THE ROLE OF DEVELOPMENT BANK OF NIGERIA IN RELATION TO SMALL AND MEDIUM SCALE ENTEPRISE IN NIGERIA.

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INTRODUCTION

SMEs are generally defined as all businesses with turnover of less than N100 million per annum and/ or less than 300 employees, among other definitions. Although there is a difference between small and medium scale enterprises, which will be discussed later in detail, the term SMEs are normally used interchangeably. The role of these SMEs in enhancing economic growth and development has been widely acknowledged globally. Economic wealth in the world is created through enterprises, and the expansion of their output greatly enhances economic growth. SMEs contribute to the economy by creating value through the production of goods and services thus enhancing the gross domestic product. They also generate employment by creating the much-needed jobs in the economy as well as expanding the export sector largely through linkages with large firms that produce for the foreign sector.

SMEs account for over 90% of all businesses, particularly in Asia and Africa where economic growth has been largely propelled by the activities of these enterprises[1]. The growth of the economies of Asia in particular is a clear case of how critical SMEs can be in driving economic growth. Given the advanced state of SMEs in that part of the world, they also push outward the technological frontier by their innovative role in process and product technologies as well as making substantial investments in plant and machinery[2].

Efforts have been made by governments in the past to address the SME funding issue. A number of schemes have been put in place to address this issue. For example, the CBN had approved the investment of the sum of N500 billion stocks issued by the Bank of Industry (BOI), part of which is for the refinancing/restructuring of banks' existing loan portfolios to SMEs[3].The Development Bank of Nigeria is among the many concerted efforts of the government to help support the flourishing of SMEs in the country, conceived by the federal government, it plays an important role in economic growth through the support it renders SMEs.

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[1] C. Nwagbara (2015) *The Role Of The Commercial And Development Banks In Nigeria As Recognised Under The Law* : *International Journal of Business & Law Research 3(4):43-51,.* Retrieved 6th of August from Seahi Publications website : http://seahipaj.org/journals-ci/dec-2015/IJBLR/full/IJBLR-D-4-2015.pdf

[2] Ibid

[3] Ibid

The first part of the paper attempts to define what a small and medium scale business is, as well as the definitions of what entrepreneurship and who an entrepreneur is, the second part of the paper seeks to examine the origin, role and purpose of development banking and the Development Bank of Nigeria in particular as it relates with its influence, funding and partnership with SMEs in the country.

SMALL AND MEDIUM SCALE BUSINESSES DEFINITION

It is imperative at this juncture to describe what a small and medium enterprise is, as the terms is, small and medium scale business, small and medium scale industries and small and medium scale entrepreneurship are used interchangeably to mean a small scale industry firm. Globally, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development. These features equally vary from one country to the other[4].

- In Nigeria, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, or whose investment in machinery and equipment does not exceed six hundred thousand naira.
- The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150,000 in manufacturing and equipment alone.
- The small scale industries association of Nigeria (1973) defined small scale business as those having investment (i.e. capital, land, building, and equipment of up to N60,000 pre-SAP Value) and employing not more than fifty persons.
- The Federal Ministry of Industries defined it as those enterprises that cost not more than N500,000 (pre-SAP Value) including working capital to set up. The Centre for Management Development (CMD) view of small industry in the policy proposal submitted to the federal government in 1982, defined small scale industry as, "a manufacturing

[4] Ayozie Daniel Ogechukwu, et al, "Small and Medium Scale Enterprises (SMEs) in Nigeria the Market Interface" https://globaljournals.org/GJMBR_Volume13/1-small-and-medium-scale-enterprises.pdf (2013) Vol. 13, Issue 9 assessed on 27th July, 2019

processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers.

Although it is evident that there are specific characteristics/criteria used in describing small scale business; these characteristics include but may not be entirely limited to

- The Number of Individuals: - Normally, the number of people/persons employed, will easily determine if it is a small scale business, medium scale or a large firm. Small/medium scale enterprises
- Annual Business Turnover: - The initial capital is low, as such the annual turnover will also be low.
- Local operations: For most small firms, the area of operation is local. The employees live in the community in which the business is located.
- The sales volume is minimal.
- Financial strength is relatively minimal.
- Managers are independent, and they are responsible only to themselves, or to the owners. The managers are also the owners. Although it is important to note here that not all managers are entrepreneurs, but all entrepreneurs are managers.
- The owners of the business actually participate in all aspects of the management (i.e. the management of the enterprise is personalized)
- They have relatively small market when compared to their industries.
- The number of employees are relatively small, when compared to the biggest companies in a similar venture.
- The capital is mainly supplied by an individual or small group of individuals/persons or shareholders.
- They usually have one, but many have several shop locations all in the same city or metropolitan areas. This also shows the same trend as in Nigeria, although the exchange value makes the financial criteria to be different. There are many enterprises in Nigeria categorized as small business. Most of them are in the commercial sector and there is also a trend now towards the service industry hotels, restaurants, fast foods, etc.

