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Appraisal Of The Action Of Osun State Government For The Development Of Small And Medium-Sized Enterprises

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Thesis abstract

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The objective of this research work is to evaluate the effort of Osun State Government as it affects the small and medium enterprises, also to analyse the success achieved by the said state government in relation to small and medium enterprises(SMEs). Furthermore, the study explains various schemes that support SMEs in Osun state, and ultimately look into the intrinsic effect of SME's on the development of the economy in Osun State.

The theory parts explains how successful SMEs businesses has affected the growth of the nation's economy ,also highlights various challenges faced with Small and Medium scale Enterprises among which are management issues, financial incapability also economic issues. Furthermore, different loan schemes for SMEs and their functions are discussed, and process involved to have access to them. The materials used for this thesis was gathered from books and online resources, also previous studies on the subject.

The descriptive research method is used for data analysis and interpretation. Specifically, co-relational descriptive research method is used which intends to find out whether projects financed by Osun state Government lead to economic development as a result of job creation. And from the analysis of data, there is a perfect strong positive relationship between the numbers of projects financed by the state government of Osun state and employment creation. This means that if Osun state government finances more projects then more jobs will be created through Small and Medium scale Enterprises development.

Keywords: Small and Medium enterprise, economic development, Gross Domestic Product, Nigerian Industrial Development Bank, Small and Medium Industries Equity and Investment Scheme, Bank of Industry, Large-scale Enterprises

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Terms and Abbreviations

SME: Small and Medium Enterprises. Defined by Clive Carpenter as enterprises with total cost (including working capital but excluding cost of land above N31million but not exceeding N315million with a labor size of between 11 and 100 employees)

LSE: Large-scale Enterprises

NERFUND: National Economic Reconstruction Fund. Established in 1990 to enable SMEs to have access to fund from World Bank

ADB: African Development Bank

NBCI: National Bank for Commerce and Industry

FEAP: Family Economic Advancement Programme

INDUSTRIAL DEVELOPMENT: It is the gradual growth in the method of production of goods from raw materials, then people and activities involved in producing or providing a particular thing or service respectively.

SMIDA: Small and Medium Enterprises Development Agency.

BOI: Bank of Industry

ECONOMIC DEVELOPMENT: This is a gradual growth in the production, trade and supply of money in a particular country or region.

NASME: Nigerian Association of Small and Medium Enterprises

IDF: Industrial Development Fund

GDP: Gross Domestic Product. It means the total number of goods produced by the citizens of a country both inside and outside such a country.

BMO: Business Membership Organization

AIDP: Agro-Industrial Development Programme

NEEDS: National Economic Empowerment Development Strategy

SEED: State Economic Empowerment Development Strategy

SMIEIS: Small and Medium Industries Equity and Investment Scheme. It is a voluntary initiative of the Bankers' Committee whose membership includes all the Managing Directors and Chief Executive Officers (MD/CEOs) of banks in Nigeria, which require all licensed banks in Nigeria to set aside 10 percent of their Profit Before Tax (PBT) for equity investment in, and promotion of Small and Medium Enterprises.

IDCs: Industrial Development Centers

NIDB: Nigerian Industrial Development Bank

1 INTRODUCTION

1.1 Background to the study

Small and Medium Enterprises (SMEs) have performed substantially in the growth, development and industrialization transformation of many economies worldwide. However, the growth of these SMEs itself is a big challenge. For decades, people have been depending on government for survival, ability to establish and carry on the smooth running of profitable business was not in people. Inability to forecast and foresee the business opportunity available in the environment is what sometimes seen among the major problems. People might conceive business ideas of an enterprise yet, it is the first stage to start and merely conceiving the idea will not give the guarantee for success.

In the case of Nigeria, SMEs have performed under expectation due to a combination of issues which vary from attitude and habits of SMEs themselves through environmental associated factors, economic instability, instability of governments and frequent government policy changes and somersaults.

The top ten areas where SMEs are struggling with at various levels in Nigeria in decreasing order of intensity include: management, financial access and assistance, robust infrastructure, inconsistent and unstable government policies, institutions and bureaucracy, environmental related issues, multiple and rigid taxes and levies, technological unavailability and barriers, marketing problems, unfair competition, and at last but the least non-availability of raw material locally (B. A. N. Onugu, 2005).

The possibilities and potentials for SMEs to recover and play as an essential part in the engine of growth, development and industrial transformation, poverty elimination and employment and wealth creation in Nigeria and its states are enormous. Realizing this potential requires a drastic change from mere paying lip service to practical radical methods and working on the ground and focus on all those areas important for the economy by the government realistically addressing the recognized problems. SMEs are also required to introspect themselves and bring changes in their

attitude and habits relating to entrepreneurship development, the governments also need to engage the SMEs in policy formulation and execution at each level (Local, State, and Federal) for maximum effect (B. A. N. Onugu, 2005).

With the changing global economy, the gradual effects of the contribution of government in Nigeria are now prevalent at the federal, state and even local level, there has been the establishment of successful small and medium scale business by individual citizens of Nigeria most especially at the state level. Osun State is one of the states in Nigeria where small and medium enterprises are striving but not hard to survive as a result of the support got from Osun State government most especially in the era of democracy which started some years ago.

Since the introduction of the small scale industries credit scheme in 1974 by the Federal Government in conjunction with the then state governments, and the financial commitment to assist its growth, the sector has witnessed a tremendous development in the area of manufacturing, processing and service industries. Even after the withdrawal of the Federal Government financial assistance, the scheme continues to wax stronger on the old Oyo State and Osun State.

Small-scale industries have been acclaimed globally as having a wide geographical spread throughout the economy and contribute the best means for the achievement of balanced technological and managerial skills and ensuring that such skills reach the rural areas of the country. They provide employment to a large number of workers who could not normally be the more formal sector of the economy.

To boost the growth of this sector, Government has put in place a number of policy measures backed with appropriate legislation for the establishment and sustenance of small-scale industries in the country. The policy measures tend to encourage and protect the sector.

Finance, which is one of the major determinants in the successful operation of small-scale industries, has been reported to be inadequate over the years. The banks that are expected to assist are not willing due to the risky nature of such venture in small-scale industries. However, this aspect is receiving the attention of Government and private sector

The Economic structure of Nigeria characterizes it as an underdeveloped country. The oil and gas industry, the primary sector of the country, dominates its Gross Domestic Product. In the year 2011-12, it accounts for 85% of government revenue and nearly 95% of export earning. The industrial and manufacturing sectors account only for 6% and 4% respectively (Chete et al., 2014).

Nigeria's industrial framework is tri-parasitic. There are the large-scale (LSE), the medium-scale (MSE), and small-scale (SSE) parts. The three parts are expected to be harmonized and integrated for enhanced national development. However, what has been in place for several decades in the concentration of efforts and resources on the large-scale industrial sector to the neglect of small and medium-scale industries and enterprises, with the unavoidable debilitating effects of such neglect. This can be described as a vertical defect in the industrial framework.

There is also the problem of horizontal defect. In this respect, efforts and funds are disproportionately concentrated on the commercial/trading sector to the detriment of the agricultural and the small-scale manufacturing/industrial sectors. Omopariola (1978) notes, for instance, that since independence in 1960, the dominance of the Nigerian economy by the agricultural sector has been on a steady decline.

Despite the importance of small-scale industries to the socio-economic development of the nation, the citizens are yet to be adequately equipped for the challenges in terms of access to information on the choice of project, availability of local raw materials and process technology, market, technical and managerial capacities etc.

This research work is more importantly to disseminate information among the citizenry of Osun State the various industrial loan schemes being run by the State Government and the services rendered. Information on the state industrial policy and policy programs, industrial infrastructure, investment opportunities and agricultural and mineral resources that can develop the state economically, if adequately utilized, are detailed in this work.

1.2 Statement of the problem

The problem to be examined by this study is basically centered on the appraisal of the action of Osun State Government for the development of small and medium-sized enterprises. In an attempt to address the above problem, the following questions will be answered by the study.

What are the industrial loan schemes available to citizens of Osun State?

What are the policies of Federal Government in developing small and medium enterprises in Osun State?

What are other methods of financing SMEs in Osun State?

