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THE ROLE OF COMMERCIAL BANKS IN THE DEVELOPMENT OF SMALL SCALE BUSINESS IN NIGERIA

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ABSTRACT

This research work deals with the role of commercial banks in the development of small scale enterprises in Nigeria. This research work enable the small scale business owners to know why they do not qualify for loans or credit facilities in commercial banks. A sample size of one hundred and thirty responded were randomly selected from two different groups, the first group is the bank executives and the other group is the small scale business owners in Lagos state. The sources of data for this research work were mainly primary data, which were collected through the use of questionnaires. The chi-square method was used to analyse the data and to test related hypotheses generated for the study. All hypotheses were tested at 5% level of significance. The results of the study show that provision of viable project ideas will enhance the development of small scale business, while poor loan management will hinder the development of small scale business and that commercial banks inability to provide credit facilities will hinder the development of small scale business. The study therefore recommends that commercial banks should adopt a more developmental approach to the financing of small scale businesses.

1.1 INTRODUCTION

Research has established that small scale businesses play crucial role in the economic development of countries (Ogundele: 2006). They employ more worker than their large scale counterparts. They play complementary roles to large scale firms as a training workshop for developing skills of industrial workers and establishing forward and backward linkages. The spectacular economic development of the Asian countries like Malaysia and Indonesia were attributed to the rapid development of the small and medium scale enterprises. In recognition to this, many countries now sees them as instrument for fighting poverty and underdevelopment and are re-

directing their economic policies towards the development of this class of enterprises.

In Nigeria, small scale businesses (SSB) constitutes 85% of all firms operating in the economy (FGN, 2003). Like in most other developing countries, they employed the largest number of workers. It is the official policy of government to develop the economy and fight poverty through the development of small scale business (FGN, 2003). They are universally acknowledged as effective instruments for employment generation and economic growth. Hence, in Nigeria, small scale industries play a critical role in stimulating development and alleviating poverty.

A small business is a business that is independently owned and operated, not dominant in its field of operation and meets certain standards of size (set by the small business administration) in terms of employees or annual receipts. Despite its various contributions to the economy, the major challenge facing many small scale businesses still is raising capital through the right source to grow the businesses.

The first part of this process, according to experts is to find the right source to grow the businesses. Bank loans are one of the most important sources of financing for small scale business – but there's an important catch. In most cases, banks won't lend money to a start-up that has not established a successful track record. As firm grows, a bank will nearly always be a good long term partner, helping to finance expansion, and other major expenses. However, as a start-up, the only chance of getting a bank loan is by putting up marketable collateral, such as buildings or equipment to back the loan.

Small scale industry orientation is part and parcel of Nigeria. Evidence abound in our respective communities of what success our great grand parents made of their respective trading concerns, yam barns, iron smelting, farming, cottage industries and the likes. So the secret behind their success of a self reliant strategy does not check in any particular political philosophy, so much as in the people's attitude to enterprises and in the right to which the right incentive is adequate enough to make risk worth taking are provided.

The problem small scale businesses have with commercial banks is the inability of the small businesses to meet the conditions for loan approval. Bankers always recognized the need for their support in the small scale businesses and are prepared to provide what amount to substitute proprietorship capital where those condition precedent to approval are met. Where bank fails to meet the requirement or feel reluctant to oblige, very often, their inability could be traceable to the applicant failing to satisfy the demands of the banks or the request running fount of the monetary policy guidelines.

It is usually the small business man's poor organisation, inadequate planning, lack of management skills and experience coupled with his unwillingness to seek professional advice that built the barrier between him and any form of financial assistance.

Also, banks would want to know the amount and the applicants source of repayment and

facilities for credit loan management. Where proper accounting record are often non-existent, let alone the regular management information to guide decision making, no one will be prepared to commit other people's money without sufficient assurance for its safe return under such a confused situation. Therefore, who will fault the cautions of the bank in lending out the depositors money? The commercial loan theory postulates that commercial banks should make only loan of short-term duration. These loans must at the same time be productive and self liquidating.