WHAT IS ENTREPRENEURSHIP?

The earliest definition of entrepreneurship, dating from the eighteenth century, used it as an economic term describing the process of bearing the risk of buying at certain prices and selling at uncertain prices. Other, later commentators broadened the definition to include the concept of bringing together the factors of production. This definition led others to question whether there was any unique entrepreneurial function or whether it was simply a form of management.

Early this century, the concept of innovation was added to the definition of entrepreneurship: process innovation, market innovation, product innovation, factor innovation, and even organizational innovation. Later definitions described entrepreneurship as involving the creation of new enterprises and that the entrepreneur is the founder. Entrepreneurship, according to Onuoha, is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities[5].

Drucker[6] in defining entrepreneurship as the process of extracting profits from new, unique and valuable combinations of resources in an uncertain and ambiguous environment. This is closely related to Krizner, who defined entrepreneurship as the process of perceiving profit opportunities and initiating actions to fill currently unsatisfied market needs or doing more efficiently what is already being done. Drucker's views entrepreneurship as the creation of a new organization, regardless of its ability to sustain itself, let alone make a profit.

The notion of an individual who starts a new business venture would be sufficient for him/her to be labeled as an entrepreneur. It is this characteristic that distinguishes entrepreneurship from the routine management tasks of allocating resources in an already established business organization. Though the definition tends to be somewhat simplistic in nature, it firmly attaches the nature of entrepreneurial action with risk-taking and the bearing of uncertainty by the individual[7].

WHO IS AN ENTREPRENEUR?

[5] Onuoha G., Entrepreneurship,AIST International Journal 10, (2007) 20-32.
[6] Drucker, P F., Innovation and Entrepreneurship: Practice and Principles. (New York: Harper Business, 1985)
[7] Ibid

Entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Economist Joseph Schumpeter focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them.

Also business expert Peter Drucker took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity. Entrepreneurs are often both owners and employees and a considerable number of them are of them are small business owners or managers. Such people are risk takers, creative, innovative, independent, hardworking and possess other qualities that are driving force behind any entrepreneurial activities in the economy. These entrepreneurial activities significantly affect the economy of an area by building the economics of an area by building the economic base and providing jobs.

ORIGIN OF DEVELOPMENT BANKING

Development Banking has its origin traced to the devastation of the Second World War at the end of which national leaders, principally in Europe and America came together to create a medium to salvage their world-torn economies. This led to the formation of Premier development bank known as The International Bank for Reconstruction and Development (World Bank). The World Bank was established in 1946 following the Bretton Wood Agreement of 1944 between the World leaders at the time, and epitomizes International Development Banking at its apex. Following this, the movement for setting up Regional and National Development Banks was set in motion and soon spread to most countries of the World[8]

HISTORY OF DEVELOPMENT BANKING IN NIGERIA

In Nigeria, Development Banks began to appear as a feature of the banking system just at about the time the economy started to embark on Development Plans. The first of such development Plans was launched in 1946 to cover the period between 143-1956, and soon afterwards, the Nigerian Development Board was established by the Federal Government to help promote the

[8]C. Nwagbara(2015) op. cit at footnote 1

realization of the Plan. This Board was later dissolved in 1949 and replaced with four new Boards –

The Eastern, Western, Northern Regional Development Boards and Lagos (Colony) Development Board. These Boards took over the activities of their predecessor and soon began to extend financial assistance to the Industrial and Agricultural sectors. In 1956, the Lagos (Colony) Development Board was dissolved and replaced with two new Boards which are – The Western Region Finance Corporation and The Federal Loan Board. In the same year, The Eastern Nigerian Development Corporation (ENDC) & The Northern Nigeria Development Corporation (NNDC) were established and charged with similar responsibilities in their respective Regions. However, all these Boards are no longer in existence today[9].