1.3 Research objectives

The following are the objectives of the study

- To evaluate the effort of Osun State Government as it affects the small and medium enterprises in Osun State.
- To analyze the success achieved by Osun State Government in relation to the development of small and medium enterprises in Osun State.
- To explain various schemes to support SMEs in Osun State.
- To look into the intrinsic effect of SMEs on the development of the economy in Osun State.

1.4 Statement of hypothesis

The effort of Osun State Government in the development of SMEs in Osun State cannot be overemphasized. It is an essential factor that aids success in developing SMEs in the State, which in turn leads to economic development. One assumption relating to this research work is centered on whether there is no correlation between Government's effort/policies (financing of SMEs project) and economic development (job creation)(Null Hypothesis)

1.5 Justification of the study

- To create awareness on the programs of Government in promoting SMEs in Osun State.
- To enlighten the citizens of Osun State to know the sector of the economy they can engage in to use SMEs to promote economic development in the State.
- The research work will also contribute or add to the knowledge of SMEs already existing.
- The effect of the study on policy makers will be make known.

1.6 Scope and limitation

The scope of the study is limited to Osun State and precisely Ministry of Commerce, Industries and Co-operatives, National Directorate of Employment (Osun Chapter)

The scope of the study is also limited to when democracy was established in Osun State precisely from May 1999 to 2009 , to know what has been accomplished within the Ten year time frame.

2 LITERATURE REVIEW

2.1 Meaning of small, medium and micro enterprises

'SMEs' is a common abbreviation used worldwide and in various international organizations. SMEs basically defined on the basis of the number of employees working in the organization; however, the number varies from country to country. For instance, Germany defines it for two hundred and fifty (250) employees while Belgium limits it to one hundred (100) employees only. Recently, the European Union tried to standardize the theory by categorizing enterprises on the basis of a number of their employees. Enterprise with less than ten (10) employees are 'micro', while less than fifty (50) employees are 'Small' and those with less than two hundred and fifty (250) employees are "medium". In the United States of America, any enterprise with less than one hundred (100) employees is classified as "small" while those with less than five hundred (500) employees are classified as medium scale enterprise (Emmanuel O. Oni & Daniya A. A., 2012).

The Small and Medium Industries and Equity Investment Scheme defines Small and Medium Enterprises as any enterprise with a maximum asset base of N200million excluding land and working capital and with the number of staff employed not less than 10 or more than 300. Small and Medium Enterprises have been defined along a broad continuum of size and type. In terms of size, measures used to classify SMES include employment, assets, and revenue.

Based on employment classification, Central Bank of Nigeria put no specific number of employees under micro-enterprise but put less than 50 employees and less than 100 employees under small and medium enterprises respectively. But international finance corporation (IFC) put less than 10 employees, 10-50 employees and 50-100 employees under micro, small and medium enterprises respectively.

Based on asset classification (excluding real estate), Central Bank of Nigeria assigned less than N1,000,000 and less than N150,000,000 to small and medium enterprises respectively while Federal Ministry of Industry assigned less than

N50,000,000 and N200,000,000 to small and medium enterprises respectively (International Finance Corporation Publication 2001).

The following summary describes small and medium enterprises.

- Enterprises with a maximum assets base of N200million excluding land and working capital
- Enterprises with not less than 10 or more than 300 employees
- SMES registered with Corporate Affairs Commission (CAC) and in compliance with Companies and Allied Matters Act, 1990, such as filing of annual returns and unaudited financial statement of accounts.
- Those who comply with all applicable tax laws and regulations, as well as render regular, returns to the appropriate authorities.
- Those prepared to ensure prudent utilization of funds granted under SMIS.
- Enterprises prepared to make the company's books, records, and structures available for inspection by the appropriate authorities (This including SMIEIS granting bank and CBN when required)
- SMES who are prepared to comply with the guidelines of the scheme even after funds have been disbursed.
- Enterprises ready to provide monthly financial and operational report to the investing banks before the 15th of the next succeeding month
- SMES committed to keeping up to date records on the company activities under the scheme.

In his journal, (Akabueze's 2002) on financing small and medium enterprises (SMES) explained the following as the potentials of SMES because it is believed that it (SME) is the engine room for the development of any economy.

Employment Generation: 30 percent contribution to global GDP, employment generation capacity of about 58 percent of the global working population, SMES also pay the critical role of principal safety net for the bulk of the population in developing economies, and their labor intensity structure accounts for their recognition as a job creation avenue.

Rural Development: SMES constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services and the employment opportunities offered apparently reduces rural-urban migration and allows for even development.

Economic Growth and Industrialization: National economic development prospects hinge on entrepreneurial energy of vibrant SMES as most big business concerns grew, they protect nations from the geographical cost-benefit permutations of a few multinationals who are ever prepared to close up their businesses and relocate at the slightest provocation or appearance of economic downturn.

Better Utilization of Indigenous Resources: The considerable low capital outlay required for setting up SMES enable them to convert minimal resources into productive ventures, they also offer veritable outlets for technological advancement especially in businesses with rudimentary technology requirements

In SMIEIS option, delivered at the e-week 2002 seminar summarized some challenges/constraints of funding SME operations in Nigeria as shown below:

- Insufficient personal savings/funds resulting in low initial promoters' equity.
- Uncoordinated business ideas and plans
- Non-bankable projects by entrepreneurs.
- Inability of the customers (SMES) to satisfy high credit risk standards, including security/collateral
- Inability of banks to provide long-term funds due to mismatch between tenor of bank deposits and loans being sought
- Fluctuating and prohibitive interest rate regime, and
- Volatile exchange rate regime

Carpenter reported that the 1992 review by the National Council on industrial Standards define small and medium scale enterprises as enterprises with total cost (including working capital but excluding the cost of land) above N31 million but not exceeding N315million, with a labour size of between 11 and 100 employees. What is

clear is that SMES are usually small, an owner or Tidily-managed businesses with its goods and services being basic. SMES also tend to lack the organizational and management structures which characterize large-scale entrepreneurs (LSE). Urban SMES tend to be more structural than their rural counterparts.

Even if there are controversies on definitions, what is not contestable is the contribution SMES are making to the Nigerian economy. About 10 percent of total manufacturing output and 70 percent of industrial employment are by SMES. SMES also promote industrial and economic development through the utilization of local resources: Production of intermediate goods and the Transformation of rural technology. In fact, SMES are generally regarded as the engine driving the growth of this and other economies and provide the best opportunity for job creation and rural development. In most major economies, the critical role of SMES is recognized and special agencies of government are created to provide support to SMES. The funding requirements of SMES are also given consideration by both the formal funding institution; Banks; Micro-credit; Agency; Venture Capital and the non-formal funding agencies like the Donors and Specialized NGOs.

In Nigeria, the policy framework for the support of SMES is in its infancy while the funding institutions are not favourably disposed to SMES. The banks have historically and until recently been very averse to supporting SMES. Some of the common reasons for the lack of appetite for SMES by banks include the following:

- Unfavourable bank lending strategies, which do not meet SME requirements
- High risk associated with lending to SMES.
- Lack of adequate collateral by SMES.
- Low returns on SME investments due to high operating cost.
- Promoters' low education, management and entrepreneurial skills
- Competition from cheap imports which erode the market for SMES' Goods
- Poor and unreliable financial records, which makes financial review both difficult and unreliable.
- Both financial and other business records are not adequate to meet capital market listing requirements

As reported by Boswell (1973) regarding developing countries, generally and particularly those countries where there has been rapid urbanization, a conspicuous and pervasive phenomenon has been the increasing importance of the 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). Ajakaye (1999) sought to define and classify enterprises in terms of being either formal or informal.

Based on these theoretical concepts presented, the definition of micro-enterprises will be discussed from two perspectives, materially and structurally.

On a material level, an enterprise in Nigeria possesses any or all of the following features:

- A maximum of 15 paid employees.
- Maximum total assets (excluding land) of N250, 000 and
- A maximum annual turnover of N1 million

On a structural level, an enterprise in Nigeria currently possesses any or all of the following features:

- As a large rural-based enterprise
- Producing petty commodities or providing personal service, or engaging in low technology agricultural venture, etc
- Unregistered (operating outside government corporate affairs), although engaged in lawful productive activities

2.2 Financing of small and medium enterprises

The small and medium industries equity and investment scheme (SMIEIS) is a voluntary initiative of the Bankers' Committee whose membership includes all the Managing Directors and Chief Executive Officers (MD/CEOs) of banks in Nigeria, which require all licensed banks in Nigeria to set aside 10 percent of their Profit Before Tax (PBT) for equity investment in, and promotion of small and medium enterprises (SMES).