Another disturbing factor is that the small scale entrepreneur usually expresses the desire to comply with any condition stipulated by banks in order to obtain the loans. But once the loans have been obtained, some entrepreneurs divert the fund into other uses while avoiding the banks and resisting investigations into their activities. Not only is the loan misapplied, it is often not repaid resulting in a huge accumulation of arrears and bad debts.

1.2 RESEARCH OBJECTIVES

The purpose of the study is to find out:

1. Why many small scale businesses do not qualify for loans or credit facilities.
2. The efforts made by banks in Nigeria in solving the aforementioned problems.
3. The adequacy or inadequacy of credit provisions to the small scale business by commercial banks in Nigeria
4. Recommend the appropriate solutions to the problems.

2.1 LITERATURE REVIEW

Commercial banks are the main formal suppliers of external finance to small-and medium-scale enterprises. Large numbers of firms nowadays use non-bank institutions as well as or instead of banks for equipment loans, other forms of credit, and savings and investment accounts. Non-bank institutions either dominate or have substantial portions of such major specialist business-financial markets as financial leasing, motor vehicle loans, and brokerage services. In these and other financing areas, comparatively low-cost high-technology centralized suppliers have exploited the benefits of specialization and economies of scale – often with the backing of strong parent organizations and advanced marketing and distribution systems – to take business away from the banks.

However, in Nigeria in the early 1990s there were nearly three million separate businesses – virtually all of which had bank accounts and were

potentially in the market for bank loans and other financial products and services. Well over half of Nigeria firms were at any particular time users of bank overdrafts, term loans, leasing facilities for the acquisition of assets, or other sources of external finance. In addition, well over half of firms used such basic business banking facilities as commercial savings deposits and drafts, giro, credit cards or other non-cheque means of money transmission.

So far as small businesses were concerned, about 50% had at one time or another borrowed from banks. However, own resources were the commonest source of finance. Most small business start-ups were largely funded by their owners out of their own savings, redundancy cheques, money from families, friends, or private investors, and second mortgages on houses (etc.). Less than one-quarter of new small firms received significant start-up funding from banks. Once established, some four out of five small firms then preferred retained profits to overdrafts, loans, or venture capital sources of funding. In the event of outside borrowing, short-term facilities were substantially more popular with small firms and their banks than long-term debt.

With regards to Nigeria small and medium-scale financing, one survey found that total borrowings (overdraft finance and loans together) amounted to 30% of the funds used by private companies and 22% of those used by listed. Within this total, bank overdrafts were a more important source of finance than term loans in both private and listed companies. Overdrafts amounted to 16% of finance in private companies and 14% in listed, while term loans amounted to 14% of finance in private companies and 9% in listed. The smallest companies were generally the most reliant on overdrafts as sources of finance, while the largest companies (those with turnovers of between £201-500 million) were the least reliant. Medium- and long-term bank loans accounted for 60% and 73% respectively of private and listed companies' term loan finance. By contrast, factoring and invoice discounting were of fairly minor importance: only 17% of companies in the sample raised finance through such means (amounting to 3% of finance in total). Finally, only 14% of companies (99% of which had turnovers of less than £50 million) used venture capital financing.

Business financing in the United States is even more highly securitized and diverse than in Britain. Nonetheless, a US survey found that nationally 94% of small- and medium-sized businesses used commercial banks for financial products and services while only 35.5% used non-

bank institutions. Banks' provision of checking facilities and their geographical location convenience were found to be their main competitive advantages. Less than 8% of the businesses in the survey used non-bank institutions as their primary financial institutions. The study also found that less than 10% of businesses used commercial banks located more than 30 miles away, and that they purchased on average 2.4 financial products and services from their primary provider. Businesses on average purchased only 1.08 products from institutions that did not supply checking facilities. In addition to checking accounts and credit lines, other valued and widely used business banking products and services were:

- ☐ transactions services (including credit card processing, currency and coin, and night depository services);
- ☐ cash management services (including wire transfers and lock-boxes); and
- ☐ pensions/trust services.

