is that, banks would be able to mobilize a large amount of funds to provide loan - able funds to the productive sector. The sector is dominated by the small and medium enterprises in Nigeria. Thus, the tendency is for the SMEs to grow into large and conglomerate firms. The consolidation will enable banks to meet the minimum capital adequacy ratio of ten percent, as prescribed by the Basel Capital Adequacy Accord. The ten percent ratio which relates capital to credit implies that for every N100 credit, a bank needs N10 capital.

1.1 STATEMENT OF PROBLEM

Small and Medium Enterprises in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organized private sector groups. Year in, year out, the government at federal state and even local levels, through budgetary allocations, policies and pronouncements have signified interests and acknowledgement of the crucial role of the SMEs Sub - sector of the economy and hence made policies for energizing the same. There have also been fiscal incentives, grants, bilateral and multilateral agencies supports and aids as well as specialized institutions all geared towards making the SMEs sub - sector vibrant.

Just as it has been a great concern to all and sundry to promote the welfare of SMEs, it has also been a great cause of concern to all, the fact that the vital sub - sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMEs. It has been shown that there is a high correlation between the degree of poverty, hunger, unemployment, economic wellbeing (standard of living) of the citizens of countries and the degree of vibrancy of the respective country's SMEs. If Nigeria were to achieve an appreciable success towards attaining Millennium Development Goals for 2020, one of the sure ways 'would be to vigorously pursue the development of its SMEs. Some of the key millennium Declaration Goals like minimizing the proportion of people living in extreme poverty, suffering from hunger, without access to safe water, reducing

maternal and infant mortality and enrolment of all children in primary school by 2020 may indeed be a false idea unless there is a turnaround of our SME's fortune sooner than later. The time is now to do something surgical to the situation of our SMEs given the aggravating level of poverty in Nigeria and the need to meet up with the Millennium Development Goals.

The decreasing level of Nigeria's per capital income as well as low level of agricultural, industrial and infrastructural development (irrigation, roads and railway networks) all represent disturbing indices, which also contributes to the dismal performance and contribution of our SMEs. In spite of the fact that SMEs have been regarded as the defensive wall for employment generation and technological development in Nigeria, the sector nevertheless has had its own fair share of neglect with associated unpleasant impact on the economy.

1.2 OBJECTIVE OF THE STUDY

The research is intended to identify the problems, challenges, and constraints militating against the success of SMEs and also make appropriate recommendations for re - addressing and eliminating them so that the SMEs could occupy their pride of place in the Nigerian economy and hence play vital role they are expected to play in the economic growth and development of Nigeria. In order to achieve this, the research will attempt to:

- (1) Identify the characteristics of SMEs in Nigeria.
- (2) To determine their sources of funds (formal or informal institution
- (3) Identify the constraints facing the SMEs In sourcing funds.
- (4) Make appropriate recommendations for solving or at least alleviating the identified problems and challenges of SMEs.

1.3 SIGNIFICANCE OF THE STUDY

The study is expected to make theoretical and empirical contribution to SMEs and banking services. This study will provide basis for closer scrutiny of banking formulations and its relevance to developing SMEs in less developed countries. It will be of immense importance to infant industries in recognizing steps put in place by government and stakeholders to develop the SMEs sector in terms of finances and other issue affecting them which has never been identified by SMEs in the time past.

Furthermore, government policy makers and financial institutions as well as economist will find it as useful information for efficient policy formulation and how best to tackle the present economic problems. Also, student of higher learning institutions will find it informative based on the latest development of financial sector to improve SMEs and for further research study.

1.4 STATEMENT OF RESEARCH QUESTIONS

In order to achieve the objective of this research study, the following questions become relevant.

- (a) Has the merger acquisition, capitalization and recapitalization and re - capitalization of banks helped in financing small and medium scale enterprises better.
- (b) Has the establishment of microfinance banks enhanced the accessibility of small scale buttress to soft conditional loans as against tight affordable conditional collateral loans demanded?

1.5 STATEMENT OF RESEARCH OBJECTIVE

The primary objective of this research is to identify the problems, challenges and constraints militating against SMEs and to have a better understanding of the level of loan delinquency among SMEs and the lending practices of banks, which ultimately prevent banks from expanding SMEs portfolio.