SMIEIS is intended to stimulate economic growth and development, develop local technology and generate employment. The participating banks for equity investment under this scheme have currently set aside over N5billion for an alternative approach to financing SMES borrowing and consequently relieve them from interest and other bank charges that are not favourable to their capital structure. It also espouses the provision of financial, advisory, technical and managerial support to SMES by banks.

Some of the activities covered by SMIEIS are stated below:

Agro-allied, information technology and telecommunications, manufacturing, educational establishment, services (excluding banking and insurance), tourism and leisure, solid mineral, construction and any activities that may be determined from time to time by the Bankers' Committee.

Some of the activities not covered by SMIEIS are as follows; tobacco and tobacco products, armaments production or where 25 percent or more of the total production output or, turnover of the investee company is derived from military related purposes, beverages with alcoholic content exceeding 15 percent, casino or companies where the principal source of income is gambling, speculative investments in real estate or commodities, banking, insurance or financial service, immoral and illegal activities, investments that are harmful to the environment .

In spite of the relevance of the small-scale industry to Nigeria's economic and industrial development, the sector faces a lot of problems. These problems include those of management, appropriate technology skill acquisition, a harsh policy environment, gender bias and finance (Olowu 1993, Oresotu 1995, Lewis 1996 and Oguntoye 1987).

Of all these problems, inadequate financing is the most limiting. This is because finance is strategic to any industrial setup. Finance is the hub around which a business flourishes. Lack of it, through mismanagement or misappropriation, could hinder any business venture. Ideally, before any business is set up, there must minimally be working capital and fixed capital, based on feasibility reports (Asaolu2001).

The two main channels that have been used to increase credit for small and medium enterprises are the formal and informal sources. The formal sources include banks, other financial institutions, government loan agencies and imperative credit societies. While the informal sources include owners' saving/retained earnings, friends and relations, clubs, "esusu" and moneylenders, among others.

The informal rather than formal capital markets provide the bulk of financing, especially in the less developed countries, for small enterprises in the rural areas (Jinadu 1995). The continued importance of informal markets, despite the growth of monetization and commercialization in the subsistence sectors of these countries, is due to restrictive and repressive financial policies, lack of innovative measures and instruments to integrate informal and formal markets, and the typically lower transaction costs of certain informal market credit intermediaries. The peculiar characteristic of informal markets is that they are far more loosely monitored and regulated than formal finance markets (Onyenwaku and Fabiyi 1991).

The governments of most developing countries have initiated various industrial credit programs. Such programs have the objectives of assisting small-scale entrepreneurs to increase their income and to improve their living standards. It is believed that these programs are veritable tools for redistributing resources, which would lead to the wealth maximization of the small-scale entrepreneurs. The above considerations have led to the establishment and recognition of many institutional credit markets in Nigeria, including commercial banks, community banks, cooperative societies, Industrial Development Centers (IDCS), and the Nigerian Industrial Development Bank (NIDB). However, corruption and other related vices, which became endemic in Nigerian policy, would not allow the benefits to be realized (Oguntoye 1997).

Amao (1987) grouped the sources of funding SMES into "formal" and "informal" sources, and notes that SMES have traditionally relied on informal sources, which were usually more often than not insufficient for entrepreneurial growth and development. These are sources of funds, which are in a way personal to the entrepreneurs and without recourse to the public capital markets as such. Such sources are often incapable of generating large volumes of funds for investment because of inherent

limitations. The low capital generating the capacity of such sources accounts to a great extent for the low growth rate of micro-enterprises, which in turn accounts for their continued lack of access to big funds.

Omopariola further states that, while subscribing to the view that “insufficient funds stifle growth of individual firms and consequently slow industrial growth of individual firms and consequently slows industrial growth in Nigeria”. (1978, p15), a radical explanation of the idea of the capital shortage is offered. In his view, the phenomenon of capital shortage does not apply to all aspects of the Nigeria it is only peculiar to individual firms and perhaps to particular sectors or industries. He argued that where there is always money to invest in the economy as whole, firms, which were otherwise unsuccessful in their bids to raise needed funds to finance their operations or which were ignorant of existing sources of funding, necessarily experienced a capital shortage. He goes *on* to explain that this “necessarily reflects adversely upon lending institutions in Nigeria” (ibid, p.16).

The Government also established the National Economic Reconstruction Fund (NERFUND) in 1990. NERFUND's key role was to enable SMES to have access to fund from the World Bank, African Development Bank (ADB) and other International lending agencies. It was also to facilitate access to low cost long term finance to SMES thereby removing the most formidable handicap to SME department.

Between 1990 and June 1998, NERFUND disbursed US \$144.9million (Foreign Exchange Component) and N18,112,500,000 (Local Currency Component) to support a number of projects.

In addition to NERFUND, there were other funding windows available to SMES National Bank for Commerce and industry (NBCI) and the Family Economic Advancement Programme (FEAP).

The last of the past efforts at SME funding worth mentioning was the sectoral lending by the banks in accordance with the CBN credit guidelines. The sectoral canon credit, which SMES benefited from, was reasonably successful in giving credit to SMES.

The Government's new initiative is the establishment of a Small Scale Enterprises Development Agency of Nigeria (SMEDAN) in the ministry of industries. The Bill for the establishment of SMEDAN is passed from the National Assembly. When legislation is in place, SMEDAN will provide a new strategy for the development of SMES. It will complement the Poverty Alleviation Programme.

To complement the SMEDAN Programme, the Government is also establishing a "Bank Of Industry" that will provide long-term loan able funds to SMES and other manufacturing companies. The Industrial Bank, which will have a paid up capital of N35billion, is expected to commence business early next year. When fully operational, the bank in addition to enabling SMES have access to funds at affordable interest rates will help improve the capacity of SMES to give support for the much needed sub-contracting arrangements between small and large industries(Clive Carpenter-"making small Business Finance Profitable in Nigeria").

As discussed above, with the combined efforts of all and diverse including governments, at all levels, SME promoters, Government Departments and Agencies concerned in the SME sub-sector, Non-Governmental Organizations (NGOs), Multilateral Agencies, Banking and other Financial institutions, Investors, and many more, it is expected that the destiny of SMEs in Nigeria would change dramatically which in turn will have a positive impact on Nigeria's social and economy conditions. Yet, the key areas of shortcomings of the Nigerian SME subsector could be summarized as:

The rate of survival: it is believed and proved by researchers that only 5% or less of SMEs survive beyond their first year of existence.

SMEs Contribution to Industrial employment and growth: SMEs provide 31% industrial employment to Nigeria. Whereas, in developed economies like Germany, United States of America and even South Korea, SMEs provides as high as 64% of industrial employment. A figure in Nigeria as compared to the developed countries is less than half. The 31% contribution of SME in the industrial growth of Nigeria is somewhat disturbing keeping in mind the high rate of unemployment as well as high level of poverty and illiteracy in the country. The indices and figures used by the Nigeria's Human Development Indicators to measure poverty and unemployment are Infant Mortality Rate, Life expectancy at Birth, Illiteracy Rate, and GDP Growth

Rate. The improvement in the SMEs performance and contribution in industrial growth is expected to improve these developmental indices, as has been the case with developed economies whose SME sub-sector have developed and developed gradually over the years.

SMEs Contribution to GDP in general and Industrial Production in particular: it is obvious from the overall present economic and social scenario that the SMEs contribution in the Gross Domestic Product of Nigeria in general and industrial output, in particular, is not satisfactory, in spite of the fact that there is hardly any well-documented, reliable and current data is available. Argument of this poor performance is supported by the fact that from last twenty (20) years most manufacturing industries in Nigeria had operated well below their capacity. Even, at times the capacity utilization has gone below thirty percent (30%) of its total capacity. This gave the opportunity to the resourceful multinational companies to thrive with many SMEs winding up and thus deteriorating the unemployment situation in the country which further results in increased crime rate (B. A. N. Onugu, 2005).