However, the survey found that with increasing size (as measured by the number of employees), small and medium-scale firms made increasing use of external credit by volume and also a wider range of bank and non-bank financial products and services. In the survey, as many as 45% of the smallest businesses (employing 4 employees or less) had no borrowings and a further 50% used only one or two of five main types of loan finance listed (i.e., lines of credit, mortgage loans, motor vehicle loans, equipment, and other loans). By contrast, some 90% of businesses employing between 100-500 persons had outside borrowings and 65% used two or more types of loan finance.(9).

So far as financing in Britain is concerned, there have been a number of public criticisms of the business banking industry over the years. Business owner-managers and others have complained about (e.g.):

short-term profits rather than long-term investment orientations on the part of banks; inabilities on the part of banks to make funding decision locally; and bank staffs' inadequate understanding of businesses and/or uncooperative attitudes.

2.2 SMES FINANCE IN LESS DEVELOPED COUNTRIES

Small and medium-sized business financing in less developed countries is not intrinsically different from that in advanced industrial economies. In most

African, Asian, and Latin American countries nowadays, there is substantial conventional collateral-based lending to businesses by banks – and also various forms of asset-based, private equity, and stock market finance. Commercial banks in low-income countries tend to rely on formal business plans, conventional financial statements and related information, and standard credit scoring techniques as well as established customer relationships when making business lending decisions. Likewise, venture capitalists here as elsewhere tend to demand strong evidence of business-financial viability before investing in relatively risky projects.

However, by definition in a less developed/low-income economy, borrowers will often not be able to provide loan collateral of the scale or type conventionally required by banks in the West. Business-financial information will also often be deficient – on both sides of the market. These and other factors tend to limit the scope and usefulness of conventional financial statements, credit scoring, and the marketing and take-up of commercial capital.

In practice, even comparatively large and well-established enterprises may experience difficulties in obtaining adequate amounts of external finance on satisfactory terms and conditions in low-income countries. In an attempt to boost business financing and industrial-economic growth generally, governments in these countries may directly offer cheap loans or other subsidies to SMEs – or else legally require commercial banks to reserve a certain amount of their lending for poorer/indigenous/minority group entrepreneurs on especially favourable terms and conditions.

Beyond this, various non-profit charitable/voluntary organizations may be in operation providing investment finance in less developed countries. However, these organizations often specialize in aiding particular minorities or certain types of project and seek to generate wider social development objectives rather than simply provide regular SMEs growth capital.

In low- as in high-income countries, ostensibly commercial business-financing schemes that are not operated in accordance with basic market-economic principles will tend to waste scarce capital resources that would be more productively employed elsewhere and be dysfunctional in other respects.

Reducing inadequacies and the costs of information will improve the assessment and managing of SMEs bank lending in any country. Banks themselves often provide their business

customers with free advice and information to reduce risk and improve the returns from lending on both sides. As already noted, there are well-established techniques for managing business lending, increasing the returns from traditional collateral based loans, and reducing the risk of private equity/venture capital investments. These techniques are more or less universally applicable. In recent years, technological and other developments have made business credit scoring and financial information processing in general easier, cheaper, and more accurate. However, SMEs finance will still have to be structurally-functionally appropriate, tailored to the cash flows of businesses, and generate sufficient returns to cover both real and nominal costs if it is to be fundamentally viable and effective in the long term.

There is now a substantial amount of published research on finance and investment and its relationship to business-economic growth in less developed countries. What is clear from this research is that official development aid programmes or financial subsidies have never produced a general transition from economic traditionalist to modernity in societies.

2.3 DEMAND FOR SMES FINANCE

SMES are very significant to the economic success for most countries and their citizens and in recent times have been observed to employ an increasing proportion of the workforce of most countries. There is a fast growth in the number of privately owned small and medium-scale enterprise worldwide, however, this category of business is plagued by several issues that deter this growth. A key challenge for most SMEs is the problem of financing, according to Da Silva et al (2007), all small firms live under tight liquidity constraints, therefore making finance a major problem for them.

