countries, from complications of pregnancy and childbirth, the leading causes of death and disability among women of reproductive age. As maternal mortality rates are difficult to measure due to logistics; trends overtime are often assessed by proportion of birth attended by a skilled health care provider. Consequently, it is not impossible for the figures to be higher but not lower.

GOAL VI: Combat HIV/AIDS, Malaria and other Diseases

This goal has a target of reducing the spread of HIV/AIDS by half in 2015, and to subsequently witness the reversal of its spread. For example, in some part of the country, a lot of people have no assess to good health care facilities and the necessary information and treatment needed. Coupled with the above is the cultural mien of the people that prevent sufferers from reporting the ailment for fear of stigmatization and the believe that HIV/AIDs is not real.

Furthermore, Nigeria has to cope with a growing threat of HIV/AIDS. According to the government's data, Nigeria had 3.47 million HIV cases in 2001. The prevalence rate among people aged between 15 and 49 was estimated to have risen to 5.8 per cent in 2001 from 5.4 per cent in 1999. and 1.8 per cent in 1991. Nigeria is, thus, the most populous nation to have crossed the 5 per cent prevalence rate, the level, according to the UN, at which the epidemic begins to grow at an exponential rate. The government has responded to the worsening HIV/AIDS pandemic by launching at the start of 2002 an anti-AIDS programme, which includes the sale of generic life-prolonging anti-retroviral drugs at the cost of $9 a month, substantially cheaper than branded medicines. The government plans to purchase substantial quantities of anti-retroviral treatment from India to treat up to 15000 sufferers a year. Therefore, to avert the spread, and reduce mortality, a lot of information dissemination is required. In similar vein, government and the civil society should continue the current process of counseling and assistance in the areas of acquiring drugs and prescription at affordable prices.

Malaria and Other Diseases

The "Roll Back Malaria" programme is one of the programmes put in place by governments in Sub-Saharan African Countries to combat the incident of malaria, which currently rank as the number two killer diseases next to the HIV/AIDS scourge. A lot of financial/material resources both from internal and external sources has been injected into the programme, despite these efforts; not much has been achieved as the disease continues to ravage the population thus, negatively affecting economic productivity.

Regarding other diseases, the incidence of Leprosy, Guinea Worm, River Blindness, Polio etc regarded as eradicated are currently rearing their ugly heads due to some cultural and health habits but mostly, due to all the poverty level among others.

GOAL VII: Ensure Environmental Sustainability

According to the world commission on Environment and Development, "Poverty pollutes the environment, creating environmental stress in different ways. Those who are poor and hungry will often destroy their immediate environment in order to survive. They will cut down forests; their livestock will overgraze grasslands; they will overuse marginal land; and in growing numbers they will crowd into congested cities. The cumulative effect of these changes is so far-reaching as to make, poverty itself a major global scourge."

The awareness of above, is probably the *raison d' etre* for goal VII, whose target is to sustain the environment by reducing the number of people without access to potable water by half in 2015 and also increase significantly or record improvement in the lives of at least 100 million slum dwellers by 2020.

The advent of city dwelling or modernization has brought with it the commercialization of natural

resources and the participation of people in a formal monetized economy. It has also brought about mass impoverishment. The modern state also expects certain obligations from its citizens, such as the payment of taxes and participation in modern structures and processes. This participation includes the acquisition of modern consumption patterns, life-styles, and aspirations, thereby creating a situation in which modern demands for increased productivity and consumption are not at par with modern conservationist technology and orientation. This is consequently, leading to environmental pollution and other forms of environmental degradations such as Oil Spillage, Sea Incursion, fresh water salinization, Gully Erosion, Land Slide, Deforestation, Desertification etc. In similar vein, Population pressure, changing land tenure and other pressures, particularly those related to commercial activities, forge new habits that have disastrous impact for both urban and rural poors. In addition, the indiscriminate felling of trees, over-cultivation and the use of poisons for fishing are all responses, to these pressures. The inability of government at all levels to provide modern services and infrastructures in modern contexts, such as cities, towns, also produces additional pressure, as areas of large concentrations of people often lack drainage, pipe born water, electricity, waste disposal (both liquid and solid) health care services, effluent management etc. Citizens' are usually forced to respond to these inadequacies by falling back on traditional means and practices. This is due to the fact that facilities are inadequate or inappropriate to the tremendously changing conditions of living.

To redress the abuse of the environment, all stake-holders including government, the private sector and the civil society must wake-up and contribute to the cleaning and nurturing of an environment friendly surrounding via better natural resources management policies.

GOAL VIII: Partnership with the Developed Countries etc.

Among developing countries, Sub-Saharan Africa faces the greatest challenge in meeting the MDGs. According to the African Development Bank (ADB), Africa and indeed, Nigeria may have an uphill task in meeting the MDGS criteria, while Nigeria in particular may not be able to meet any of the six criteria if the right policies are not adopted at the appropriate time. Consequently, it would be better for the country to concentrate on the poverty alleviation criterion in the meantime, while also, making concerted efforts to resolve the persistent conflicts and severe governance problems, which confront the country.

In addition to other efforts put in place to meeting the MDGs, the New Partnership for Africa's Development (NEPAD) is very paramount. The NEPAD a synthesis of two Initiatives by African leaders: It includes, the Millennium Partnership for African Recovery Programme MAP) and the Plan Omega (PO). This synthesis resulted in one plan initially named the New African Initiative (NAI). NAI was adopted by the OAU's Summit in Lusaka in July 2001. However, at a meeting of the implementation committee of heads of state in Abuja in October 2001, it was formally established under the name NEPAD and thus become a major strategy development of the New African Union (A.U.)

The New African Initiative has received the imprimatur of the global community. Thus at the G-8 summit in September, 2002, the International Community affirmed its support for strong partnership with developing countries, based on mutual accountability and responsibility. The G-8 adopted the Africa Action Plan as a frame work for action in support of the NEPAD and agreed to each establish enhanced partnerships with African countries whose performance reflects the NEPAD commitments. In addition, the U.N. General Assembly in September 2002 unanimously adopted a Declaration on NEPAD.

NEPAD therefore, operates at four levels: global, continental, sub-regional and national. At the global level, it is concerned with Africa's relations with the global community i.e.

International Institutions, development partners and donor agencies.

At the continental and sub-regional levels, it is concerned with collective action, co-operation and integration among African Countries, while at national level it is aimed at stimulating, promoting and revitalizing partnership among the public, the private sectors and the civil society. NEPAD is seen as a good road map to sustainable development geered towards the meeting of the MDGs especially as it relates to the following features:

- The African Condition and Challenge of Development.
- NEPAD and Good Economic and Corporate Governance.
- The African Peer Review Mechanism, all of which are put in place to address the pressing economic, social and other problems facing Africa.

The importance of good governance for economic growth and poverty reduction cannot be overemphasized. Participatory democracy and the rule of law are essential to ensure that leaders are held accountable to the people and that they are transparent in the management of available resources.

Furthermore, and in the light of the critical importance of good governance to continuing economic and social progress, African Countries must forge effective participatory form of governance and empower their citizens through popular participation, decentralization and socially friendly policies.

PART IV

I. CHALLENGES FACING NIGERIA IN MEETING THE MDGS

Estimates indicate that attaining the MDGs is possible if Nigeria can scale up its ability to effectively manage its resources, through sustainable growth over time, improved policies, increased trade and investment, improvement in human capital development.

For Nigeria to benefit effectively, it must put its house in order and be in good stand with the International Community at both bilateral and multilateral levels. It should be stated that Nigeria does not stand alone in terms of sharing international goodwill; therefore, she must put in place policies that can attract both aid and Direct Foreign Investments from her development partners.

African countries (i.e. Sub-Saharan), in general but Nigeria in particular, must start a gradual increase of their growth rates from now. Protectionism, which in large part has prevented SSA from realizing its growth potential from trade, should be discouraged. The Bretton Woods Institutions should develop policies and actions for achieving the MDGs on the basis of Monterrey partnership principles. This should include, increased access to the markets of developed world, increased quantity and quality of aid especially Overseas Development Assistance (ODA) etc.

There are major challenges in the monitoring and measurement of the prospects for achieving the MDGs. The costs of achieving the MDGs globally are estimated at $100 million but this does not include cost of the capacity building. Also, the indirect cost of social infrastructures such as roads, houses, electric, and other public services are not included. It is assumed that with strong economic growth, half the cost of the MDGs can be financed domestically, leaving a financing gap of $16 million for external donors. So far, the financing of Education for all Fast Track Initiative is a pointer that even where political will exists; translating pledges into commitments may take a longer time and careful planning.

In an attempt to raise resources for the MDGs, the UK Government has proposed an International Finance Facility, while the US Government has also pledged the sum of US$5 billion, which will go into a Millennium Challenge Account (MCA).

However, priority would be

given to the social sectors as well as the need for strengthening of the micro-funding, of the economies of the developing world to bring about conditions for sustainable growth.

The MCA office will focus on 3 strategic areas as indicated below:

a) Advocating for the scaling up of development financing and measures to improve the effectiveness of resource management.

b) Enhancing sources of Economic Growth for Poverty Reduction with particular reference to the private sector, trade, and regional cooperation, and

c) Human Capital Development.

A recent study at the World Bank, found that additional resources are needed in about 65 low-income countries many of which are in Sub-Saharan Africa. In 1999, these countries had a total population of 1 billion and average per capita income of US$400, and received about $18 billion in aid. The study further started that additional aid could raise their growth rates and increase their spending on health, education, water and sanitation services, thus accelerating progress in these countries.

The same study stated that the remaining 22 countries would be made to improve their policies and reform their institutions to use aid effectively, allowing these groups of countries to reach their goals. These estimates assume that productivity of investment and private capital flow remains unchanged.