2.3 Policy programmes for the promotion of small and medium scale enterprises in Osun state

2.3.1 Industrial loan schemes

There are two schemes in place for SME in Osun state namely:

- The small-scale industries credit scheme, which provide credit facilities for the expansion/establishment of small-scale industries
- Industrial Development Fund, which provides credit for medium scale industries.

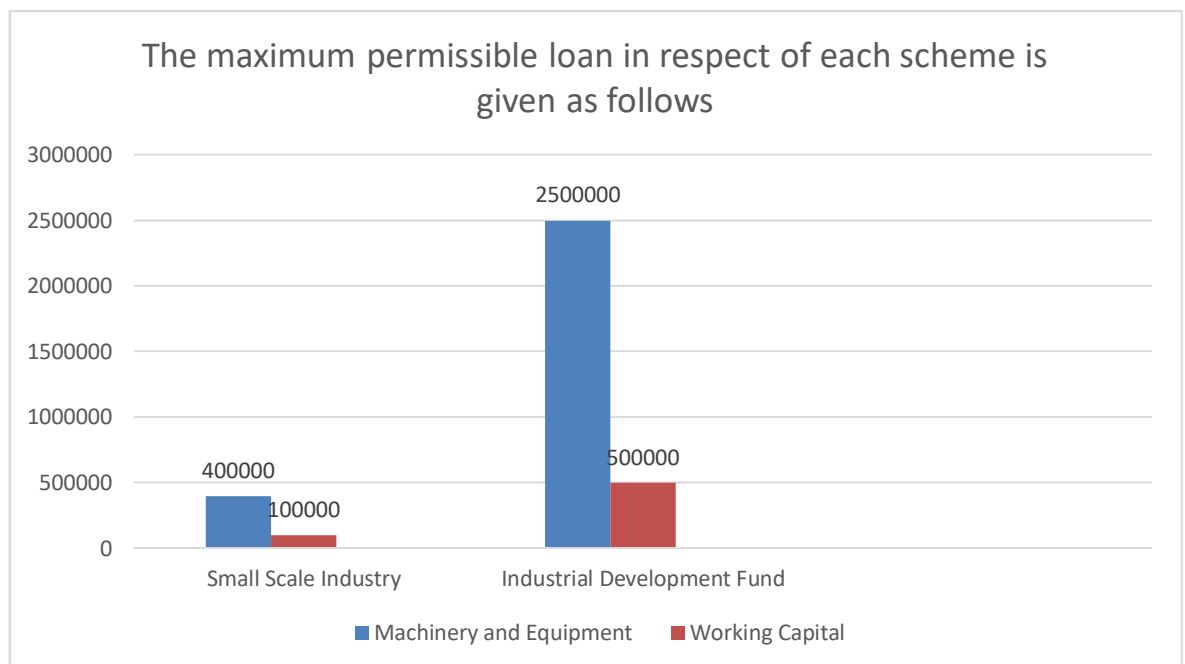
It is important to give detailed information on the management of the loan scheme because potential beneficiaries have the wrong impression about the scope of the schemes, the purpose, and mode of fund disbursement. Most applicants

believe that the procedure for the processing of loan applications is too bureaucratic and are probably intended to frustrate the disbursement of funds. The truth is that the regulations on the loan schemes are designed to ensure that applicants derive maximum benefit from them.

The purpose of the loan scheme is to provide a fund for the establishment, modernization, and expansion of small and medium scale industries (SMES) priority is given to manufacturing, processing and service industries. Invariably, the value added in the work of manufacturing and processing operations is one of the factors which determine the economic viability of the project; only machinery and equipment are funded. In order to ensure that the loan provided is applied entirely to the project, loaners are obliged to nominate their suppliers of and equipment to whom payment is made. Suppliers are expected to, install and commission the machinery and equipment on site before they are paid.

Only a marginal proportion of the working capital requirement for the project is supplied under the loan scheme. Sometimes it is desirable to release the working capital in installments in order to ensure that the loan provided is strictly applied to the industrial project.

Figure 1: The maximum permissible loan in respect of each scheme is given as follows:



Usually, the entire cost of machinery and equipment and part of the working all are supported. In most cases, the maximum loan permissible is not granted. Loan, in respect of a new project, is provided for the machinery and equipment required for the smallest technically feasible and economically viable unit.

Citizens of Nigeria who are resident in Osun state may benefit from the loan schemes. It is however, advisable that the loan applicant registers the business either as a sole proprietor or a limited liability company. In respect of small scale industries credit scheme, loan may be granted to individuals or sole proprietors or liability companies. Only limited liability companies may benefit from the Industry Development Loan Scheme for medium scale industries

The following terms and conditions shall apply to loans granted under the two (2) sentences.

- Borrower shall apply for loan solely for the purpose for which it is granted.
- The borrower shall repay the loan and interest over a period of four years on monthly or quarterly basis after a moratorium of between three months and six months, subject to review from time to time.
- Interest is currently 5% in respect of loans granted under small-scale industries credit scheme. In respect of loans granted under the Industrial Development Fund Scheme, the interest is 7.5% per annum, subject to review from time to time.
- The borrower shall execute such document as the loan management committee may require for securing the repayment of the loan and interest by means of a legal mortgage, guarantee or any other manner acceptable to the committee.
- The borrower must agree to the supervision of the loan in such manner as may be determined by the loan management committee.
- Borrowers must maintain proper records at all times.
- The borrower shall not change the location of the project within the state without the prior approval of the loan management committee.

An applicant for loan under the small-scale industries scheme is expected to buy and complete loan Application form obtainable from the Department of Industry; giving details of the cost of the project, the amount already committed by him, the loan required and projections of profitability. The applicant will be required to come for an interview bringing along the following documents;

- The business registration certificate
- Preformat invoice on the machinery and equipment required for the project
- Documentary proof in respect of legal possession of the factory premises.
- Bio-data of the Proprietors/Directors of the company.
- Statement of Bank Account for the past 12months.
- Statement of sales, if any, during the last 12 months.
- Evidence of regular supply of raw materials.
- Evidence of payment of income tax.
- Evidence of registration of business premises (for existing business, etc.)

The following are the collateral security under industrial development fund (IDF); Two guarantors, all items of machinery and equipment for the project including those created from the loan. In addition, the Directors of the company will be expected to guarantee repayment of loan and interest. The required collateral includes submission of a certificate of occupancy of developed landed property higher than the value of loan applied for.

Collateral security for small-scale industries credit scheme are assets as the certificate of Statutory Right of Occupancy on developed property, machinery, equipment and other fixed assets including those created out of the loan, provided movable assets like livestock, household effects, etc shall not be deemed to be acceptable security.

If the borrower fails to utilize the loan for the purpose intended, the loan management committee may ask for the payment of the balance of the loan outstanding and the interest thereon. If the borrower fails to repay three successive installments of

the loan and interest thereon, the loan management committee may in its discretion recall the loan and interest thereupon outstanding immediately. (Department of Industries, Ministry of commerce, industry and co-operative, Osogbo).

2.3.2 Micro, small and medium enterprises development fund (msmedf) scheme

On 15th of August 2013, MSMEDF scheme was launched by the Central bank of Nigeria keeping in view its role in the developmental agenda of the country and mandate to provide robust financial infrastructure to the country in general and to SMSEs in particular (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.1). This scheme was launched keeping in view the significant impact of SMSE sub-sector on the Nigerian economy. However, this sector is suffering from a huge financial gap. Funding under this scheme includes - Micro Enterprises and Small and Medium Enterprises (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.6).

The eligible activities under micro enterprises are: -

- Agricultural value chain activities
- Cottage Industries and Artisans
- Services to hotels, schools, restaurants, laundry etc.
- Renewable energy, energy efficient products, and technologies
- Trade and general commerce
- Any other income generating project as may be prescribed by the CBN
- The eligible activities under Small & Medium Enterprises (SMEs) are: -
- Manufacturing
- Agricultural value chain activities
- Educational infrastructure and institutions
- Renewable energy and energy efficient products and technologies
- Any other income generating enterprise as may be prescribed by the CBN
- (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.7).

As specified by the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, 'a Microfinance Development Fund shall be set up, primarily

to provide for the wholesale funding requirements of MFBs/MFIs'. Further, to decrease the gender disparity and increase at least 15% annual access of the female entrepreneurs and women to the financial services, the 60% of the fund has been reserved. 50:50 ratio of 'on-lending' is prescribed to micro-enterprises and SMEs.