The current position in Nigeria is that the Federal Government has since created Development Banks to develop specific sectors of the economy. Some of these are: The Bank of Industry, Federal Mortgage Bank of Nigeria (specifically for Housing), The Nigeria Export-Import Bank (NEXIM). These three Banks form the crux of this Paper on the subject Matter of Development Banks, and their Roles and functions to the Society are going to be discussed in details below.

In Nigeria, inadequacy or insufficiency of indigenous private investments is usually often due to shortage of capital. The Nigerian Government over the years have tried to resolve this problem to a large extent by establishing a number of development banks or Loan Boards as they were originally known. These are essentially designed to handle Government Investments in selected targeted sectors of the economy, aimed at filling the gaps created by the inadequacy or insufficiency of private capital and investment.

Thus, they have become financial Institutions which plan, finance and carry out investment projects or programmes for or on behalf of the Government. They have made it possible for the country to launch a number of successful projects that would never have otherwise materialised, and these are positive functions[10].

Development Banks provide the basic ingredients for economic development and adjustments, such as the necessary finance enterprise, technical and managerial assistance which have been in

[9] C. Nwagbara(2015) op. cit at footnote 1
[10] Ibid

short supply. In this regard, they perform not only the banking function of making funds available for development projects, but also the development function of providing technical and managerial assistance to the needy sectors of the national economy[11].

THE DEVELOPMENT BANK OF NIGERIA

The Development Bank of Nigeria (DBN) was conceived by the Federal Government of Nigeria (FGN) in collaboration with global development partners to address the major financing challenges facing Micro, Small and Medium Scale Enterprises (MSMEs) in Nigeria.

Founded in 2014, the main objective of this Bank is to alleviate financing constraints faced by MSMEs and small Corporates in Nigeria through the provision of financing and partial credit guarantees to eligible financial intermediaries on a market-conforming and fully financially sustainable basis[12].

According to the Bank, the mandate fully supports the stimulation of diversified and inclusive growth, and contributes to alleviating specific financing constraints that hamper the growth of domestic production and commerce by providing targeted wholesale funding to fill identified enterprise financing gaps in the MSME segment[13].

MSMEs are, collectively, the largest employers in many low-income countries including Nigeria, yet their viability is being threatened by lack of access to risk-management tools such as savings, insurance and credit. Indeed, their growth is often stifled by restricted access to credit, equity and payments services.

In Nigeria, there are over 37 million MSMEs contributing to over 50% of Nigeria's GDP. However, less than 5% of these businesses have access to credit in the financial system[14].MSMEs in Nigeria play a crucial role in economic growth, poverty reduction, employment creation, and shared wealth creation. Development Bank of Nigeria plays a focal and catalytic role in providing funding and risk-sharing facilities. It also incentivizes financial institutions, predominantly

[11] K. Igweike (1991) – *Law of Banking & Negotiable Instruments*. Africana-FEP Publishers, pp 44-46
[12] Retrieved 7th August from The Development Bank website https://www.devbankng.com/
[13] Ibid
[14] Ibid

Deposit-Money and Microfinance Banks, by augmenting their capacity and by providing them with funding facilities designed to meet the needs of these smaller clients[15]

The Development Bank of Nigeria provides a solution through its financing which is available through commercial banks, microfinance banks, and other financial institutions with tenors of up to 10 years and 18 months' moratorium, where necessary.

According the Development Bank of Nigeria, all MSMEs (start up or existing) involved in productive enterprises are eligible for the loan. However, they must be customers of eligible financial institutions, as the DBN is poised to provide funding and risk-sharing guarantees through Participating Financial Institutions (PFIs), who will then on-lend to end beneficiaries.

DBN loans can be accessed through PFIs, which include Commercial Banks, Microfinance Banks, Development Finance Institutions (DFIs) and other Financial Institutions. DBN loan repayment tenure is flexible (up to 10 years with a moratorium period of up to 18 months) and the interest rates are on a market-conforming and fully financially sustainable basis[16].