It is estimated that at least $20 - 25 billion in official development would be required for the 30 or so countries included in the study to be in a position to use aid effectively. Taking into account of the global estimates presented at the Monterrey conference, these estimates suggest that at least half of the global increment in aid should be allocated to African Countries. The remaining countries face civil conflict or difficult political situations, which may unlikely, make them to be eligible for substantial aid increases in the near future. More specific country assessments would need to be done in the context of Poverty Reduction Strategy Paper (PRSP). The regional cost of combating communicable diseases, need to be taken into account. Policy reversals and institutional set backs will mean lower efficiency and compromise on reaching the targets despite financial assistance.

While efforts to achieve the MDGs will come from African Countries remains critical, Africa's development partners should continue to play a significant role in the following areas:

(i) In line with the recent commitments at the Monterrey Conference, industrial countries should intensity effort to reverse the large decline in official development AID to Africa and increase it to levels required to help countries meet the MDGs.

(ii) Future assistance should be more predicable.

(iii) Development partners should harmonise their procedures and instruments for the shared objective of poverty reduction, thereby improving the efficiency of Agriculture.

(iv) There is a need to improve the quality of assistance to the PRSP process including participation, poverty data and analysis, monitoring and evaluation, realism in poverty reduction targets linking action to available resources.

(v) Africa's international development partners should facilitate the establishment of a more open and equitable trade.

(vi) On debt relief, the Heavily Indebted Poor Countries (HIPC) debt initiatives have begun to realize resources for investments aimed at reducing poverty.

(vii) Developed countries should continue to support the production and supply of

essential global and regional public goods.

Recent efforts to fight the HIV/AIDS pandemic, the resurgence of malaria and tuberculosis are steps in the right direction.

The New Partnership for African Developments (NEPAD) provides an opportunity for African Countries and their development partners to re-launch African's development efforts on mutually agreed principles and objectives. This home grown initiative is anchored on a sober assessment of the development challenges that African countries face in the global World Economy. The NEPAD represents an important vehicle for creating a new partnership between the developed and African countries based on the principles of binding commitments to obligations and targets within mutually agreed time frame for implementation. Indeed, the Peer Review Mechanism should help to ensure that countries respect their commitments.

V. CONCLUSION AND RECOMMENDATIONS

In this paper, we have discussed the raison d'etre of the Millennium Development Goals (MDGs), that the goals were put in place during the United Nations Millennium Summit held in September 2000, in New York, United States of America. The declaration slated as follows: "we will spare no effort to free our fellowmen, women and children from the object and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected". This declaration has created a new focus for addressing the issues of poverty that undermines the International Community's commitment to act with a renewed vigour or sense of urgency in achieving specific benchmark within a given time span. The Goals therefore, are supposed to be achieved by 2015. These goals which are eight in number addressed issues such as eradication of extreme poverty and hunger, achievement of universal primary education, promotion of gender equality and empowerment of women, reduction in child mortality, improved maternal, maternal health, combating HIV/AIDS, malaria and other communicable diseases, ensuring environmental sustainability and the development of a global partnership for development.

The first six goals with their targets and measures are the responsibility of developing countries in particular, while the seventh is general in nature as it is in the area of public goods, which has no boundary i.e. the environment. The eighth, advocates genuine International Partnerships for development and how developed countries could assist developing nations to attain the earlier stated seven MDGS.

The prospects of attaining the targets in Africa but especially in Nigerian were reviewed. It was stated that while some countries like Uganda and Mozambique have recorded GDP growth rate that could make the achievement of the goals possible, the increasing prevalence of HIV/AIDs scourge could be a hindrance. In Nigeria in particular, government has put in place modalities for the achievement of the goals as it has resolve to revive and grow the economy by striving to operate an economy, which is market oriented, private sector led, highly competitive, technology driven, broad based open and internationally significant.

At the continental level, the New Partnership for Africa Development (NEPAD) a major strategy development of the African Union (A.U) was put in place to aid Africa development. The NEPAD, a synthesis of two initiatives by African leaders, include, the Millennium Partnership for African Recovery Programme. (MAP) and the Plan Omega (P.O). However, of paramount importance within the strategy is the African Peer Review Mechanism through which African leaders have resolved to assist themselves via Peer Review to put in place good governance with democracy as its pillars.

At the global level, the G-8, and indeed, the International Community in general has

affirmed their support for strong partnership with developing countries based on mutual accountability and responsibility. This was done via the adoption of the Africa Action Plan by the G-8 as a framed work for action in support of NEPAD and agreement to individually establish enhanced partnerships with African countries whose performance reflects the NEPAD commitments. In addition, the United Nations General Assembly in September 2002 unanimously adopted a declaration on NEPAD.

From the above, it could be stated that the MDGs is currently enjoying the goodwill of all and sundry. However, a lot of efforts still need to be put in place by individual countries for the attainment of the goals by the target date of 2015. These efforts are enumerated in the following recommendations:

1) There is a need to continue the process of growing the economy by sustaining the current policy of operating an economy that is market oriented, private sector led, highly competitive, technology driven, broad based, open and internationally significant so as to attain a growth rate of 7% per annum required for the MDGs

2) The Management of the external debt of developing countries should be done in a manner that could lead to external debt sustainability. This will include efforts at debt forgiveness, rescheduling, swap etc.

3) Efforts should be made by African leaders to resolve regional conflicts, ethnicity and, religions crisis, and other political problems that are currently impeding sustainable growth and development of African countries.

4) Poverty is at the heart of most of the obstacles on the path of meeting the MDGs. Consequently, developing countries and indeed Nigeria must step up actions that can lead to reduction of poverty and especially extreme hunger. These include education in general but of the female in particular. It is a fact that when you educate a female you are indeed building a nation, because high literacy will lead to reduction in population due to delayed marriages and birth control. An educated mother will assist in the process of better child care i.e. immunization, nutrition, and the consequent reduction in child and maternal mortality. It is also a fact that a highly literate society will aid democratic system, as information is easily disseminated, the citizens will know their right and thus become more law abiding. The process of decision-making can also be evenly distributed on the basis of gender, religion and other factor.

5) The Poverty Reduction Strategy Process must be put in place urgently as a means of reducing the poverty situation, which are rural community based.All stakeholders must be carried along as a means of addressing the peculiar situations of individual community.

6) The fight against the spread/treatment of HIV/AIDS must continue with vigour i.e. awareness and treatment especially the sale of anti-retroviral drugs at affordable prices.

7. Effort at ensuring environmental sustainability must be addressed along other issues, as poverty is at the heart of environmental degradation, i.e. the poor are more dependent on nature for their sustainability.

8) The partnership within Nations, Sub-region, region, and globally at reducing poverty, the number of people in extreme hunger, and diseases must be backed up with actions. While effort at national level is essential, the development partners/donor agencies must strive to abide by their pledges in terms of strong support and

partnership with developing countries via the improvement in O.D.A., the G-8 African Action Plan, the U.N. Declaration on NEPAD.

9). Charity must begin at home, all stakeholders, International Community and donor agencies, Sub-regional and regional grouping such as ECOWAS and the African Union, National governments, Private sector, Civil society and Individuals must resolve to fight poverty, hunger and diseases by contributing their quota in terms of good corporate governance, removal of corrupt practices, nepotism and the beggar syndrome.

10) Finally, it should be stated that no citizen is useless. The polity must subscribe to the dictum "small is beautiful", that is, when everybody contributes its own quota, and a little is added to a little it gets bigger and society is the end beneficiary. This dictum is very important especially in the area of agriculture, which is the mainstay of all African Society. If individual citizen will go back to the land, cultivate it and feed his or her family, there will be food security, good nutrition, less hunger and diseases, increase literacy, as children will be better fed, less importation of food items, less foreign exchange sport on importation, improved small scale agro-allied industries, less unemployment, improved export of agricultural products and other industrial goods and more resources for sustainable development. In addition, there will be stable government, reduced communal and ethic crisis, etc., hence the citizens will be happier. In fact, the list is endless. We vouch to say that putting the above mentioned recommendations in place will help reduce or terminate the vicious cycle of poverty that is currently in place in most developing nations and Nigeria in particular, thereby, making the attainment of the Millennium Development Goals (MDGs) possible by 2015.

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ECOWAS TRADE LIBERALIZATION AND FREE TRADE AREA: PROGRESS, CHALLENGES AND PROSPECTS

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INTRODUCTION

Economic integration in a developing region such as the countries of the Economic Community of West African States (ECOWAS) is conceived to offer development prospects and benefits which include: the creation of a market which would justify some otherwise unviable projects, enhancement of economic planning, resource allocation and rapid social development. It is also to significantly influence the path of future investment and growth more than in any one of the cooperating countries, or in older regions with already advanced industrial structures and frozen production capacities. Furthermore, economic integration offers effective rationalization and mobilization of excess production capacity, and harmonization of agricultural, industrial and economic policies among members through standardization of prices, thereby curbing smuggling and other sources of waste.

Another major benefit is a joint development of an integrated transport and communications network, which is a major advantage in a rapidly globalized world. This has offered the possibility of promoting economic equality among the cooperating countries and equitable income distribution among classes of their people. Also, cooperation in applied scientific research, improved weather recording and fore-casting, river basin development, controlled land use, industrial and agricultural production and animal husbandry could be facilitated. Moreover, closer political and socio-cultural relations, which will reinforce the integration process, would be enhanced (Ezenwe, U. P. 1984).