The seed fund of N220 billion has been taken off to provide low-interest funds to SMSEs through Participating Financial Institutions (PFIs). The PFIs includes all Microfinance Banks, Non-Governmental Organizations-Microfinance Institutions (NGO-MFIs), Financial Cooperatives, Finance Companies, Development Finance Institutions (Bank of Agriculture & Bank of Industries) and Deposit Money Banks (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.2, 8). The purpose of the fund is: -

- To enhance financial infrastructure access by MSME sub-sector.
- To increase microenterprise's productivity and output.
- To create wealth and increase employment.
- Engender inclusive growth.

Funds shall have two components: - Commercial component and Developmental Component. The commercial component shall be disbursed as wholesale funding and constitute 90% of the total fund. 60 % of this commercial component shall be provided to the women while 40% of it to others. Whereas, developmental component constitutes the remaining 10% and shall be utilized for developmental purposes. It shall be provided as Grants (9.75%) and Operational Expenses (.25%) (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.3).

9.75% of Grant is actually an incentive target provided to those SMSE sub-sector institutions that show good loan repayment culture and growth. The grant component shall be provided to eligible PFIs based on their performance rating in poverty reduction, job creation, and financial inclusion. To get the benefit of it, the institutions shall have to submit clearly defined projects and provide counterpart funding. The grant shall be provided once in three years up to a maximum of 25% of the project cost and subject to the discretion of the CBN (MSMEDF Guidelines, Central Bank of Nigeria, 2014, p.4).

The component shall support the following activities: -

- Increasing staff capacity of PFIs and their apex bodies.
- Developing proper regulatory regime for MSME lending.
- Providing Financial literacy for entrepreneurship development.
- Mobilization, training and linking of MSMEs to financial services.
- MSME-friendly financial innovations and products research and development.
- Providing Advisory Services for Business Development.
- The building of financial infrastructure in support of MSMEs.
- Other technical assistances such as an internship, monitoring, and registration with the market, sponsoring etc.

The lone cycle consists maximum of One (1) year for Micro Enterprises and up to five (5) years for Small and Medium Enterprises with the option of the moratorium. The legal limits of the loan per cycle provided to the PFIs and borrowers are shown in the graph below.

Figure 2: Loan limits to PFIs (MSMEDF Guidelines, Central Bank of Nigeria, 2014)

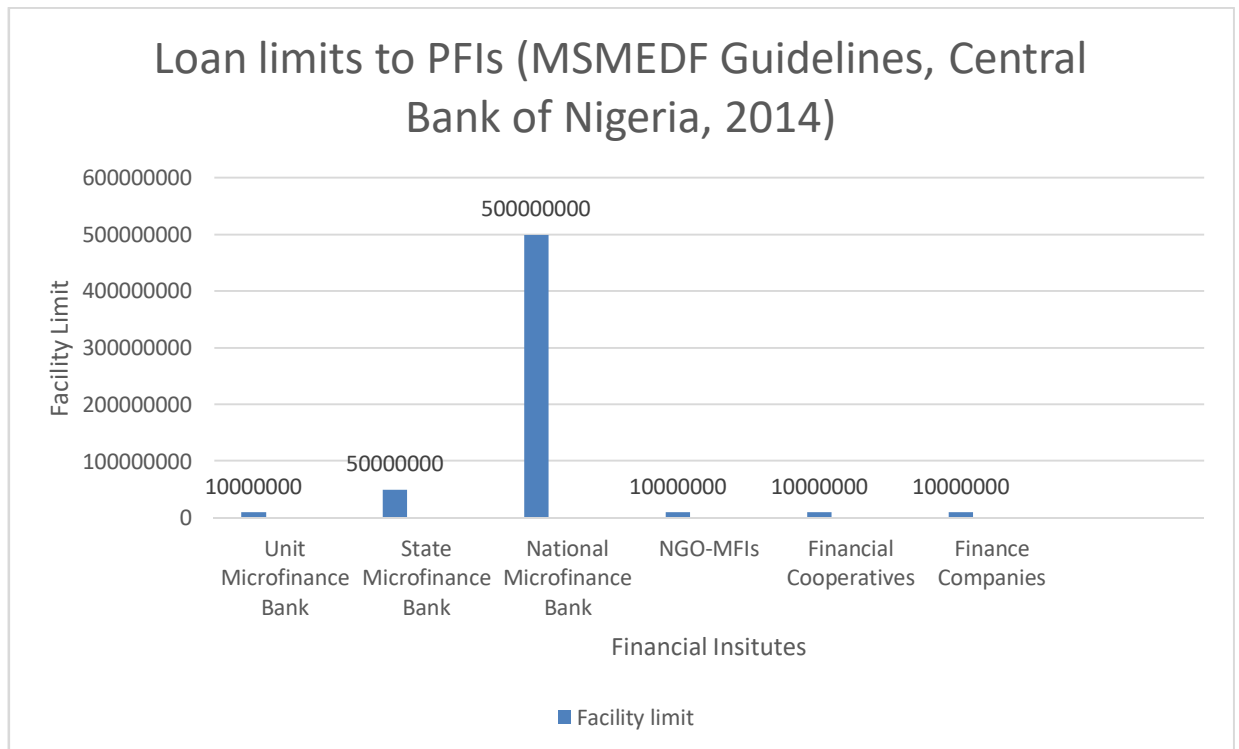
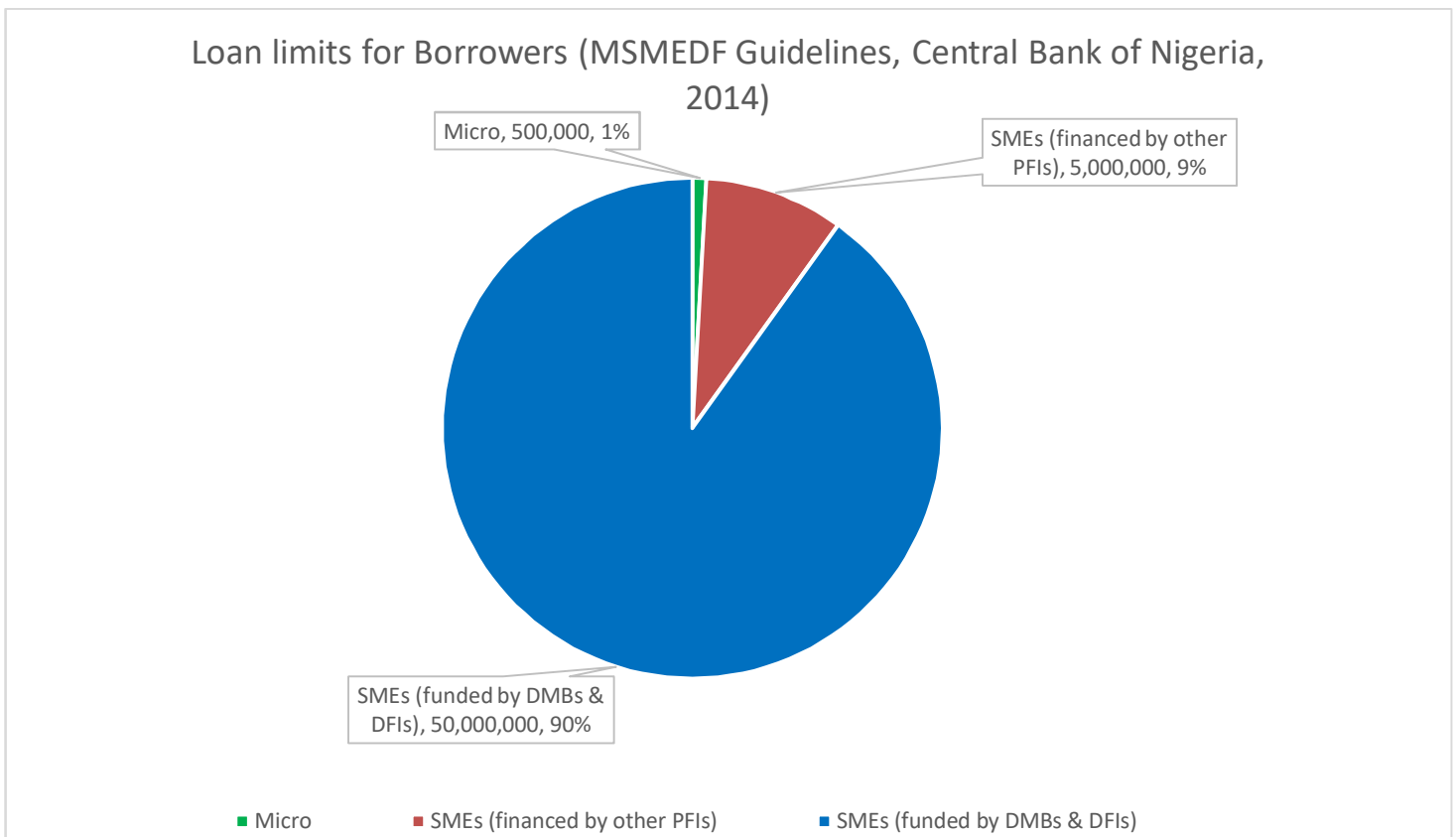