2.4 THE RELATIONSHIP BETWEEN THE FINANCIAL SYSTEMS AND SMES IN NIGERIA

Looking at relationship that exists between the SMEs and Nigerian financial system reveals clearly an apathy that is directed towards small businesses by financial system and resentment on the part of the SMEs towards the financial system (FS). This is despite the numerous government established developmental programs such as Mandatory Credit Guideline (1970), Small Scale Industries Credit Guarantee Scheme (1971), Agricultural Credit Guarantee Scheme (1973), Nigeria Agriculture and Co-operative Bank (1973). Nigerian Bank for

Commerce and Industry (1973), Rural Banking Scheme (1977), African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988. The World Bank Assisted SME I (1985) and the World Bank Assisted SME II (1990). Second – Tier Security Market (1985). Peoples Bank (1989), National Economic Reconstruction Fund (1992), Small and Medium Scale Enterprises Loan Scheme (1992), Family Economic Advancement Program (1997). Bank of Industry (BOI) – being merger of NIDB, NBCI and NERFUND in 2001, Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) – being merger of NACB, Peoples Bank and Family Economic Advancement Program (FEAP) in 2002; and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.

As revealed in a study conducted in 2001, the performance of SMES have not been justified by the set up of all these programs, 79% of surveyed enterprises mentioned poor access to finance as the most challenging constraint they face (see Guardian, Nov, 26, 2001). From the records of CBN, it is observed that though traditional commercial banks have been experiencing aggregate growth credit to the domestic economy, the ratio of loans of small-scale enterprises to commercial banks' total credit to the economy has continued to decrease over the years and it takes only a mandatory enforcement by the government to the commercial bank to get them to loan to SMEs. declining progressively from 25% in 1996 to 2.7% in 2005 when the mandatory bank's credit allocations of 20% of the total credit from commercial banks to small scale enterprises wholly owned by Nigerians was abolished by the government through CBN directives

2.5 BANK CAPITAL CHANNEL MODEL

This model considers the lending behaviours of bank to SMES to be affected by a capital adequacy requirement. According to T.M Obamuyi (2007),

'The bank capital channel views a change in interest rate as affecting lending through bank's capital, particularly when banks' lending is constrained by a capital adequacy requirement. Thus, an increase in interest rates will raise the cost of banks' external funding, but reduce banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition.'

This condition as purported by this model, is seen clearly seen in the relationship between banks and SMEs as the SMEs suffers through a lack of financial assistance as a result of this situation.

2.6 CAPITAL CONSTRAINT MODEL

The capital constraint model describes the behaviour of banks restrain to give out loans to SMEs because of the limitation of available financial resources banks. According to the work of T.M Obamuyi (2007), „□ Basically, banks are subjected to both market- and regulator –imposed capital requirements. For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank's total assets. For instance, banks are expected to meet the capital adequacy requirement of the Basel Accord of ten per cent, This situation is visible in Nigeria, as banks are expected to maintain a minimum of 40 per cent liquidity ratio of total deposits.

2.7 THE LIFECYCLE APPROACH

The lifecycle approach, as described by Weston and Brigham (1981), was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks. Rapid growth could lead to the problem of illiquidity. "The dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance – venture capital" (Weston, J.F. and E.F. Brigham, Managerial Finance, Hindgate: Dryden Press, 1981)

Thereby indicating a trend in SMES that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

2.8 SMALL SCALE BUSINESS AND FINANCIAL CONSTRAINTS

The drive to invest in either small scale, medium or large scale business is frustrated by financial constraints, while many people have the drive, they do not have the capital with which to translate these ideas into reality.

Ogundele (2006) examined "most important problem of confronting indigenous entrepreneurs in Nigeria". He reported the views of those who were sponsored by government and those who are self

sponsored. All agreed that inadequate capital is a major problem to them. However, those assisted by government list problem of capital as the most important, while the self sponsored entrepreneurs list it as second, along with acts of indiscipline.