The above are some of the prospective benefits usually advanced as derivable in a successful regional integration. There have been types of regional integration attempts with varying degrees, coverage and success. It can be asserted that only a relatively small number have been successful, especially among developing countries. In general, four successive stages of policy unification or economic integration among countries can be identified. They are briefly summarized below (Aboyade, O. P. 1983). The first or most primary of these stages a free trade area is, the simplest and most elementary, in which the integrating states agree to remove the barriers to trade which hitherto existed between or among them. In this arrangement, while there is uniform no-barrier trading within the free-trade area, each member state is free to maintain whatever barrier it deems fit against third countries which are not signatory to the arrangement.

The second stage of integration is that of a Customs Union. In this arrangement in addition to trade integration, factors of production are also integrated. Both products, especially, manufactured products and factors of production are allowed to move freely within and among member countries. Also, a common commercial policy i.e. a common tariff structure towards non-members is maintained. This often necessitates the establishment of an agency to administer the common external tariffs.

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The third stage of integration is that of a Common Market in which there is a common approach to economic and development policies. From the two initial stages of free trade and free movement of factors of production, integration of policies under this stage extends to industrial development, scientific research, technological development and business strategy. The formation of Economic Union is the fourth and final stage. This is essentially a situation of total integration whereby all economic policies are harmonized beyond industrial, commercial and technological policies.

ECOWAS as an economic integrating attempt of our sub-region has gone a long way considering the time of its establishment in May 1975. Owing to the tenacity of purpose of some of the member countries much effort has been and is being made to keep it alive. The process, however, has been relatively slow and the results somehow very expressive due to several factors both within and external to the sub-region.

In the rest of the paper some of these issues will be highlighted. Part I briefly looks at ECOWAS as a free trade area, its establishment objectives, structure and institutions. Part II is a brief summary of ECOWAS performance and the challenges facing the community. The factors which tend to hamper ECOWAS performance are also briefly mentioned. Part III discusses the prospect for a successful integration in ECOWAS, while Part IV contains the summary and conclusions.

PART I
ECOWAS AS A FREE TRADE AREA

The treaty of Lagos which established ECOWAS was signed on 28th May, 1975. The treaty was signed by fifteen countries in the West African sub-region with the objective of promoting "cooperation and development in all fields of economic activity, particularly in industry, transport, telecommunications, energy, agriculture, natural sciences, commerce, monetary and financial issues and in social and cultural matters for the purpose of raising the standard of living of its peoples ……. and contributing to progress and development of the African continent" (Article 2(1), Ezenwe U. P. 1984).

The current trade Liberalization Scheme is aimed at establishing a customs union over a period of fifteen years, beginning from 1st January, 1990. This implies total elimination of customs duties and taxes of equivalent effect, removal of non-tariff barriers and the establishment of a common external tariff. This scheme also includes liberalization of trade in unprocessed goods and traditional products as well as trade in manufactures with the condition that the latter originate from member states, are the approved items, accompanied by a certificate of origin and an ECOWAS export declaration.

In 1990 the Conference of Heads of State and Government agreed to adopt measures that would create a single monetary zone after years of the work of the study group set up to examine the feasibility of introducing a single currency in the region. ECOWAS regards monetary union as necessary to boost intra sub-regional trade and encourage investment in the region since it would greatly facilitate capital transactions with foreign countries. As a concrete move towards this end in 1992, the West African Clearing House (WACH) was converted to West African Monetary Agency (WAMA) which was to be responsible for administering an ECOWAS exchange rate system, the management of the ECOWAS Travelers Cheque Scheme, and the monitoring of the ECOWAS Monetary Cooperation Programme. When it was observed in 1999 that the pace of implementing a single monetary zone was too slow, a two-track approach was initiated. The Francophone members were already operating in a single monetary zone. The second monetary zone consisting of the Anglo-phone members and Guinea committed themselves by a Declaration in April 2002 to evolve a single

currency which was to be eventually merged with the UEMOA (Union Monetaire l'Ouest Africaire) or West African Economic Community by the year 2003. This aspiration was eventually shifted to 2005 when it was observed that none of the members could meet the macro-economic convergence criteria to make it possible in 2003. The West African Monetary Institute was established on January 1st 2001 to undertake all the necessary tasks that would culminate in the adoption of a single currency in the West Africa Monetary Zone (WAMZ).

In addition to the above institutions, the establishment of the ECOWAS Court of Justice and the ECOWAS Parliament both headquartered in Nigeria should be mentioned. The two highly influential institutions were established through the revised Treaty of the Community in 1993 (Europa Publications 24th Edition 1995).

The recommendations of the Committee of Governors of ECOWAS member Central Banks at the end of their 2002 meeting somehow reflected the lack of success in many ECOWAS' objectives since its founding. The recommendations showed that decisions taken over many years were yet to be implemented, or other decisions such as members' contributions had to be converted to community levy. Apart from the recommendation concerning the New Partnership for Africa's Development (NEPAD) which was relatively a new item, the remaining four items ought not to constitute any issue to be raised or emphasized any longer were member countries truly committed.

Specifically, these issues were: that ECOWAS single monetary zone be shifted to 2005; the continued emphasis on the full implementation of ECOWAS trade Liberalization Scheme and the alignment of national customs tariffs; that payment of ECOWAS Community Levy should come into force, effective 1st July 2003; and that the ratification of the protocol establishing ECOWAS Bank for Investment and Development should be carried out (CBN 2002). All these show lack of seriousness in implementing decisions and resolutions, thereby creating a serious drag on ECOWAS' progress. Some of the factors responsible for the slow progress of ECOWAS will be highlighted in the next section of this paper.

PART II
ECOWAS PERFORMANCE AND THE CHALLENGES FACING THE COMMUNITY

The most practical indicator of knowing that progress is being made towards regional integration of the subregion is not the multiplicity of resolutions, decisions, bodies established by the annual or periodic meetings held. The most important evidence of success in integration is the progressive increases in trade and other indicators of economic relations. This work suffers from adequate and current data, but the little information available shows little positive change in the trade relations. For instance, in a fairly comprehensive work by Ezenwe, the author shows that the average of intra-ECOWAS trade during 1968-72 amounted to 3.6 per cent of its total trade. The establishment of the West African Clearing House (WACH) in 1976 was meant to promote more intra-regional trade. While pre-WACH establishment (1969-73) data showed that intra-community trade averaged about 8.1 per cent of its total world trade (WACH, p. 23), post-WACH transactions do not reflect any appreciable positive change. Thus at a seminar organized by the Central Bank of Nigeria in 1990, Nemedia showed that transactions between 1976 and 1989 almost continuously declined after initial period of increases. From WAUA 50.7 million in 1976/77 transactions reached the highest level of about WAUA 204.4 million in 1983/84 but declined to WAUA 28.2 million in 1988/89. According to Agbelusi at the same seminar, the last five years showed an average annual reduction of WAUA 30.3 million. International Trade Center (UNCTAD/WTO) in its latest Statistical Indicators for sub-regional trade potential showed that in 1998 ECOWAS exports reached US$22.5 billion of which only 9.0% was intra-regional (ITC, 2000) (See Table 1). These are

no impressive levels of transactions after twenty-seven years of ECOWAS establishment.

The ITC publication also includes a list of products with high intra-regional trade potentials, such as electrical transformers, fertilizers, etc. which could be promoted for the industrialization of the sub-region. It is this kind of the specific information on investment that should be pursued as initial steps of cooperation in ECOWAS. In the 1990 seminar on WACH referred to above Tunde Abolaji, Executive Director, Nigerian Export Promotion Council made a longer but comparable list of such items which Nigeria could export to countries of the sub-region.

The Challenges Confronting Trade in ECOWAS

According to Abolaji, rather than the popularly touted similarity of products being a factor of constraint on sub-regional trade countries which produce competitive goods could still trade together. Nigeria could buy groundnuts from Senegal, or iron ore from Liberia. Moreover, he stated that a country with relatively large internal market such as Nigeria could install large sized production units for semi-manufactures and manufactures for the ECOWAS market. At the services level, he observed that "member countries are already operating in many areas such as insurance, banking, engineering, etc".

Other writers with global views have sometimes expressed other reasons why most regional integration approaches do not achieve their aims. Charles P. Kindleberger (pp. 346-349) in an earlier view made the following points as inhibitive to the success of regional cooperation/customs union: Developing countries have very little trade among themselves and more with developed countries; Production of new goods (manufactures) amongst the countries is difficult to arrange satisfactorily; Tariff cuts to attain trade liberalization is too difficult for countries with weak balance of payments; Gains and losses among cooperating countries may result in a set-back for the poor/weak ones and; The unwillingness to sacrifice political sovereignty as well as unwillingness to give up inherited colonial trade preferences. Some if not all of these points should be revised in the light of success stories elsewhere, particularly amongst the Association of the South-East Asian Countries (ASEAN).

While elements of Kindleberger's points may be true of ECOWAS, the constraints of the sub-region's trade can be stated briefly. Any attempt to understand the reasons for the draw backs of ECOWAS must look at them beyond some of the narrow views above. Some of the issues hampering ECOWAS integration are summarized as follows:

(I) Existence of Competing Regional Groupings

Initially, it had been observed that the problem of overlapping membership of sub-regional integration and cooperation schemes was particularly difficult where a country belongs to more than one sub-regional grouping. The problem arises whenever ever-growing and deepening commitments are made by countries to one grouping not in harmony with, but at the expense of commitments to the other grouping. This is a real problem in ECOWAS (UNCTAD, 1986). Alongside ECOWAS are the West African Economic Community (CEAO) and the Mano River Union (MRU). The rivalry of CEAO against ECOWAS is particularly strong, and backed by France with enough resources and historical as well as economic ties to lure franco-phone countries away. This has resulted in lack of commitment among members of CEAO to the detriment of ECOWAS' progress.