Table 1: Loan limits for Borrowers (MSMEDF Guidelines, Central Bank of Nigeria, 2014)

Enterprises	%	% Enterprise Grouping		Loan Maximum per Application (N)
		Others	Female	
Micro	50	20	30	500,000
SMEs (financed by other PFIs)	50	20	30	5,000,000
SMEs (funded by DMBs & DFIs)		40	60	50,000,000

Figure 3: Loan limits for Borrowers (MSMEDF Guidelines, Central Bank of Nigeria, 2014)



The fund shall be charged at 3% interest rate per annum under wholesale funding to the PFIs with 6% of spread limit. The lending rate for borrowers is at the maximum

of 9% per annum inclusive of all taxes. However, the Steering Committee of the Fund has the power to review and revise the interest rates.

To provide the security to loan, the CNB shall accept any or the combination of the following collaterals to cover at least 75% of the loan amount (MSMEDF Guidelines, Central Bank of Nigeria, 2014).

- Financial Assets including Treasury Bills, Placements, Bonds, etc.
- Third Party Guarantee from at least two
- Board Members/Trustees and/or Third Party Guarantee from high net worth individuals
- Any other collateral acceptable by the CBN from time to time.

MSMEDF Guidelines by the Central Bank of Nigeria also recognized the role of State governments and Federal Capital Territory (FCT) in the economic development at the grassroots level. Keeping in view the contribution of State government/FCT, the fund anticipates their participation through FPIs. There are following eligibility criteria for their indirect participation in the fund.

- The state has to provide the evidence of Resolution of State House of Assembly authorizing it to access the Fund.
- To coordinate the applications for the access of fund by PFIs, the state has to constitute a Micro Credit/MSME Special Purpose Vehicle (SPV). However, it is the full responsibility of PFIs for the review, appraisal, disbursement and recovery of loans under the Fund.
- The state should provide a Bank Guarantee/Irrevocable Standing Payment Order (ISPO) equivalent to the requested amount including interest rate charges. At the end of the loan tenor, the central bank will revoke the ISPO to accommodate the outstanding amount in default.
- The state has to sign a Memorandum of Understanding (MoU) with the CBN and provide a Sinking Fund Account for fund disbursement.
- At last, the state has to present a convincing but realistic annual report on empowerment program for potential target groups, thereby creating sustainable demand for 20 financial services and providing the method and basis of performance measure of the Fund.

The state government or FCT can access a maximum of N2 billion for the maximum of 1 year for micro enterprises and 5 years for SMEs. However, the states have the option of the moratorium of their fund to FPIs. The interest rates will be paid at the rate of 3% per annum for state FPIs with a maximum of 9% per annum for on-lending to borrowers.

2.4 Contribution of small and medium enterprises to national gdp

According to a report given by Idris Ahmed of Daily Trust Abuja (May 2006) the Nigerian small and medium enterprises does not only provide employment but also contributes about 55% to the gross domestic product of the Nigeria. Dr. Ike Abugu, President of the Nigerian Association of small and medium enterprises (NASME), disclosed this at the first Abuja governing council meeting of the body. "Nigerian SMES employ millions of workers, utilize local raw materials and technology, contributes about 55% of GDP and constitute about 96% of manufacturing firms", he said.

The association which also paid a courtesy visit to the CBN Governor, Professor Charles Soludo, expressed his willingness to be involved in more relevant committees and panel of the apex bank because "as a business membership organization (BMO) that speaks for millions of SMES in Nigeria, we constitute a social and economic force that can be deployed for the development of our great country. "It is therefore in the interest of key economic institutions like the Central Bank that NASME is strong and reliable". He said.

One cardinal objective of banking reform was to achieve rapid economic growth through developmental banking. The strategy was that banks with more funds through recapitalisation are encouraged to embark on developmental financing by way of long-term loan to the real sector of the economy.

The Bank of Industry (BOI) has brokered a tripartite arrangement between it, bank and state governments to develop industrial partners and adequate infrastructure would be provided for SMES re-operate and flourish as they constitute over 90% of enterprises in the country and accounting for about 50% of

formal employment in the economy. In the new arrangement, state governments would make available land free of charge plus other commercial initiatives. Bank Industry (BOI) will use its local and international contacts to facilitate the development of SMES, while commercial banks would provide the necessary finance.

The choice of a state or location is purely an investment decision to be made by the commercial banks being the major investor in the sector. Already, about ten (10) banks have signified their intention to participate in the tripartite arrangement, and technical steering committee has been set up for each of the states in order to fast-track the process of establishing the parks.

Technical steering committees have been appointed for Ogun, Ondo, Osun and Delta state. Already, Access Bank is partnering with Ogun state Government, Skye Bank with Ondo state Government and Oceanic Bank with Delta state Government. The effort is being made by BOI to get a bank to partner with Osun state Government.

2.5 Agri-business and industrial development in Nigeria

Nigeria has a huge amount of human and natural resources. Although, it is oil based economy but nearly 70% of its population is based primarily on the agriculture. To support such a large population Nigeria is also blessed with 98.3 million hectares of land of which 74% (approx) is very much suitable for agriculture (R.O Kareem, Ayo Vaughan & S.B Williams, 2009). Yet, the country is facing chronic hunger and poverty and trying hard to cope with the crisis. As per the UNIDO report, the challenges the Nigerian agriculture is facing are- low productivity, underdeveloped irrigation infrastructure, undeveloped supply chains, high post-harvest losses, lack of access to modern technologies, use of inefficient and poor quality products by agro-industries resulting in their low capacity utilization and an inability to compete in the local, regional and international markets.

2.6 Agriculture as a vehicle for the industrial development of Osun state of Nigeria. (Professor Tomilayo O. Adekanye's paper presentation in 2005)

The paper reviews the use of agriculture as a veritable instrument for stimulating the development of Osun state in Nigeria. The state is blessed with considerable and essentially agro-based material and human resources. If properly mobilized and harnessed, the state economy can be transformed within a short period. Of course, a lot has to be done to realize that objective. The establishment of an Agro-industrial Development Programme (AIDP), elsewhere originally formulated by the present author, is hereby proposed for achieving this.

The scheme is to be a union between the state authorities, the local government areas, and the private sector. It is designed in such a way as to have an immediate, direct and tangible impact on the economy of the state, and aims at generating productive employment, food and nutritional security for the majority of the population, income increases, eradication of rural poverty, and promotion of youth and women's development.

The state government has of course to give the necessary leadership. This is particularly for investing in agricultural infrastructures, including building more rural roads and bridges, in modern storage and processing equipment, and generally facilitating and creating an enabling environment for private sector operation.

The local government authority, being nearest to the people at the grassroots, occupies a strategic position within the proposed scheme. On an overall basis, however, much of the development effort envisaged under the proposed program has to be participatory. Through grassroots mobilization, the people can be encouraged to invest in agro-based industries, producing, processing and distributing commodities obtained essentially from local sources. Women's and Youth Development is a crucial component of the scheme. So the participation of private sector organizations induced to invest in and establish small to medium agro-industries in the different local government areas of the state.

2.7 The role of the financial sector in accelerating economic development in Osun state; challenges and prospects (by Mr. Yinka Obaiade MD/CEO Global Bank Pic)

The Tie involvement of the financial sector should be within the national framework defined by NEEDS - a private sector led economy. President Olusegun Obasanjo launched the National Economic Empowerment Development Strategy (NEEDS) on March 15, 2004, in Abuja with a set target of seven (7) million jobs to be created by 2007, when the Medium-Term Economic Development Programme would have run its full course. Economic Adviser to the president, Professor Charles Soludo, disclosed at the ceremony of the NEEDS Draft Document, stressed Federal Government's commitment to implementing the blueprint and sought the cooperation of the National Assembly.