However, the statement of research objective are-

- (i) The effectiveness of bank funding on SME
- (ii) The impact of banking reforms on economic growth and development through the productive sector which include *small* and medium scale enterprises
- (iii) The impact or relevance of SMEs growth on the reduction of unemployment in Nigeria.

1.6 RESEARCH HYPOTHESIS

According to Nzeribe (1995) hypotheses are statements of facts. In order to effectively accomplish this study, the following hypotheses are formulated for the study.

- (1) **Ho:** The reforms of banks do not help in financing small and medium scale enterprises in Lagos state.
Hi: The reforms of banks help in financing small and medium scale enterprises in Lagos State.
- (2) **Ho:** Bank reform have not succeeded in achieving economic growth and development through small and medium scale enterprises
Hi: Bank reforms have succeeded in achieving economic growth and development through small and medium scale enterprises.

1.7 SCOPE OF THE STUDY

The scope of the study is to appraise the impact of bank reforms on Small and Medium Scale Enterprises in Lagos state. The study will include formal and informal financial institutions as the professional finance lease to small and Medium Scale Enterprises, the research covers 35 selected Small and Medium Scale Enterprises in Otto Awori Local Government Council Area of Lagos State.

1.8 LIMITATION OF THE STUDY

Certain limitations are encountered in the course of this study, key among them are:

- (1) Unavailability of data: One of the greatest challenges the researcher encountered in this study relates to access to and collection of hard data due to extreme data gaps and paucity.
- (2) Time and funds: Another limitation of this study relates to time, funds and logistics constraints which limited the intensity of the spread or area coverage of the study. Even though Small and Medium Scale Enterprises are spread throughout the length and breadth of Nigeria though with negligible concentrations in some states and less in urban areas, this study focused largely on Small and Medium Scale Enterprises in Lagos and its environs where there is a relatively high concentration of about eighty percent (80%) of Small and Medium Scale Enterprises.
- (3) Resistance of respondents: the researcher was also limited by the resistance of some respondents to complete the questionnaire promptly and those who even failed to complete them. The researcher however faced some difficulties in sourcing for relevant data due to some uncooperative attitude of the custodian of data.

1.9 DEFINITION OF TERMS

- (1) Micro Enterprises: A firm whose total cost including working capital but excluding cost of land is not more than ten million naira (N10, 000, 000) and or with a labour size of not more than thirty (30) full time workers and/or turn over less than N2, 000, 000 (two million) naira only.
- (2) Small Enterprises: An enterprise whose total cost including working capital but excluding cost of land is between ten million naira (N10, 000, 000) and the one hundred million (100, 000, 000) and/or a work force between eleven (11) and seventy (70) full time staff and/or with a turn over of not more than ten million naira (N 10, 000, 000) in a year.

- (3) Medium Enterprises: A company with total cost including working capital but excluding cost of land of more than one hundred million naira (N100, 000,000) and/or a staff strength of between seventy one (71) and two hundred (200) full time workers and/ or with annual turnover of not more than twenty million naira (N20, 000, 000) only.
- (4) Large Enterprise: Any enterprise whose total cost including working capital but excluding cost of land is above three hundred million naira (300, 000, 000) and/or a labour force of over two hundred (200) workers and/or annual turnover or more than twenty million only.
- (5) SMEs: Small and Medium Scale Enterprises are those firms which satisfy the definition given above
- (6) Bank: A bank is a financial institution where money and valuables are kept for safety purpose. Lawal 1982, saw a bank as a dealer in money and credit holding itself one to receive from the public deposit payable on demand by cheques.
- (7) Bank Deposit: this refers to total money owned by it bank to all and sundry customers.
- (8) Loan: This refers to sum of money given to a person who is a customer to the bank after all requirements have been met.
- (9) Economic Development: This can be described as a process whereby the level of national income or per capital income increase over a period of time.
- (10) Economic Growth: this can be described as the process where production capacity of an economy increase over a given period leading to a rise in the level of National Income.

IMPACT OF BANKING REFORMS ON SMALL AND MEDIUM SCALE ENTERPRISES IN LAGOS STATE (A STUDY OF OTTO AWORI LOCAL GOVERNMENT DEVELOPMENT COUNCIL)

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