(ii) Political Instability

Of all the countries in the sub-region there is not a single one, which had not suffered from military coups d' etat. In addition to this, several of the countries have undergone civil wars, or are in such a situation that it would hardly be avoided. Sierra Leone and Liberia are a sad case of a people torn apart without a government for years.

The situation degenerated to military interference of one country with the civil war in another as between Liberia and Sierra Leone. This led to the issuing of a "declaration of political principles" by ECOWAS in 1991 in Abuja "in which member states reaffirmed their commitment to refrain from aggression against one another" (Europa, 1995). The situation worsened further with accusation that member countries of the Mano River Union were harbouring terrorists against each other. No economic integration efforts would succeed in a sub-region of mutual conflicts.

(iii) Economic Instability

Many of the countries in ECOWAS are in the group of least developed countries (LDCs) and the highly indebted poor countries (HIPCs). Sparse economic resources have been compounded by unsustainable level of external debts. This makes economic management a very daunting task. The situation explains to a great extent why many of the member countries were usually in arrears in annual subscriptions; or are unable to fund their own part of some mutually agreed sub-regional projects.

(iv) Infrastructural Inadequacy

This is a group of constraints which has been recognized for a long time. The issues involved can be stated in brief phrases thus: poor communication network, lack of coastal shipping facilities in most of the ports, and inadequate trade information on opportunities existing in member countries. It is the hope that by the time the construction of the trans West African highway network, which includes the trans coastal highway linking Lagos to Nouakchott and the trans-Sahelian highway linking Dakar to N'Djamena, would have been completed, much of the transport difficulties would be solved.

(v) Persistence of Old/Enduring Prejudices

While some of these issues have received the attention of ECOWAS Authority, exporters from non-UEMOA countries continue to face stiff difficulties, in UEMOA countries. A recent features article in Weekend Business of This-Day newspapers narrated the frustration of some Nigerian textile exporters in Senegal. Such stories are not exceptions despite the much touted ECOWAS Trade Liberalization Scheme.

(vi) Inadequate Approach

The founding fathers of ECOWAS in 1975 had very good ideas. They were well guided by the example of similar arrangements before ECOWAS.

Although structurally ECOWAS contains all the elements within which it would function, it is at the level of implementation that weakness arises. The arrangement's weakness is basically in the fact that it lacks some inbuilt perceptions that would make member countries convinced that they are headed for a mutual goal of liberation as a group from economic servitude. This element makes the difference between the observed success in ASEAN and the relative lack of it in ECOWAS.

PART III
PROSPECTS FOR A SUCCESSFUL INTEGRATION IN ECOWAS

Inspite of the various factors identified that have almost rendered ECOWAS ineffective, the establishment of two major institutions namely: the military ECOWAS Monitoring Group (ECOMOG) and the ECOWAS Parliament should not be ignored because of their positive contributions to political stability in the region. In the normal scheme of things, the existence of ECOMOG is aberrant to economic integration. Its formation began in 1990 for the purpose of bringing about a cease-fire in Liberia. It was later sent to Sierra Leone for the same purpose. It is currently once again an important element of the United Nations' intervention force in Liberia, having played a critical initial role of obtaining a cease-fire.

ECOWAS activities in recent times, according to the ECOWAS Director of Defence and Security, Major-General Charles Okae, would make it seem that the sub-region grouping has shifted focus from its main economic issues. This statement was made in view of the fact that the activities of these two institutions are the most obvious in ECOWAS in recent times. While ECOMOG has been busy in peace-keeping operations in member countries going through hostilities, the ECOWAS Parliament has also been playing the same interventionist roles to ensuring peace in several countries including Liberia, Sierra Leone, Guinea Bissau and Cote d' Ivoire.

Perhaps from this unusual direction some lesson may be learned to the effect that ECOWAS, should be sustained, and be made to fulfil its real objectives. The basic issue is that member countries realize the need for it to do so for the upliftment of the standard of living of their people who are suffering in excruciating poverty. The realization of this fact and the conviction that the salvation of the economy of the sub-region lies in making ECOWAS to work will fulfil our development dream. This is possible in the light of the New Partnership for Africa's Development (NEPAD) which should be the platform on which every country or sub-regional arrangement in Africa like ECOWAS should now derive inspiration.

ECOWAS should have enough inspiration to now put into action all the schemes/projects already approved for implementation, taking due cognizance of what successful experiments in the EU and the ASEAN have done. To begin well, ECOWAS must start now to lay the basis for strengthening its economic and monetary coordination. Procedures must be formulated and necessary actions taken for the multilateral surveillance of solid economic development. Consultations must be set in motion at the union level for policy corrections in the joint interest, rather than leaving each country to be doing "its own thing". There must be formulated, as a matter of urgency, quantitative guidelines on medium-term objectives.

The prospects of ECOWAS are bright. There are sufficient resources to lift up all the countries.

A population of over 250million with improved purchasing power is a large enough market to support a medium sized industrial outlay.

Amongst other enterprises, the private sector owned ECO bank (owned by ECOWAS business sector), established in 1984 is now operating in eleven countries and is a highly successful venture, recording a profit of over US$28.0 million in 2000.

The natural resources of the sub-region make it one of the most well-endowed on the surface of the earth, including petroleum and natural gas, diamond, iron, gold, among other minerals; cash crops include cocoa, coffee, groundnuts, palm produce, cotton and grains. All these form the basis for prosperous industrialization if harmonized coordinatedly.

Mention was made in the course of the lecture about the coastal and trans-Sahelian highways. Of a total 4,560km transcoastal highway, 3,777km or 83.0 per cent has been completed, remaining only 783km. Other projects/programmes not fully implemented are in the telecommunications and energy sectors. But with expected coordinated efforts, all these would be done and would result in the enhancement of the living standards of the people; the expansion of the sub-regional economy which will attract the direct foreign investment, which is one of the significant requirements of NEPAD.

If substantial progress is not made to realize the objectives of ECOWAS, the sub-region will remain poor and unattractive to foreign investors. It is the area of foreign investment that ASEAN is at the fore-front of most regions of the world, perhaps with the exception of China. With progress, however, the world will rush in with investible funds, almost without invitation or notice. In order to be successful, ECOWAS must put everything

within the sub-region in order. Economic stability should be in a coordinated manner, including a realistic programme of external debt repayment. The current efforts aimed at ensuring political stability must be made to yield fruitful results. There must be peace in the sub-region if the whole idea of ECOWAS will ever be realized. Good governance must also be ensured in all member countries.

The problem of multiplicity of sub-regional groupings should be solved if each country is convinced as the NEPAD document makes it clear that there is no benevolent guardian. Erstwhile colonial masters cannot develop ECOWAS or any portion of it. Their fundamental self-interest to continue to exploit will never end unless each country cuts off the exploiting umbilical cord of enslavement.

PART IV
SUMMARY AND CONCLUSION

In this paper, we have tried to see a potentially successful ECOWAS as a regional economic integration and some suggestions have been made regarding what would make the experiment achievable. It has been emphasized that the original idea, although a very good one, suffers from many fronts. While the structural content is correct, we found that for various reasons, its approach and the way it is expected to function are inadequate.

There is a lack of commitment by many member countries, resulting in non-implementation of many vital decisions, including the relative difficulty in operating the trade liberalization scheme, arrears in membership contributions, non observance of some of the protocols, and several well conceived projects not implemented. All this has made intra-ECOWAS trade for the past 28 years to hover around 9.0 per cent of the total trade of all the members.

The way out of all this seems to be in making ECOWAS begin at the stage of more coordinated commitment and joint surveillance in economic management which will make the sub-region to be an entity relying solely on its own, devoid of multiplicity of overlapping rival unions sponsored by a "benevolent guardian" from our colonial past.

The critical political instability and serious economic difficulties confronting the sub-region are noted, but ECOWAS is commendably approaching the political issues through the ECOMOG and the ECOWAS Parliament. It is hoped that peace is achievable. The economic problems, which have been worsened by poverty and external debt, can find fast and realistic solution through joint economic management that will be more effective.

The hope is expressed in this paper that ECOWAS can make it and become a prosperous economic bloc.

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CREDIT AVAILABILITY TO SMALL AND MEDIUM - SCALE ENTERPRISES IN NIGERIA: IMPORTANCE OF NEW CAPITAL BASE FOR BANKS - BACKGROUND AND ISSUES

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The critical causes of the risk-averse behaviour of banks in funding Small and Medium Enterprises (SMEs) in Nigeria, monetary policy and financial stability implications of SMEs "Credit Crunch" were evaluated. This was done along the lines of inadequate capital base of the institutions in the sector vis-à-vis the effectiveness of Bankers Committees' Small and Medium Scale Industries Equity Investment Scheme (SMIEIS) Initiative. The work adopted a conceptual analytical framework that employs theoretical and statistical comparative cross-sectional data to analyze the SMIEIS Programme of Nigeria vis-à-vis capital base of banks in ascertaining whether it offers an effective means of solving the problem of funding small and medium scale businesses in Nigeria and its attendant implication for financial stability in the system. The analysis confirms that Government needs to urgently address the problem of financial intermediaries cum stability in the system as a national priority and build institutions that will drive the reform process. This incidentally is the major thrust of the Government's new economic blueprint. Banks could play a more active role in actualizing the objectives of SMIEIS by re-capitalizing and setting up separate desks to manage the fund and vigorously conversing the idea such as any other bank product. Mega banks alone could provide the much needed funding for SMEs. This will mitigate the problem of weak asset-based and heavy collaterals. The macroeconomic environment should be stabilized through proper fiscal and monetary policy coordination to reduce interest rates, stabilize prices and reduce rent seeking behaviour among economic agents. This paper shows that capital matters for the response of bank lending to economic shocks and highlights the need for a sound, stable and

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ABSTRACT

This paper should not be reported as representing the views of the AIAE nor that of the BPS Project, Ebonyi State University or the Central Bank of Nigeria. The views expressed in this paper are those of the author(s) and do not necessarily represent AIAE, BPS Project, Ebonyi State University or Central Bank policy. All errors remain entirely those of the authors.

efficient financial sector to assist SME's. This goes in tandem with a stabilization of the macro-economic environment. Notwithstanding, it is difficult to draw what are the implications of this result with respect to the new directions of the capitalization to be implemented in 2005.