A good way of developing the productive and entrepreneurial capacity of our people in Osun state is through the promotion of SMES because SMES are very potent in stimulating economic development, generating employment and providing inputs for the larger industrial sector. Osun state Government should encourage banks in the state to extend a good proportion of their SM1EIS funds to firms in the state by providing a conducive environment for such firm's growth. Financing agriculture in Osun state, an agrarian state, cannot be underestimated.

The new look is that government should provide an enabling environment for business rather than direct investment. This can be achieved through the provision of infrastructure, which in itself generates employment. Osun state can partner with financial institutions to raise funds to finance capital projects.

Ayodele Aminu And Hammed Shittu (2005) reported that Osun state Governor, Prince Olagunsoye Oyinlola said his administration earmarked N100 million for the take-off of the small and medium scale enterprises that will spring up from the deliberation of ongoing Economic Summit in the state. He announced the grant on the 25th April 2005 in Osogbo, the Osun state capital during his opening remarks at the 1st Osun State Economic Summit.

President Obasanjo disclosed when SEEDS was launched that the 36 states of the federation were also on the verge of preparing their State Economic Empowerment Development Strategy, to complement the Government's agenda.

2.8 Theoretical framework of smes and microenterprises

Fry (1993) noted that in the United States of America, Small businesses- Noting the national variation of the definition of small enterprises, Afonja (1999) reports that the three (3) variables generally used to define the concept are: number of employees, Capital investment and Annual turnovers.

3 RESEARCH METHODOLOGY

3.1 Area of study

Osun state came into existence on August 27, 1991 as a result of creating another state cut of the former Oyo state by the Federal Government. The state has an area of approximately 8,902 square kilometers and is bounded in the south by Oyo state, in the north by Kwara state, and in the east by Ondo state. The state has thirty (30) local government areas with a population of 2,203,016, which 1,079,424 are males and 1,123,592 are females (federal Office of Statistics). The state is endowed with a climate and vegetation that influence agricultural activities

3.2 Research design

The descriptive research method is used for data analysis and interpretation. Specifically, co-relational descriptive research method is used which intends to find out whether projects financed by Osun state Government lead to economic development as a result of job creation. Co-relational descriptive research method is used when a researcher is interested in delineating the important variables that are associated with the problem.

The research design is the overall plan design for the proper conduct of research work. The research design for any project work is dependent on the subject matter and research design forms the framework. On which the research process is based. It is also defined as a predetermined process that defines as investigation strategy approach, source of data, method of investigation and the instruments for decision-making

3.3 Sample size and sampling procedure

For this research study, some ministries were selected. Ministry of commerce, industry and co-operatives, Osogbo as well as National Directorate of Employment (Osun Chapter), all in Osun state were selected for the research work.

3.4 Research instrument

In business research, a questionnaire, or an interview schedule is commonly used. But, in this research work, some selected personnel working in the ministry of commerce, industry and co-operatives, as well as National Directorate of Employment (NDE) Osun state, were interviewed. The director and an officer in charge of industry department were interviewed on the loan policy of the state Government in its effort to develop SMES in Osun state. Those interviewed were Mr. Sadare, and Mr. Oyedunni. Likewise in NDE, an officer was interviewed so as to get the impact of SMES on job creation in Osun state.

This type of research instrument (interview) is appropriate because the identities of those helped with the loan schemes were not revealed. So, the questionnaire could not be administered.

3.5 Sources and collection of data

Data collection method refers to the means of gathering data that are necessary for a research work. There are two (2) principal types of data i.e. primary data that are collected intentionally or specifically for a work and secondary data sought from existing sources not intentionally gathered for the research work. E.g. field survey, etc.

PRIMARY DATA: They are data collected on first-hand basis or at the source or specifically for the study in question under the supervision of the person making a particular study.

SECONDARY DATA: This, on the other hand, are already collected and tabulated. These are not collected under the supervision of the secondary data is that, it is less

costly to obtain. It also guarantees that the data collected is exactly what is required. Examples of secondary data include business journals and articles, statistical reports, newspaper articles, research works, the national economic report, the national gazette, etc

In this research work, both primary and secondary data were used. Primary data from the Ministry of Commerce, Industry and Co-operatives, Osogbo and secondary data from the research study of D.O Elumilade and P.O.Oladele on the evaluation of financing of micro-enterprises in Osun state of Nigeria.

3.6 Measurement of variables

Government's effort is measured in terms of the number of projects financed while economic development is measured in terms of the number of jobs created, based on the assumption that a project produces five (5) employment opportunities.

N500,000 is committed to a project out of which N400,000 is for machinery and equipment to be used (i.e. fabricated machine) while N100, 000 is for working capital like buying raw material, etc. Employment generation is calculated based on 5 persons per project. Also, the state (Osun state) is divided into six (6) zones. The zones are Two, Ikirun, Osogbo, Ede, Ilesha, and Ife.

IWO ZONE: In Iwo zone, with six (6) local governments, eleven (11) projects are functioning which lead to employment generation for 55 people (i.e. 11×5). Also, fund committed on the projects was $N500,000 \times 11 = N5,500,000$. But, repayment is not encouraging. N1,110,000 have been repaid so far. And this (repayment) is about 20% of the total amount committed on the 11 projects in Iwo zone.

IKIRUN ZONE: In Ikirun zone, with six (6) local governments, sixteen (16) projects are functioning and in effect have generated employment opportunities for eighty (80) people (i.e. $16 \text{ projects} \times 5 \text{ people per project}$). Fund committed on the projects was $N500,000 \times 16 = N8,000,000$. Amount repaid so far is about N558,000 which is 6.98% of the total money committed on the sixteen (16) projects in Ikirun zone. This is not encouraging.

OSOGBO ZONE: In Osogbo zone with four (4) local governments, there are 18 functioning projects which generated employment opportunities for 90 people (i.e. 18×5). Fund committed on the projects was $N500,000 \times 18 = N9,000,000$. Amount repaid so far is $N1,690,000$ which is 18.78% of the total fund committed on the 18 projects in Osogbo zone. This repayment too is not encouraging.

EDE ZONE: In Ede zone with 4 local governments, there are five (5) functioning projects and this generated job opportunities for 25 people (i.e. 5×5). Fund committed on the projects was $N500,000 \times 5 = N2,500,000$ out of which $N431,000$ has been repaid. This is 17.24% of the total fund committed on the projects. This is not really encouraging.

ILESHA ZONE: In Ilesha zone with 6 local governments, there are 6 functioning projects financed by the state government of Osun. The projects is $N500,000 \times 6 = N3,000,000$. So far, $N327,000$ has been paid which is 10.9% of the total fund committed on the projects. The repayment is not encouraging.

IFE ZONE: In Ife zone with 4 local governments, there is only one (1) functioning project being financed by the Osun state Government. The project is expected to generate job opportunities for 5 people (i.e. 5×1). Fund repayment amounted to $N80,000$ so far. This is 16% of the total fund committed on the project. The repayment is not encouraging.

The interest rate on the finance of the project is 5% per annum simple interest

3.7 Data analysis technique

For this research work, inferential statistical tool (correlation analysis) is used there will be generalization of answer gotten from the analysis of data

4 DATA PRESENTATION, ANALYSIS AND DISCUSSION

This chapter is to find the correlation between projects financed and the employment generation. There are six (6) zones and 5 persons per project

Table 2: Analysis of projects in six zones

Number of Zones	Zone	Project	Employment Generation
1	Iwo	11	$11 \times 5 = 55$
2	Ikirun	16	$16 \times 5 = 80$
3	Osogbo	18	$18 \times 5 = 90$
4	Ede	5	$5 \times 5 = 25$
5	Ilesha	6	$6 \times 5 = 30$
6	Ife	1	$1 \times 5 = 5$

X to represent number of projects financed, while Y to represent Employment Generation

Also, X = Cause and Y = Effect

No. of Zone	X	Y	XY	X ²	Y ²
1	11	55	605	121	3025
2	16	80	1280	256	6400
3	18	90	1620	324	8100
4	5	25	125	25	625
5	6	30	180	36	90
6	<u>1</u>	<u>5</u>	<u>5</u>	<u>1</u>	<u>25</u>
Total	<u>57</u>	<u>285</u>	<u>3815</u>	<u>763</u>	<u>19075</u>

There are two (2) methods of calculating correlation:

1. Spearman Rho Rank Formula
2. Pearson Product Moment Correlation Formula

But for this analysis, Pearson Product Moment Correlation Formula will be used.