Participating Financial Institutions (PFIs)

On October 30, 2017, DBN commenced its lending activities by making available a total of N5 Billion to two Micro Finance Institutions (MFIs) for on-lending to over 20,000 MSMEs across the nation. Since commencement, DBN has on-boarded a total of 6 Commercial Banks and 8 Micro Finance Institutions bringing the total number of Participating Financial Institutions to 14. One can access the DBN loan through any of these PFIs by contacting any of the banks listed below[17]:

- Access Bank Plc
- Ecobank Nigeria Bank Plc
- Fidelity Bank Plc
- FCMB Ltd
- GTBank
- Wema Bank Plc
- First Bank Nig Ltd

[15] Ibid
[16] Op. cit. at footnote 6
[17] Retrieved 7th August from The Development Bank website https://www.devbankng.com

- Union Bank of Nig Plc
- Stanbic IBTC Bank Plc
- Sterling Bank Plc
- AB Microfinance Bank Nigeria Ltd
- Addosser Microfinance Bank
- Baobab Microfinance Bank
- Bosak Microfinance Bank
- HASAL Microfinance Bank
- Infinity Microfinance Bank Ltd
- LAPO Microfinance Bank Ltd
- Mainstreet Microfinance Bank Ltd
- Microcred Microfinance Bank Ltd
- NPF Microfinance Bank Plc
- Parallex Microfinance Bank
- Seedvest Microfinance Bank
- Accion Microfinance Bank Limited
- La Fayette Microfinance Bank Limited
- Davodani Microfinance Bank
- Trust Microfinance Bank

The Environmental and Social Risk Management (ESRM) Policy

The Environmental and Social Risk Management (ESRM) Policy outlines DBN's overall approach and parameters for the provision of responsible financing

The policy seeks to introduce a systematic approach to the management of relevant social and environmental issues, and the risks inherent in DBN's business processes and operations. DBN will ensure that adequate financial and human resources needed to implement this Policy are made available within the institution[18].

Policy Approach

[18] Retrieved 7th August from The Development Bank website https://www.devbankng.com

Through this Policy, DBN puts in practice its commitment to integrating environmental and social considerations into decision-making processes relating to its business activities to avoid, minimize or reduce, or compensate for/offset risks and negative impacts[19].

DBN strives for positive development outcomes in the activities it supports. These activities include:

- Lines of credit to eligible PFIs for on-lending to eligible MSMEs and small corporates, including both investment and working capital loans;

- Providing credit guarantees, through a Credit Guarantee Facility on PFIs' loans made to MSMEs. This model is intended to overcome limitations in MSME access to finance, reduce volatility, and increase the contribution of the Nigerian financial sector to economic development.

DBN believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which DBN expects to achieve through the application of this Policy.

Objectives of the Environmental and Social Management System (ESMS) Policy

Specific objectives of the ESRM Policy are to:

(a) Integrate ESRM considerations into the DBN's credit and investment decision-making processes.

(b) Fully implement and comply with national requirements for E&S risk management in Nigeria, as well as DBN's bilateral and multilateral lenders and/or shareholder's requirements**.**

(c) Set out requirements for the PFIs for assessment and management of environmental and social risks and impacts associated with sub-borrowers and subprojects they finance[20].

(d) Promote greater transparency and accountability on E&S issues internally and externally through disclosure and reporting. Scope of Application

[19] Ibid
[20] Retrieved 7th August from the Development Bank website https;//www.devbankng.com

The requirements of this Policy apply to all financial products and services, as defined in paragraph 2 of this Policy, offered by DBN through PFIs Environmental and Social Risk Management System[21]

ROLE OF THE DEVELOPMENT BANK OF NIGERIA IN SUPPORTING MSMES

With a vision to be Nigeria's primary development finance institution; promoting growth and sustainability, The Development Bank of Nigeria seeks to fulfil three key mandates which include:

a) Increase access to finance for MSMEs by lending to Participating Financial Institutions (Commercial Banks, Micro Finance Banks and other DFIs) for on-lending to this segment.
b) Provide Capacity Building for Participating Financial Institutions to enhance their ability and willingness to lend to the MSME segment.
c) Provide Partial Credit Guarantees for Participating Financial Institutions to encourage them to take the risk of lending to MSMEs[22].

The Development Bank of Nigeria became a member of the SME Finance Forum, a global membership network that brings together financial institutions, technology companies, and development finance institutions to share knowledge, spur innovation, and promote the growth of the Small and Medium Enterprises[23].

Established by the G20 Global Partnership for Financial Inclusion in 2012, the SME Finance Forum was set up as a knowledge centre for data, research and best practice in promoting the SME finance.