INTRODUCTION

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

Financial systems, the world over, play fundamental roles in development and growth of the economy. The effectiveness and efficiency in performing these roles, particularly the inter-mediation between the surplus and deficit unit of the economy, depends largely on the level of development of the financial system. It is to ensure its soundness that the financial sector appears to be the most regulated and controlled by the government and its agencies. Generally, the stage of development and, thus, the efficiency of the system varies among countries and changes over time in the same country. The more developed and sophisticated financial systems tend to be associated with the mature economies, while under-developed financial systems feature in developing economies. As a process, the financial system adjusts to changes in the real economy just as the economy responds to developments in the financial sector. All over the world, size had become an important ingredient for success, the banking sector included. The last few years have witnessed the creation of banking groups through mergers and acquisitions. Re-capitalization of banks in Nigeria is intended among others to help mobilize domestic savings, deepening and broadening intermediation, improve allocation of resources and helping to mobilize foreign savings. These have attracted criticism from both the public and private sector. Some believe that this would lead to the collapse of most banks and the attendant unemployment would be grave for the economy; others believe that the capital base be structured in a way that would categorize banks as big and small players. There is also a view that the proposed policy is a welcome development but if not well managed could send the wrong signals, as it could lead to a run on banks within the stipulated period, jeopardizing the three main functions of Banks: - Transforming short term liquid deposits held by households into illiquid liabilities issued by firms; Screening potential borrowers/Monitoring actual borrowers on behalf of depositors and facilitating transactions between agents by providing payment service.

The Manufacturing (including Micro, Small and Medium Enterprises) sector is acknowledged to have huge potential for employment generation and wealth creation in any economy. Yet in Nigeria, the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sector is also quite limited dominated by import dependent processes and factors. Although there is no reliable data, imprecise indicators show that capacity utilization in the sector has improved perceptibly in the period since 1999, but the sector is still faced with a number of constraints with lack of credit availability as the principal constraint. Credit is the largest element of risk in the books of most banks and failures in the management of credit risk, by weakening individual banks and in some cases the banking system as a whole, have contributed, to many episodes of financial instability. A greater understanding of the nature of credit risk, leading to improved measurement and management, would help to strengthen the

international financial system vis-à-vis the small and medium enterprises in the long-run. An increasing amount of research on credit risk is being carried out within financial firms, central banks, regulators and universities.

Stiglitz and Weis (1981) observe that small and medium scale firms with opportunities to invest in positive net present value projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Nonetheless, the liquidity ratio of the financiers play a major role. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risks due to some pervasive incentive structure in the system.

On the other hand, because SMEs do not have access to public capital markets they naturally depend on banks for funding. Dependence on banks makes them even more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in equilibrium and these problems are exacerbated during periods of financial instability.

Berger and Udell (2001) further note that shocks to the economic environment in which both banks and SMEs exist can significantly affect the willingness and capability of banks to lend to small and medium scale firms.

These shocks come in a variety of forms such as technological innovation, regulatory regime shifts, and shifts in competitive conditions and changes in the macro-economic environment. Financial institutions respond to these shocks in a number of ways, one of which is to develop stringent lending rules that not only avail them of full information about the firm and the owner, but also ensure that their investment in such firms are guaranteed in both the short and the long-run.

In less developed countries where there is a dearth of information on the operations of SMEs, the situation degenerates into total risk-aversion by financial institutions in funding SMEs. Such risk-averse behaviour can ultimately affect the performance of monetary policy through the credit channel of policy transmission and perhaps snowball into financial instability in the system. In this paper we assess major Bank Lending rules and their impact on funding SME's and analyze two surveys in Nigeria, one by the World Bank and another by the Central Bank of Nigeria to explain the banks' risk-averse behaviour in lending to SMEs, as well as the implication of such risk-averse behaviour on financial stability via credit channel of monetary policy.

1.1 The Nigerian Situation

Since the attainment of independence in Nigeria, every known regime recognizes the importance of promoting SMES as the basis of economic growth. As a result, several micro-lending institutions were established to enhance the development of SMES. Such micro credit institutions include the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (Nerfund), the People's Bank of Nigeria (PBN), the Community Banks (CB), and the Nigerian Export and Import Bank (NEXIM), and the liberalization of the banking sector. Howbeit, the banks in operation in the country are about 89 with more than 50% having capital base of less than US$10 million and about 3,300 branches. This compared to 8 banks in South Korea with about 4,500 branches or with one bank in South Africa with larger assets than all the 89 banks shows that the banking system is very marginal relative to its potentials and in comparism with other countries.

Unfortunately, records indicate that the performance of SMES in Nigeria has not justified the establishment of this plethora of micro-credit institutions. Odedokun (1981) notes that in spite of the quantum of credit made available to the manufacturing sector; the contribution of the index of

manufacturing to GDP was only 7 percent between 1970 and 1979.

In 2001, a study identified poor access to finance as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major constraint (see Guardian, Nov, 26, 2001). The foregoing study confirms the risk-averse behaviour of banks in funding SMEs in Nigeria. This scenario naturally provokes some research questions such as:

- What are the critical causes of the risk-averse behaviour of banks in funding SMEs in Nigeria?
- Does lack of funding for SMEs by banks affect efficient monetary policy outcomes with implications for financial stability?

In 1999, the Bankers Committee at the initiative of the CBN developed an interventionist strategy called the Small and Medium Industries Equity Investment Scheme (SMIEIS). This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in an equity participation framework.

The purpose of this paper is to analyze the results of this programme so far and to ascertain whether it offers an effective means of solving the problem of funding small and medium scale businesses in Nigeria, whether banks can play the intermediary role and the implications for the financial stability in the system.

Table 1: Ratio of loans to SME's by Commercial banks[4] {= N =' m}

Year	Loans to SMEs	Banks Total Credit	% of Total Credit
1992	20,400	41,810.0	48.8
1993	15,462.9	48,056.0	32.2
1994	20,552.5	92,624.0	22.2
1995	32,374.5	141,146.0	22.9
1996	42,302.1	169,242.0	25.0
1997	40,844.3	240,782.0	17.0
1998	42, 260.7	272,895.5	13.6
1999	46,824.0	353,081.1	13.3
2000	44,542.3	508,302.2	8.8
2001	52,428.4	796,164.8	6.6
2002	82,368.8	954,628.8	8.6

Source: Central Bank of Nigeria Statistical Bulletin, Volume 13, December, 2002, P. 57.

Table 2: Ratio of loans to SME's by Merchant Banks {= N =' m}

Year	Loans to SMEs	Banks Total Credit	% of Total Credit
1992	3,493.9	11,188.8	31.2
1993	4,900.0	25,189.8	19.5
1994	5,489.3	30,185.1	18.2
1995	9159.6	30,612.2	29.9
1996	5,595.8	41,139.5	13.6
1997	7,137.9	54,491.5	13
1998	7,800.8	60,290.6	12.9
1999	6,389.1	49,257.7	13.0
2000	51,001.1	565,871.7	9.0

Source: Central Bank of Nigeria Statistical Bulletin, Volume 12, December, 2002

The above tables depict the levels of commercial and merchant banks loans to small scale enterprises as percentage of total credit. Similar trends were observed for both banks. The analysis focus on commercial banks loans to entrepreneurs from 1992 to 2002. In 1992, the loan was 48.8%. It declined to 22.9% in 1995, while it recorded a slight increase to 25% in 1996. Since then, it fell continuously to 8.6% in 2002.

[4] The abolition of mandatory bank's credit allocations of 20% of its total credit to small scale enterprises wholly owned by Nigerians took effect from October 1, 1996.
[5] Commercial and Merchant Banks' Figures have been combined from 2001 following the adoption of the Universal Banking Practice in Nigeria. Merchant banking activities was abolished in 2001.

Table 3: Contribution of SME's in Selected Asian Economies in percentage

Industrial characteristics	Malaysia (1985)	Singapore (1990)	Rep. of Korea (1991)	India (1994)
Contribution to total number of establishments	92.1	88	97	94
Contribution to total number of insurance establishment	49.4	40	63.5	31
Contribution to industrial production	46.7	26	44.5	40
Contribution to industrial value added	30	23	45.8	35

Source: Confederation of Asia pacific Chamber of Commerce and Industry - Journal of Commerce and Industry; Vol. II. 1998 pg 6-18

- Even though the above table shows experiences of some selected Asian countries in terms of contributions of SMEs to some industries in Asia, Nigeria data that describes these industries are not available. However, the contribution of the index of manufacturing to GDP has been low. The risk-averse behavior of banks in funding SMEs in Nigeria has constrained the contribution of this sub-sector to GDP.

2. Analytical Framework

The work adopted a conceptual analytical framework that employs theoretical and statistical comparative cross-sectional data to analyze the stated objectives. This approach is considered relevant because of the paucity of firm level data on the operations of small and medium scale firms in Nigeria. The hypothesis will be tested by theoretical analysis and intuitive analysis of the historical evidence on the performance of SMEs within the period under study. We will evaluate the SMIE programme by comparing the programme guidelines and performance index and determine whether it has information on the solution to the problem of funding small and medium scale business in Nigeria.