Balogun (2004) echoes the same concern when he stressed that the most important concern of most of potential or going entrepreneurs is that of finance. It is instructive that the issue of the problem of performance of small scale businesses has long engaged the attention of researchers. Scatz (1964) in his studies of Federal Loans Board and Yaba Industrial estate, entrepreneurs, concluded that there appears to be a capital illusion among them.

In one of its numerous contributions Kuteyi, (2010) to the development of the small scale industries in Nigeria asserted that there are many obstacles to rapid growth of the small scale business and these include:

"Many indigenous entrepreneurs lack capital not necessarily because they are unable to generate sufficient feasible project but more reasons, the most important of which is that they themselves are not regarded by many perspective commercial lenders as to what one might call feasible projectors".

In view of Ogundele (2006), he noted that a significant proportion of the private enterprise do not find it easy to obtain facilities from their banks and their supporters. Speaking in the same vein, Mabogunje, (2010), said small scale business was the foundation of the development of any country, as many countries now focus on its promotion to fast track the development of their economies. She said small scale business challenges are lack of access to finance as they are still not getting the money they need to grow their businesses.

In the opinion of ILO (1968), he established strong observation that managers have no training and if at all they have, it is only a few specialised aspect of their work are affected. Like having knowledge of buying and selling but not of production or vice versa. This in effect means that they have no clear definition of jobs either do they clearly understand lines of authority and responsibility. The headman keeps everything on his head; members are placed into strategic but unmerited position, lack of formal and detailed definition of functions in view of the fact that daily intimate contact with all members is possible.

Supporting this position is the commissioner of Commerce and Industries of Ogun state government of Nigeria, Osinnowo (2008). According to him;

"Efficiency is impaired by a lack of clear understanding of who is responsible for what and to whom closely related to this is the problem of enduring and assuring continuity of effective management in the event of death or retirement of the headman"

In his own contribution to the Nigeria small scale business, Kayode (1978) in one of his problem areas namely "expatriate competition". According to him, Nigerians are often in a position to learn critical tricks of the game from foreign firms for who they worked. Secondly, for a model to be effective, it must be meaningfully limited. Because of their slender resources, indigenous small scale entrepreneurs are not in a position to limit the advance organised form of expatriate business men even if they do not know that such firms and their operations were all about. Even if he learnt the kick of the game, the result is usually of no effect and more often not of limited utility since expatriates who taught them continue to dominate the field of play.

In the opinion of Olagunde (1985), the issue of lending to the small scale indigenous enterprises in Nigeria, noted that in the last 8 yrs, the output of the small scale business in Nigeria has grown as a rate of 21.7% per annum and contributed approximately 10% to the overall local value added in the manufacturing sector of the economy considering the fact that small scale industrial output is less than 5% of the manufacturing sector of the economy. 10% contribution to overall local value added implies that the output of the small scale business in Nigeria has at least twice as much as local added content as the industry average. Such industries are vital to the industrialisation of the Nigerian economy.

It is worthwhile to note here that ever since the beginning of the last decade i.e. in the 80's, the successive government in Nigeria have come to realise the role and greater importance needed to be attached to the development of small scale business. This is evident in some of the procurements and policy declarations on small scale business in Nigeria.

Banks in Nigeria today are doing a lot in order to remove the financial difficulties being faced by small and medium scale industries.

3.1 RESEARCH METHODOLOGY

The Research is a case study, selected banks were used. Primary data were used, the primary data were generated through the use of questionnaire. Two sets of questionnaires were used, one for the bank

executives and the second for the small scale business owners. A total of 180 questionnaires were distributed among different categories of respondents ranging from bank executives to the small scale business owners. Using convenient

sampling techniques. 90 questionnaires were distributed to each group. 75 questionnaires were completed and returned for the bank executive group. While 55 questionnaires were filled and returned from the small scale owners group. Data were analysed using chi-square test.

3.2 RESEARCH HYPOTHESIS

H0: Provision of viable project will not enhance the development of small scale business.

H0: Poor loan management will not hinder the development of small scale business.

H0: Commercial bank inability to provide credit facilities will not hinder the development of small scale business.