Accepting the DBN into the forum, the Chief Executive Officer, SME Finance Forum, Mr Matthew Gamser, was said the SME Finance Forum was proud to have the Development Bank of Nigeria join its network of 140 members who work to expand access to finance for small and medium businesses. He further posited that, It has been discovered that 200 million businesses worldwide need financing to invest, grow and create new jobs[24].

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[21] Ibid
[22] Retrieved 7th August from The Development Bank website https://www.devbankng.com
[23] M. Okwe (2018) *Development bank joins SME finance forum* Retrieved 9th of August From the Guardian Website https://guardian.ng/news/development-bank-joins-sme-finance-forum/
[24] Ibid

Consequently, the Managing Director/Chief Executive Officer, DBN, Mr Tony Okpanachi, said, The DBN was excited to expand its knowledge of the SME financing and it believes the participation in the SME Finance Forum member working groups will afford it a plethora of networking and developmental opportunities[25].

Also, the Development Bank of Nigeria in order to promote awareness, introduced its first television commercial to be broadcast across various platforms to educate the Nigerian Micro, Small and Medium Enterprises on how to access the DBN loans, through the various Participating Financial Institutions.

In a statement, the series of 60 second TV commercials recounts the struggles of entrepreneurs who must meet their customers' orders despite seemingly impossible deadlines.

Commenting on the launch of the TV commercial, the Managing Director of the bank, Mr Tony Okpanachi, said, there are a lot of innovative and brilliant entrepreneurs out there who are critically challenged by access to financing and have no clue on how to address it. The commercial was intended to educate the public on the available funds from the Development Bank of Nigeria for the development of the MSMEs, which is globally acknowledged to be the engine room of growth for any economy.

He acknowledged that the visibility of the bank to the business community in Nigeria has brought about a lot of enquiries. And that it was necessary to educate the business owners on how to access funds for their businesses[26].

According to the statement, the DBN is a wholesale Development Finance Institution providing sustainable financing through eligible PFIs that in turn lend to end-borrowers – Micro, Small and Medium Enterprises for the development of that segment[27].

Conclusion

In Nigeria, SMEs have largely underperformed relative to their counterparts in East Asia. According to a Central Bank of Nigeria (CBN) report on SMEs, the key issues affecting their

[25] Ibid
[26] N.Popoola (2018*) DBN introduces programme on SME loans* Retrieved on 9th of August From the Punch Website,(https://punchng.com/dbn-introduces-programme-on-sme-loans/)
[27] Ibid

performance in Nigeria are four, namely unfriendly business environment, poor funding, low managerial skills and lack of access to modern technology. The CBN report further asserts that the shortage of finance occupies a very central position among these four. Hence the issue of enhancing the financing of SMEs has been receiving attention in many quarters – among policy makers, bankers and other key stakeholders[28]

Although the Federal Government has also put in place a number of interventionist policies, designed to make it easy for small and medium sized businesses in Nigeria to obtain business finances in the form of grants and small-interest loans, like You Win programme, the SMEDAN Loans project and the YES Programme of the Nigerian Bank of Industry (BOI) among others, there have been challenges confronting the SMEs in accessing the financing options put in place by government and the banking system. Some of the barriers include high interest rates, complicated procedures, requirements for collaterals / guarantees and the overall unfavourable lending policies of the financial institutions.

On the demand side, many of the SMEs largely have a lack of knowledge of all the available financing sources, have insufficient management and generally lack insufficient demand for their output, in a number of cases. With regards to this, the Development Bank can employ other means of networking besides the commercial TV advert or radio commercials, for ways to reach a a larger audience of interested individuals, more seminars and lectures should be carried out to further enlighten the populace and to attract more people into the SME sector, which will in turn favor the overall economy.

The call for the facilitation of increased access to funding by SMEs is therefore quite appropriate. The preponderance of programmes and schemes in the past appear to have encountered different obstacles in delivering the much-needed funds to the SMEs.

The Development Bank of Nigeria however can introduce further and better financing options needed to be designed to correct the shortcomings of previous schemes. These should be rooted in the nation's cultures and backgrounds as a people such that their operations will be hitch-free.

[28] The Guardian Editorial Board (2018) Retrieved on 10th of August From The Guardian Website (https://guardian.ng/opinion/on-financial-support-for-smes/)

Also, the interest rates need to be made friendly for the operations of the SMEs, as the current interest rate structure is quite high[29].

[29] Op.cit at footnote 18