2.1 Bank Rules and Evaluation of SMIEIS for External Funding

Generating an entrepreneurial idea is one thing but accessing the necessary finance to translate such ideas into reality is another. Many novel entrepreneurial ideas have been known to die simply because their originators could not fund them, and banks could not be convinced that they were worth investing in.

To fund a business idea, you have two major sources to access; internal and external finance. Internal finance is concerned with sourcing funds through personal savings, and those of friends and relatives. However, as the firm grows its financing requirements may go beyond personal savings.

The next source is external finance. External funding is based on merit according to the evaluation of financial institutions. There are two notable variants of external finance: debt financing and equity financing. Debt financing involves the procurement of interest bearing instruments such as loans, overdrafts, letters of credit and

accounts receivable etc. They are secured by asset-based collateral and have term structures, that is, either short or long term. The equity component of external finance gives the financier the right of ownership in the business and as such may not require collateral since the equity participant will be part of the management of the business.

The critical problem in sourcing external finance is not just how to convince financial institutions that the project is worth investing in, but rather, can the banks play the required role? There are a number of models for evaluating the robustness of business ideas by financiers. The banking sector in Nigeria lopsided with 10 banks accounting for about 50% of the industry's total assets and liabilities. The small size of the sector leads to heavy fixed costs and operating expenses. This has grave implications for intermediation with small enterprises being the hardest hit. One of the recent developments in the banking system, which is of great concern to the monetary authorities is the significant dependence of many banks on government deposits, with the three tiers of government and parastatals accounting for over 20% of total deposit liabilities of deposit money banks. The summary of the foregoing is that the Nigerian banking system faces enormous challenges which if not addressed would distort credit availability to small and medium enterprises, and ultimately snowball into financial crises for the system later in the future.

2.2 Feasibility Appraisal Model

The feasibility appraisal model is a risk-based, predetermined criterion that the business idea must be subjected to warrant commitment of external funding by investors. Risk in this context is defined as the classification of the probability of an error resulting in a loss of the investment. The feasibility appraisal model provides both quantitative and qualitative methods of assessment. A quantitative technique deals with projections and other financial information while qualitative techniques consider other factors relevant to the success of the business that are not reflected in financial numbers.

The business environment and other socio-political considerations are critical to the success of the business. An important role of banks is to design ways of providing loans to informationally opaque small business (Berger, Klapper, Udell 2001). However, a number of factors may affect the banking system's ability to provide credit to small borrowers in the future. There is evidence of bank consolidation across many countries of the world through mergers and acquisitions. These mega banks may be oriented towards transaction lending and providing capital markets services to large corporate clients. These institutions are also often head quartered at great distances from small business customers and may have difficulty processing locally based, and often less quantitative relationship information on small business.

Again bank financial distresses may also be an important determinant of credit availability during periods of 'credit crunch' and accompanying financial crises. However, there are very few small firms that will satisfy the rigorous condition set by the traditional feasibility appraisal model, which is often designed for both small and big firms. While some aspects of the criteria of the feasibility model are met by some small firms, others are not met at all, therefore for banks to lend to information opaque small firms, they need to develop lending rules that accommodate the peculiar characteristics both for the SMEs and their owners. Small scale lending rules of financial intermediaries can be categorized into four main distinct lending technologies. These are the Financial Statement Rule, the Asset-Based Rule, Credit Scoring, and Relationship Lending[6]. The adverse selection problems occur when banks cannot readily verify whether SMEs have access to qualitative projects, while moral hazards occur when SMEs divert funds for alternative projects (Stiglitz and

[6] *The most notable cause of developing unique lending rules for SMEs is because of the problem posed by adverse selection and moral hazard.*

Weiss 1981). Either of these problems can lead to either credit rationing or over lending (see de Meza and Webb 1987).

2.2.1 Financial Statement Rule

This lending rule places emphasis on evaluating information from the firm's financial statements. The decision to lend and terms of the contract are principally based on the strengths of the firm's balances sheet. Financial statement lending is best suited for relatively transparent firms with certified audited financial statements. Thus, it is likely to be the rule of choice for lending to large firms. But when adapting this rule for small firms, the firms must be ones with long histories, relatively transparent transactions and strong audited financial statements (Berger and Udell, 2001). Unfortunately, many small firms in Nigeria lack these qualities.

2.2.2 Asset-Based Lending Rule

The most apparently guaranteed form of lending to SMEs is asset-based lending. This lending technology bases its decision to lend on the quality of the available collateral. This type of lending requires constant monitoring of the business and this can prove to be expensive. The collateral in this case may be accounts receivable and inventory; this is why the bank has to intensively monitor the turnover of these assets. This is the most common lending rule for SMEs in Nigeria.

2.2.3 Credit-Scoring Rule[7]

This lending technology uses a summary statistic about the borrowers expected future loan performance (Feldman 1997, and Mester, 1997). In fact credit scoring assumes that credit analysis ultimately determines that the personal credit history of small business owners is highly predictive of the loan repayment prospects of the business (Berger, Frame and Miller, 2002). Rutherford (1994, 1995) observes that although credit scores have been used for sometime now in the U.S in underwriting consumers' loans, this lending approach has only been recently applied to small commercial credits which have been thought to have non-standardized documentation and to be too heterogeneous. The method for the use of credit scoring involves attaching heavy statistical weights to the financial conditions and history of the principal owner given that the credit worthiness of the owner and that of the firm are closely related for most small businesses (Feldman 1997, Mester 1997)

2.2.4 Relationship Lending Rule

In relationship lending, the lender bases its decision to lend in substantial part on propriety information about the firm and its owner through a variety of contacts over time. This information is obtained through the provision of loans (e.g. Peterson and Rajah 1994, Berger and Udell, 1995) and deposits and other financial products (e.g. Nakamura 1993, Cole 1998, Mester, Nakamura and Renault, 1998).

Additional information may also be gathered through other members of the local community, such as suppliers and customers, who may give specific information about the firm owner or general information about the business environment in which they operate. Importantly, the information gathered over time has significant value beyond the firms' financial statements, collateral and credit scores. This information helps the relationship lender deal with information opacity better than potential transaction based lenders. Empirical studies have proved that relationship lending affects the pricing and availability of credit (Cole 1998, Elsas and Krannen, 1998; di Salvo and Ferri, 1998). A stronger relationship measured in various ways is empirically associated with lower interest rates for the firms (Berger and Udell 1995, Harkoff and Koiting 1998). Berlin and Mester (1998) also report that relationship lending provides greater protection against the interest rate cycle.

However, relationship

[7]The personal information needed or used in credit scoring might include the owners' monthly income, outstanding debt, financial assets, employment tenure, home ownership and premium loan defaults or delinquencies (Mester 1997).

lending involves the role of agents in gathering information and this could add extra costs to the banks. There is still a gap in the empirical literature as to how to determine how relationship lending works and how the organizational structure of the banks aids their ability to deliver. It is also necessary to determine how recent changes in the economic environment are likely to affect the availability of credit to small businesses.

3. Nigerian Banks and the Problem of Financing SMEs

Countries all over the world, no matter the stage of their development recognize the importance of promoting small and medium scale firms as the engine of growth and industrialization. Past studies of SME development and their problems have concluded that they suffer from identical weaknesses in developing countries. There are three major problems affecting the growth of SMEs: namely: inadequate access to finance; unfavourable macroeconomic environment and poor infrastructure facilities:

Banks in Nigeria are known to be highly liquid and report that they would like to make loans available to SMEs but they are put off by the very risky nature of SMEs in Nigeria. Because banks do not provide the required credit to SMEs, they rely on personal assets for working capital thus making it difficult to operate at full capacity and increase output and sales. The shortage of finance also limits investment to improve technology and to expand operations. The source of major risk according to banks in Nigeria are lack of information on the SMES true financial conditions and performance, the Judicial system is reportedly inefficient, banks cannot easily enforce contracts, the business environment is generally risk prone and uncertain and firms are not able to service debts. As a result of the foregoing banks resort to heavily asset-based lending rules.

3.1 Asset-Based Lending Rule: An Assessment

The predominant facility available to small and medium scale businesses in Nigeria is bank overdrafts, and short-term loans (asset-based loans).
Banks prefer overdrafts and short term loans for the simple reason that:

(I) They are easily rolled over
(Ii) They attract almost market interest rates
(Iii) They are fully collaterized

These points are clearly brought out by a summary of a survey of Nigerian firms' access to finance conducted by World Bank in 2001.

3.2 Summary and Analysis of A Survey of Nigerian Firms

The result of this survey confirms most a priori intuitions about the problems of sourcing external finance by Nigerian firms including small and medium scale firms and others. Our interest is on small and medium scale firms.
We shall discuss this survey in the light of the objectives of our study and see whether it throws light on the earlier stated hypothesis.

Table 4.1

Percentage of Firms Having Access To External Credit. Group Percentage Constrained

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
80.3	51.7	81.8	89.8	100.0	93.1	93.6	70.1

Source: World Bank Report 2001

Table 4.1 presents the percentage of firms that ordinarily have access to external funding. About 52% of the micro firms have access to external finance, while 82% of small and 89% of medium scale firms also have access. It is interesting to note that large firms have almost 100 percent access to external finance. We must note that having access to external finance does not translate into procuring the loan and the important point to note is that large firms that require large amounts of capital may crowd out smaller firms in the credit market.

Table 4.2

Percentage Of Firms Reporting Being Credit Constrained. Group Percentage Constrained

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
38.5	48.2	38.6	36.7	36.1	25.0	33.3	42.5

Source: World Bank Report 2001

In table 4.2 almost 50% of the micro, 39% and 37% of the small and medium scale firms sampled respectively, report being credit constrained, as opposed to 25% of the very large firms. This suggests that small and medium scale firms are discriminated against in the credit market. Another implication of this result is that the stringent conditions attached to loan availability may scare small firms away from applying for such facilities. Since most SMEs rely heavily on bank loans, this can frustrate their growth.