4.1 DATA PRESENTATION

TABLE 1

QUESTION NUMBER	QUESTIONS	YES (%)	NO (%)	DON'T KNOW (%)	
(Small scale business owners) 1	Is it true that banks ...?	30 54.5%	15 27.3%	10 18.2%	Yes
2	Do you consider loan ...?	32 58.2%	17 30.9%	6 10.9%	Yes
3	Is it true that most small scale...?	40 72.7%	10 18.2%	5 9.1%	Yes
4	Will poor loan management...?	28 50.9%	20 36.4%	7 12.7%	Yes
5	Do you receive...?	5 9.1%	48 87.3%	2 3.6%	No
6	Will commercial banks inability to ...?	37 67.3%	13 23.6%	5 9.1%	Yes
7	Do you grant loan to customer...?	20 26.7%	45 60%	10 13.3%	No
8	Most business fails to meet the ...?	68 90.7%	5 6.7%	2 2.6%	Yes
9	Do applicants with regular...?	70 93.3%	5 6.7%	-	Yes
10	Are loan conditions to small scale...?	60 80%	15 20%	-	Yes
11	Does your bank attach compulsory...?	62 82.7%	13 17.3%	-	Yes
12	Do you believe that the provision of viable...?	69 92%	4 5.3%	2 2.7%	Yes

4.2 TEST OF HYPOTHESIS

The responses of respondents to the research questions were analysed using percentages. To support the results of the analysis, chi-square (χ^2) test were used. The chi-square tests were carried out on only the research questions that are related

to the hypothesis. This involves the process of determining whether to accept or reject the Hypothesis. The technique employed to determine acceptance or rejection of a hypothesis is the chi-square analysis.

HYPOTHESIS ONE

H0: Provision of viable project will not enhance the development of small scale businesses.

DO YOU BELIEVE THAT THE PROVISION OF VIABLE PROJECT WILL ENHANCE THE DEVELOPMENT OF SMALL SCALE BUSINESSES

In testing the above hypothesis, question 12, in the questionnaire is used.

TABLE 2

RESPONSES	OBSERVED FREQUENCY	EXPECTED FREQUENCY	$O_i - e_i$	$(O_i - e_i)^2$	$\frac{(O_i - e_i)^2}{e_i}$
Yes	69	25	44	1936	77.44
No	4	25	-21	441	17.64
Don't know	2	25	-23	529	21.16
TOTAL	75				116.24

DECISION RULE:

From the above table, chi-square calculated (X^2_{cal}) = 116.24

The test is made at 5% level of significant. Since x^2 tabulated valued at (3 - 1) degree of freedom at 5% level of significant is 5.991, which is lesser than the X^2_{cal} , we will reject the null hypothesis which states that provision of viable project will not enhance the development of small scale business and accept the alternative hypothesis which states that provision viable

project will enhance the development of small scale business.

HYPOTHESIS TWO:

H0: Poor loan management will not hinder the development of small scale businesses.

WILL POOR LOAN MANAGEMENT HINDER THE DEVELOPMENT OF YOUR SMALL SCALE BUSINESSES?

In testing the above hypothesis, question 4, in the questionnaire is used.

TABLE 3

RESPONSES	OBSERVED FREQUENCY	EXPECTED FREQUENCY	$O_i - e_i$	$(O_i - e_i)^2$	$\frac{(O_i - e_i)^2}{e_i}$
Yes	28	18.3	9.7	94.09	5.14
No	20	18.3	1.7	2.89	0.16
Don't know	7	18.3	-11.3	127.69	6.98
TOTAL	55				12.28

DECISION RULE:

From the above table, chi-square calculated (X^2_{cal}) = 12.28

The test is made at 5% level of significant. Since x^2 tabulated valued at (3 - 1) degree of freedom at 5% level of significant is 5.991, we will reject the null hypothesis which say that poor loan management will not hinder the development of small scale business and accept the alternative hypothesis which states that poor loan

management will hinder the development of small scale business.

HYPOTHESIS THREE:

H0: Commercial banks inability to provide credit facilities will not hinder the development of small scale businesses.