4.1 Formula

$$R = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

n = number of zones = six (6)

$$\sum XY = 3815$$

$$\sum X = 57$$

$$\sum Y = 285$$

$$\sum Y^2 = 19075$$

$$\sum X^2 = 763$$

$$(\sum X)^2 = 3249$$

$$(\sum Y)^2 = 81225$$

$$R = \frac{6(3815) - (57)(285)}{\sqrt{6(763) - (57)^2} \sqrt{6(19075) - (285)^2}}$$

$$R = \frac{22890 - 16245}{\sqrt{(4578 - 3249) - (114450 - 81225)}}$$

$$R = \frac{6645}{\sqrt{(1329)(33225)}}$$

$$R = \frac{6645}{\sqrt{44,156,025}}$$

$$R = \frac{6645}{6645} = 1$$

So, $R(\text{Correlation}) = +1$

4.2 Conclusion

There is a perfect strong positive correlation (i.e. +1) between "projects financed by Osun state Government and employment generation (economic development).

This means that if more projects are financed, SMES will be developed and this will lead to economic development most especially through job creation.

In the field survey carried out by D.O. Elumilade, T.O. Ashaolu, P.O. Oladele, on the Evaluation of financing of Micro-Enterprises in Osun State of Nigeria, as indicated in the table below, between 1998 and 2000, there has been only slight average staff growth for all the enterprises surveyed. For instance, from 1998 to 1999, the only change in staff strength was a decrease by one for the catering sector. Other classes of micro-enterprises in the survey did not record any change.

From 1999 to 2000, the situation only changed slightly. Agro-allied ventures recorded an average of one employ that they lost in the preceding year. The three categories of micro-enterprises remained stagnant as they were in the preceding year. Looked at closely, what one sees is that the catering did not really do better than those that did not record any changes in their staff strength. This is using the catering sector of micro-enterprises surveyed, had in the year 2000, exactly the same average number of employees as it had in 1998. This apparent stagnant in staff strength suggests that the enterprise did not, on the whole, form well in the period under study and so could not expand to employ more hands.

The other sectors, trading, transport, and technical services, did not record any changes in their average staff strength between 1998 and 2000. This means a zero growth of employment for a period of three years. The clear implication of this, is that the enterprises are performing rather poorly.

Table 3:performance of Micro-Enterprises in Osun state - Average Growth of Employment.

Growth of employment average			Net change in Staff Strength		
(No of paid employees) per sector between 1998 and 2000					
Sector	1998	1999	2000	1998-1999	1999-2000
Agro-Allied	8	8	10	0	2
Catering	8	7	8	-1	1
Trading	3	3	3	0	0
Transport	3	3	3	0	0
Vocation	2	2	2	0	0

Source: Field Survey, 2001

5 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In Akabueze's paper on financing small and medium enterprises and paper delivered at the e-week 2002 seminar, SME by SMIEIS is defined as any rise with a maximum asset base of N200,000, 000 excluding land and working capital and with the number of staff employed not less than 10 or more 300. Small and medium enterprises have been defined based on size and type enterprises. So, in terms of size, measures used to classify SMES include employment, assets and revenue.

The following among other things are contributions of SMES to economic development; employment generation, rural development, economic growth and industrialization, better utilization of indigenous resources. CLIVE CARPENTER reported that SME is defined as an enterprise with total cost (including working capital but excluding the cost of land) above N31,000,000 but not exceeding N3,150,000,000, with a labour size of between 11 and 100 employees. The banks have historically and until recently been very averse to supporting SMES because of unfavorable bank lending strategies, which do not meet SME requirements, poor management, promoters' low education, etc.

Under SMES financing, SMIEIS is a voluntary initiative of the Bankers' Committee, which require all licensed banks in Nigeria to set aside 10% of their Profit Before Tax for equity investment in, and promotion of small and medium enterprises. SMIEIS covered activities like agro-allied, information technology and telecommunications, manufacturing, etc, but did not cover activities like tobacco and tobacco products, armaments production or where 25% or more of the total production output or, turnover of the investee company is derived from military relate purposes, etc, Amao (1987) grouped the sources of funding SMES into formal and informal sources. Government's agencies like NERFUND, NBCI, etc were established to enable SMES to have access to fund easily.

In Osun state, there are 2 industrial loan schemes. They are the Small Scale Industries Credit Scheme, which provides credit facilities for the expansion/establishment of small-scale industries and Industrial Development Fund, which provides credit for medium scale industries. Interest is currently 5% in respect of loans granted under Small-scale Industries Credit Scheme and 7.5% per annum in respect of loans granted under the Industrial Development Fund Scheme.

According to a report, SME does not only provide employment but also contributes about 55% to the GDP of the country (Nigeria). An arrangement has been made among the bank of industry, banks and state governments to develop industrial partners and adequate infrastructure would be provided for SMES to operate in each state of the federation (Osun state inclusive). Agriculture is also a vehicle for the industrial development of Osun state of Nigeria. NEEDS and SEEDS were established to create jobs for citizens of Nigeria and precisely citizens of each state of the federation (Osun state inclusive).

The policy of Osun state government is to attract investors into the state through the provision of industrial plots with access to all necessary infrastructural facilities like water, electricity, etc. Osun state is well endowed with agricultural and mineral resources. Its strong agricultural base and extensive mineral reserves give a clear indication of its robust economic potentials. Some of the investment opportunities available for people of Osun state are in the areas of cocoa production, wood for the production of furniture, sawdust, etc, iron-rod-nails, fencing wire, cocoa butter for chocolate, oil palms business and so on.

5.2 Conclusion

Based on information released from the ministry of commerce, industry and cooperatives, Osogbo, Osun state, there has been evidence that if SMES are developed by means of projects financed by the state government then, there will be economic development through job creation among Osun state citizens.

But, it was discovered from my perspective that projects financed by the state government in each zone are not enough, thus jobs created are limited. It was also

discovered that beneficiaries of loan schemes from the state government are not paying back the loan as at when due. This will not enable state government to make similar provision available for other potential beneficiaries.

From the analysis of data done in chapter 4, there is a perfect strong positive relationship between the numbers of projects financed by the state government of Osun state and employment creation. This means that, if Osun state government finances more projects, more jobs will be created through SMES development.

Also, from the work of D.O. Elumilade, T.O. Ashaolu, and P.O. Oladele, sectors like trading, transport, and technical services did not record any changes in their average staff strength between 1998 and 2000. This means a zero growth of employment for a period of three years, which shows that those enterprises are performing poorly

5.3 Recommendation

A good way of developing the productive and entrepreneurial capacity of our people is through the promotion of SMES. Osun state Government should encourage banks in the state to extend a good proportion of their SMIEIS fund firm's growth. Financing agriculture in Osun state, an agrarian state, cannot be under estimated. The development of farm settlements and co-operative societies should be encouraged. The government should also partner with financial institutions in the administration of their Poverty Alleviation Schemes to avoid turning the advances to "national cake". And disbursing such advances through bank under strict monitoring will make the scheme sustainable.

Osun state Government should provide an enabling environment for business rather than direct investment. This can be achieved through the provision of infrastructure, which in itself generates employment. Then on public sector repayment, Governments should strive harder to keep the terms of financial agreements.

If Osun state Government does the aforementioned recommendations and much more, it will be heartening to see the efforts of the Government in raising the economic status of Osun sate.

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1 Interview questions

- Could you explain the different type of loans available in Osun State?
- Could you enumerate the criteria to having access to the loan?
- Could you tell me what interest rate do the loans attract?
- To whom do you grant the loan to?
- Could you tell me if the Applicants needed to be interviewed in person before he/she is granted the loan?
- Do applicants need to provide collateral before accessing the loan?
- Are the loans fixed amount or are they dependent on the nature of the project to be carried out.