Table 4.3

Interest Rates on Over Drafts: Group Percentage Constrained

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
23.5	25.1	25.2	23.2	23.2	20.8	21.8	25.4

Source: World Bank Report 2001

Table 4.3 presents the percentage of firms that are constrained because of the interest rates charged on both overdrafts and short-term loans. 25.2% of the small business and 23.2% of medium scale businesses sampled complained of high interest charges and claimed that because of this they could not secure loans. This is against 20.8% of very large firms. This suggests that high interest charges do not constrain big businesses in Nigeria. Because short-term loans are usually rolled over, there is effectively little difference between them and overdrafts in terms of interest charges.

Another interesting point highlighted by the survey is that the average level of collateral for the firms in the sample was in excess of 151% of the value of the loan. This has serious implications for accessing external finance especially for the majority of Nigerian SMEs because of their weak asset base.

Table 4.4

Firms Receiving Long Term Loans: Group Percentage Constrained

Full sample	Micro	Small	Medium	Large	Very large	Foreign owned	Indigenous
15.6	12.1	11.4	20.4	20.5	10.3	21.3	11.3

Source: World Bank, Report 2001(Nigeria) Business Day 05/09/2001

The above confirms that Nigerian Banks do not provide long-term loans to SMEs. Banks prefer to give short terms loans in the form of overdrafts where they charge market interest rates on the amount they borrow.

For instance, 20.4% of medium scale firms sampled reported being constrained in receiving long-term loans as against 10.3% of very large firms. Short-term facilities accompanied by high interest rates and high collateral can hardly aid the growth of small and medium enterprises. They cannot make long term plans because of the shortness of the facilities available to them.

The lack of long-term credit facilities forces small and medium scale businesses to

finance investment with internal finance, which is highly unsustainable. SME's are often forced to delay investment until they have built up the necessary capital. Some managers of SMEs reported that since they had to rely on short-term funds, they were hesitant to under take major investments because they could not be certain that they would have the funds to complete them. This might engender cost overruns and the eventual collapse of the projects.

4. A Review of the CBN Interim Report on the Small and Medium Scale Industries Equity Investment Scheme (SMIEIS)

The SMIEIS programme is a voluntary initiative of the bankers committee aimed at mitigating the problems of the risk-averse behaviour of banks in funding SMEs in Nigeria (Guardian, Mon., Nov. 26, 2001). The principal objectives of the programme are to jump-start the economy and to create more employment opportunities for the unemployed. It is designed to bridge the funding gap created by the failure of micro credit institutions and conventional banks to adequately fund SMEs. The bankers committee approved the proposal that 10% of banks' before tax profit be channeled into equity investments in small-scale industries (SMIEIS). The CBN established the Small and Medium Scale Industries Office in its development finance department to handle the implementation of the scheme.

4.1 Modalities of the SMIEIS Programme

Funds invested by participating banks are to be in the form of equity investments in eligible industries under the scheme. Equity investment should be in the form of cash injections and/or the conversion of existing debts owed to a participating bank. A participating industry may obtain more loans from banks in addition to equity investment under the scheme.

4.2 SMIEIS: So Far, So What?

An interim report released by the CBN contains the following facts: a total of N12.37b have so far been set aside by 79 banks since the inception of the programme in 2001. Only N0.73b has been invested in 36 projects by 36 banks representing a paltry 14% of the total available sum. The spread of the projects is lopsided in favour of Lagos, with over 90% of the total projects so far executed in Lagos alone. One each, in Cross-River, Anambra, Delta and Oyo States. 75% of the projects executed are in the service sector alone.

4.3 Evaluation

In as much as the programme is designed to encourage SMEs to bridge the funding gap that has been established previously, the SMIEIS programme report shows that both banks and owners of SMEs are still not taking full advantage of the programme. Utilization of only 14% of the total sum set aside is on the low side. Secondly, concentrating the programme in Lagos indicates that the programme is facing the lack of the basic infrastructure necessary to spread to other States. Recall that the working document provides that 60% should go to the core real sector manufacturing firms, 30% to services and 10% to micro enterprises such as NGOs. 75% of the executed projects so far are in the service sector alone and this implies that banks are still averse to funding projects in the real sector. An important question to ask is why in spite of all the incentives and a much more open system of banks funding of SMEs, the programme is still not enthusiastically welcomed, both by the banks and the owners of SMEs. The answers may not be far from the causes of the risk-averse attitudes of banks to finance SMEs in Nigeria that still persists.

5. Causes of Banks' Risk-Averse Behaviour to Financing SMIEs in Nigeria

The World Bank survey on access to finance of Nigerian firms has demonstrated that most banks are reluctant to provide long term credit to small and medium scale industries in Nigeria. It is also obvious from the

survey that even when banks extend short-term credit to small and medium scale firms it is often based on high collateral requirements and the facilities do not go beyond a one-year term.

This behaviour is akin to risk aversion. A bank is risk-averse when it considers the expected value of returns on an investment as being less than the expected utility of the investment outlay. In other words, it is better not to invest and keep the money to earn interest since the interest payment on the asset is more certain than the expected return from investing in small and medium scale industries. This is encouraged by the high inter-bank rates and other high premium existing in the Nigerian financial sector. The obvious consequences of this risk-averse behaviour is that SMEs which rely on bank loans cannot plan on a long term basis thereby constraining growth plans and long term investment decisions. A number of reasons have been advanced to explain this risk-averse behaviour by banks. For the purposes of this discussion; we shall categorise these causes under three broad headings:

(i) A poor macroeconomic environment

(ii) Lack of basic infrastructure facilities.

(iii) Internal management problems of SMEs

The Nigerian macro-economic environment is known to be unstable. The most notable shocks are that of high interest rates, exchange rate disparity, unavailability, and dominance of the government sector in the economy. E.g. deficit financing and budgetary distortions etc.

- **Interest Rates:** High interest rates are not favourable to investors in the sense that the cost of funds could undermine profits, and cause a loss of the investment. Interest rates in Nigeria officially are as high as 23.6 % and this has a negative impact on the ability of small and medium scale industries to obtain credit from the banks. The situation is even more disturbing when considering the situation in the manufacturing sub-sector. The banks consider lending to the manufacturing sector as high risk, therefore the banks lend to firms in the manufacturing sub-sector on differential rates. At times, the interest rate goes as high as 36% or more. Evidence abounds to prove that big firms are given even lower interest rates (see the World Bank Survey; 2001). It has also been noticed that most of the big manufacturing firms are subsidiaries of the multinational companies, while the SMEs are mainly owned by Nigerians. In spite of the fact that the SMEs in the manufacturing sub-sector are greater in number and provide over 50% of the employment, the big firms, aided by banks, crowd them out of the credit market.

- **Exchange Rates:** Managing exchange rates in Nigeria has proved a very challenging task to many regimes. Before 1995, the Exchange Control Act of 1962, which essentially prohibited the sale and purchase of foreign currency, mainly featured a fixed exchange rate regime. The policy was aimed at controlling imports and the incidence of high tariffs (Sogunle, 2002). A partial liberalization of the exchange rate commenced in 1986, with the addition of SFEM. While exchange rate management under the Exchange Control Act of 1962 was reserved for official government business, the Second-tier Foreign Exchange Market was used for other commercial transactions. The disparities in the management of FOREX introduced distortions in its role in sustaining the business environment. While the FOREX (IFEM) market went as high as N126, per dollar, the government official rate was still N22 to the dollar this situation made it difficult for businesses to secure FOREX because of round tripping and instability in the price of foreign exchange. The excessive monetization of the petro-dollar has also led to surplus money supply. This affected the ability of small and medium scale industries to procure raw materials from abroad and equally constrains the availability of trade credits for SMEs by banks.

- **Inconsistency in Government Industrial Policies:** Njoku (2002) identifies inconsistencies in government policies as a major problem affecting the growth of small and medium scale industries. The inability of the government to execute budgets on time is a major restriction on the ability of manufacturing firms to factor tariff measures into their trade decisions. The second policy inconsistency is the sudden reversal of the backward interaction policy that required firms to source their raw materials locally. Now, all the raw materials such as cotton and malt are allowed into projects.

- **Lack of Infrastructural facilities:** Many banks blame their inability to fund SMEs on the poor economic climate prevalent in the country, citing for instance the low performance of public utilities as one of the factors threatening fund managers (Olanrewaju, 2001). However, Chris Onalo of the CMC international bank rejects the banks' complaint over poor infrastructure pointing out that the huge profit being declared in recent times by banks were clear indications that the operating environment was not as bad as they claim. But Anyaoku (2002) wonders why small and medium scale firms have to provide water, electricity, roads and even security required for them to operate. In no other countries do SMEs provide such services and still grow, he contends. The point is that the state of infrastructure in Nigeria is unacceptable. Electricity generation is unstable and inadequate; new roads are neither constructed nor old roads maintained; water supply is not sustainable etc. For banks to extend credit to SMEs, all these factors must be considered. At the end, it is realized that the cost of doing business is so high that the ability of the banks to recoup their investment is uncertain.

- **Internal Problems of SMEs:** Apart from the external problems that hamper the growth of SME's, there is an also serious internal problem that greatly constrains their growth and serves as a deterrent for banks to lend. These problems include:

- **Poor Management Practices:** Most SMEs do not have good management structures. Often the firms are owned by a family and this engenders poor internal control systems. Also because of poor management of the firms there is an obvious lack of a proper keeping of financial records. There is also a lack of technical and economic counseling since such businesses rarely engage the service of qualified consultants.