WILL COMMERCIAL BANKS INABILITY TO PROVIDE CREDIT FACILITIES HINDER THE DEVELOPMENT OF YOUR SMALL SCALE BUSINESS

In testing the above hypothesis, question 6, from the questionnaire S is used

TABLE 4

RESPONSES	OBSERVED FREQUENCY	EXPECTED FREQUENCY	$O_i - e_i$	$(O_i - e_i)^2$	$\frac{(O_i - e_i)^2}{e_i}$
Yes	37	18.3	18.7	349.69	19.11
No	13	18.3	-5.3	28.09	1.53
Don't know	5	18.3	-13.3	176.89	9.67
TOTAL	55				30.31

DECISION RULE:

From the above table, chi-square calculated (χ^2_{cal}) = 30.31

The test is made at 5% level of significant.

Since χ^2 tabulated valued at (3 - 1) degree of freedom at 5% level of significant is 5.991, we will reject the null hypothesis which states that commercial bank inability to provide credit facilities will not hinder the development of small scale business and accept the alternative hypothesis which says that commercial bank inability to provide credit facilities will hinder the development of small scale business.

5.1 SUMMARY

The small scale business owners are faced with the problem of how to start up. Others who could start fairly quicker are faced with lack of acceptable and adequate security to obtain loans. It is interesting to know that most of these young entrepreneurs do not even have undeveloped land needless to talk of buildings, equipment and plant and machinery. The high interest rate is worthy of note as constituting a stumbling block in borrowing from the bank. Even without the high interest rates, the commercial banks still do not provide facilities due to lack of collateral security to customers. Thus, commercial bank inability to provide credit facilities will hinder the development of small scale businesses.

All the problems enumerated earlier such as inadequate security, high interest rate and government regulations are all bottlenecks when it comes to lending to small scale business. Another very important problem which the banks face is the high incidence of delinquency and default lending to high rate of bad and doubtful debts which could eat up deep into the profits of the bank.

5.2 CONCLUSION

This research work has attempted to show that finance is a problem for the small scale business not necessarily for its lack of availability but rather for some different reasons which are related to inadequate preparation of projects on the part of

small businessmen when he embarks on his search for financial assistance and inadequate knowledge of various sources of financial capital.

The study show that the entrepreneurs' poor preparation of project can account for the bank manager's reluctance very often to lend to firm in the sector.

The Nigeria small scale businessmen would be assisting banks to lend to them by preparing good and realistic feasibility studies, keeping proper books of accounts, providing relevant information that would assist a good review of their financial preparation.

Based on the analysis of the data collected, one can safely say that; Provision of viable project enhances the development of small scale businesses. Majority of the respondents supported the view that provision of viable projects enhanced the development of small scale business. Also, most respondents from small scale firms perceived that when a viable project is made to the banks, it enhances the development of small scale businesses. Furthermore, poor loan management will hinder the development of small scale business.

Lastly, the study revealed that commercial banks inability to provide credit facilities hinders the development of small scale business. It was evidence from the analysis that majority respondents agreed that the inability of commercial banks to provide credit facilities hindered the development of small scale businesses.

5.3 RECOMMENDATION

In surveying the problems of small scale business in the foregoing paragraphs, some observations were made on what should be addressed to remove some barriers standing in the way of small scale business owners from attracting bank loans or make their request for bank loans more of a reality than a dream.

First, there is the need to stimulate bank lending to the small scale subsectors through favourable rediscount policies, development of credit information and exchange, credit guarantee

schemes and the development of a completely new orientation towards lending criteria. What is being said in other words is that government should encourage banks to extend credit to the sub-sectors in the light of fact that credit extended under compulsion and against prudent credit judgement of the banks have not in the past proved successful of beneficial to the economy.

Also, the bank should adopt a more developmental approach to the financing of small scale businesses. This can be achieved through the nature of advice and guidance they give their small scale customers. They should also de-emphasize collateral as the overriding condition for granting credit facilities to the small scale businesses.

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