- **High Rate of Business Failure:** Because most small and medium businesses do not have access to the amount of external finance they require for their business, their capital base is often weak. A weak capital base cannot absorb a major shock to the business and this could lead to the failure of the business. Information about their businesses is kept as business secrets. They are reluctant to divulge these secrets for fear of being competed out of the market. The failure of SMEs can also derive from susceptibility to sudden policy changes. When a particular government policy is suddenly changed, the effect on SMEs could be devastating.

- **Poor Accounting Standards:** There is an incidence of poor accounting standards within the SMEs. Simple records of financial transactions are not kept and this creates loopholes for fraud. Improper records of business transactions certainly limit accessibility to institutional credit.

- **Shortage of Skilled Manpower:** The inadequacy of financial resources to recruit skilled manpower naturally restrains expansion and limits productivity and growth. Many SME's employ semi skilled or unskilled labour. This is of course hinders competitiveness.

- **Financial Indiscipline:** The problem of financial indiscipline has been highlighted as the major cause of the inability of the SMEs to access funds from the banks. Firms are most likely to divert funds meant for the business in funding other projects. This naturally will impact on the survivability of the business

and equally compromise the ability of the firm to pay back a loan.

6. Banks Risk- averse Behaviour to Financing SMEs : Implications for Financial Stability

Our analysis of the access to credit market for small and medium scale businesses in Nigeria has established two important facts: (i) macroeconomic instability and uncertainty in the business environment has forced banks to lend short to SMEs; (ii) such overdrafts and short term loans are made available at high interest rates of over 26% and they are also heavily collaterised. In a situation in which SMEs are mainly dependent on bank loans, this situation could be dangerous. The implication is that many SMEs do not have access to bank loans with grave implications for their growth and development.

Crocket (1997) defines a situation of financial instability as one in which the failure of one institution causes wide spread damage to the entire economy. Evidence abounds that the Nigerian financial system has undergone crises that have produced distress in the banking sector. One major potential implication for bank distress is a contagious loss of confidence in the banking system and the impact on the economy of contractions in the money supply and credit (See Raufman 1985, Benson et al 1986).

An important economic theory of bank distress is the inferior management theory, which explains that banks fail due to incompetence in management. Incompetence refers to the inability of the management to accurately assess the expected return and risk of bank assets. In general, incompetent managers select inefficient portfolios for the bank with dire consequences for the survival of such financial institutions. Over concentration on funding big businesses without diversification in banks' portfolios could lead to distress.

The second theory for bank problems is the moral hazard theory, which explains that bank failures occur because competent managers respond to financial incentives by taking excessive risks. This hypothesis blames structural imbalances, inappropriate economic policies, and regulatory and supervisory policies for creating some perverse incentives for banks to undertake excessive risks. In the past five years or so, a number of factors have combined to force banks to develop some risk-aversive behaviour as a means of hedging against failure. These factors induced increased surveillance by the regulatory institutions (CBN and NDIC), an unstable macroeconomic environment and stringent safety nets to avoid mismanagement and subsequent distress.

Unfortunately, the cautious behaviour of banks especially in extending loans to needy and important sectors like SMEs is impacting not only on the growth of output and GDP, but also on the effectiveness of monetary policy.

A combination of capital requirement constraints and bank reserve constraints which is often the case in Nigeria may impact on the extent that monetary policy is transmitted through the credit channel (Peek and Rosengren 1995). Berger and Udell (2001) observe that under the credit channel of monetary policy transmission, a monetary tightening reduces bank reserves which force banks to contract their lending. This contraction may have particularly strong effects on small businesses that rely on relationship lending and do not have access to public capital markets or other sources of external finance. Kashyap and Stein (1997) report that tight monetary policy reduces bank lending and lowers the growth and investment of small businesses (also see Gertler and Gilchrist 1994). Under the second credit channel the balance sheet channel- a monetary tightening raises interest rates, depressing the financial rates on the balance sheets of potential borrowers, reducing the value of their collateral and/or reducing their credit scores. In turn this deterioration in credit worthiness may make it more difficult for small business borrowers who rely on transaction-based lending such as Nigerian SMEs to access credit. Empirical evidence also

supports the balance sheet channel as affecting the condition of small businesses (see Bernenke, Gertler and Gilchrist, 1996).

Since 1986, when the Nigerian financial system was deregulated, and the monetary policy approach changed from an indirect to a direct or market-based approach, which relies on the monetary authorities to influence the credit operations of banks through the control of bank reserves, has not yielded any meaningful progress either in reducing inter-bank rates or ensuring a more stable foreign exchange market. It has been noticed that the spate of distresses that rocked the Nigerian financial system in the mid 1990s were preceded by spiraling inter-bank rates and uncontrolled liquidity surges in the financial sub-sector (Ezema, 1998)

Our argument therefore is that if a monetary policy stance that induces the reduction of bank credit, distorts the credit channel of monetary policy transmission and eventually does not achieve a reduction in interest rates, in an unstable macroeconomic environment could send wrong signals to financial institutions. This could induce a credit crunch and stifle the growth of SMEs, which would reduce output growth and ultimately return the entire economy to a regime of instability, including the financial system.

7. Models of Funding SMEs from other Countries

- **INDIAN MODEL**: The basic principle guiding the funding of SMEs in India is that the government regards small business as the 'eggs' that hatch big businesses. Apart from adequate incentives, the government supports SMEs by bulk purchasing their products and retailing them both for the domestic market and for exports. To facilitate their access to bank credits, the government issues SMES LPOS. Banks accept such contract papers as collateral. When small business bid for Government contracts with small ones, big businesses must bid 15% less than small businesses for them to supply government needs. Payments are promptly made to the SMEs and this encourages their growth.

BANGLADESH-THE GRAMEN MODEL: Prof Yunus Mohammed developed the GRAMEN MODEL. In this model, banks target potential borrowers for its core operations and form them into groups. Then soft loans are made available to these SMES, repayable within a specific period before others in that strategic group can benefit from the scheme. With this system there is a subtle pressure from other SMES that are members of this strategic core on the benefiting group to repay so that others can benefit from the scheme. This has introduced healthy capitalization among SMES in Bangladesh through factoring the credibility of the borrowers.

- **THE BRAZILIAN MODEL**:The main thrust of the Brazilian model is that apart from heavy funding and subsidies, the Government provides infrastructure in an area and encourages the cluster of industries in such areas. The SINOS VALLEY shoe cluster industries in Brazil have revolutionized the Brazilian shoe industry. For the past 30 years, over 500 SMEs that produce shoes are located there. Today Brazil is the worlds third largest shoe exporter.

8. Summary and Recommendations

This paper sheds light on the causes of banks risk- averse behaviour in lending to SMEs in Nigeria. We reviewed a survey by the World Bank on access to credit from Nigerian banks. The results of the survey confirmed that small and medium scale firms are discriminated against in the provision of medium to long-term loan facilities.

The Bankers Committee introduced the small and medium scale industries equity participation programme (SMIEIS) designed to solve the problem of funding SMEs in Nigeria. We reviewed the interim report on this programme by CBN. Based on the analysis of the two reports, we

identified a number of causes of banks' risk-averse behaviour to lending to SMES. Apart from external factors hinging around inadequate capital base of banks, there are the internal problems of the SMEs responsible for banks attitude towards funding them. We analyzed the monetary policy implications of these problems and concluded that it has a potential to induce economic and financial instability. There is no way Nigeria can achieve sustainable funding of SMEs unless both the external and internal problems of SMEs are solved. Banks react to the stimulus of the macroeconomic environment, and as long as the environment remains unconducive, banks will continue to exhibit risk-averse behaviour irrespective of the programmes put in place to address this problem, including the SMIEIs Programme. Also, strengthening the legal and institutional framework for the operation of microfinance institutions that includes, streamlining of the operational guidelines and tax incentives for SME's would be of benefit. This will include explicit recognition of the informal sector and the resolution of the constraints to implementation of the SMIEIs and design of special incentives targeted at investors who would wholly specialize in exporting to foreign markets.

Bank capitalization may also influence the way lending supply reacts to output shocks. Bank capitalization, that is bank wealth, is linked to risk taking behavior and then to banks' portfolio choices; this means that lending of banks with different degrees of capitalization (or risk aversion) may react differently to economic downturns. While a wide stream of literature on financial intermediation has analyzed the relation between bank capitalization and risk taking behavior, the nature of this link is still quite controversial. Capitalization also influences the way banks react to GDP shocks. Again, the credit supply of well-capitalized banks is less pro-cyclical. This indicates that well capitalized banks are not risk-averse and, as their borrowers are less risky, suffer less from economic downturns via loan losses. Moreover, well-capitalized banks can better absorb temporarily financial difficulties on the part of their borrowers and preserve long term lending relationships.

The government needs to urgently address the problem of infrastructural development as a national priority. In order to turn-around the dwindling fortunes of the manufacturing (SMEs in particular) sector, government's focus in this sector would be the removal of infrastructural constraints on SMEs and expedite action on establishment of the clusters and industrial parks. These critical ingredients to increasing the participation of the private sector will be targeted at “growth poles”, with banks taking the center stage. Mega banks adequate *'capital base'* should play a more active role in actualizing the objectives of SMIEIs by setting up separate desks to manage the fund and vigorously pursuing the idea as with any other bank product and undertaking studies aimed at attracting foreign investors, scanning, overseas markets and monitoring developments that have implications for the sector. The banks should adopt relationship lending as a dominant bank rule in funding SMEs. This will mitigate the problem of weak asset-based collateral. The macroeconomic environment should be stabilized through proper fiscal and monetary policy coordination to reduce interest rates, stabilize prices and reduce rent seeking behaviour among economic agents especially among banks.

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