Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.2, 2015

The Role of Bank of Industry (BOI) in the Development of Small and Medium Scale Enterprises (SMEs) in Bauchi Metropolis

Sama'ila Idi Ningi[1*] Tahir, Hussaini Mairiga [1,2]
1.Department of Accounting and Finance Technology Faculty of Management Technology AbubakarTafawaBalewa University, Bauchi Nigeria
2.Department of Economics Faculty of Social and Management Sciences Bauchi State University, Gadau Nigeria
*Email of corresponding author: idiningi@yahoo.com

Abstract
The aim of this study is to assess the contribution of the Bank of Industry towards SMEs industrial development in Bauchi metropolis. A number of descriptive and graphical analyses were conducted to assess the correctness of the data file. Accordingly, SPSS version 17.0 descriptive option was used to determine means and standard deviation on all the variables. Primary source of data was utilised. All questionnaires were carefully identified so it was easy to trace and make corrections. The population of the study is 50 Small and Medium Scale Businesses in Bauchi metropolis. Due to data screening only responses of fourty (40) valid Questionnaires out of the fifty (50) SMEs were analysed. Correlation was used for the analysis. Small and Medium Enterprises (SMEs) in Bauchi Metropolis are highly affected by the role the Bank of Industry is playing and the loans collected by the SMEs from the bank are utilized for the purposes they are intended as revealed by the research. The expansion of the power of BOI as the apex institution for the development and promoting of SMEs in Nigeria should be considered with vigor, a well-conceived and coordinated scheme aimed at strengthening and improving the information system and counseling services for wider dissemination and greater effectiveness should also be pursued.
Keywords: Role of Bank of Industry, Development, Small nd Medium Scale Enterprises

1.Introduction

In any economic system, the importance of small and medium scale business cannot be over-emphasised. This is particularly true, because of the numerous roles they play toward the overall economic and industrial development of the economy. Basil (2005) stated that any effort towards the restructuring of the economy without particular emphasis on the development of small and medium scale business is not likely to be very successful in the long term. The fact that small and medium scale businesses determine the direction and extent of development of the country's economy make them very important organisations. It is also a fact that most of the large scale industries depend heavily on the small and medium industries for their inputs and basic raw materials. In Nigeria, hope for economic growth now lies in the development and survival of the small and medium scale businesses sub-sector (Basil, 2005).

That is what calls for study of the role of Bank of Industry Limited (BOI) in the provision of finance and management support for such industries in Nigeria. The sole aim of this study is therefore to identify and assess the contribution of the Bank of Industry towards SMEs industrial development in Bauchi metropolis.

1.1 Role of Banks in Economic Growth

One of the important roles of banks is in spurring growth. There has been a debate on the relative effectiveness of banks compared to financial markets in doing this. This debate was originally conducted in the context of German and UK growth in the late nineteenth and early twentieth centuries. Gerschenkron (1962) argued that the bank-based system in Germany allowed a closer relationship between bankers providing the finance and industrial firms than was possible in the market-based system in the UK. Goldsmith (1969) pointed out that although manufacturing industry grew much faster in Germany than the UK in the late nineteenth and early twentieth centuries the overall growth rates were fairly similar. Levine (1996) used a broad data base covering 48 countries over the period 1980-1995. He found that the distinction between bank-based and market-based systems is not an interesting one for explaining the finance-growth nexus. Rather, elements of a country's legal environment and the quality of its financial services are most important for fostering general economic growth. In contrast, in a study of 36 countries from 1980-1995Tadesse (2002) did find a difference between bank-based and market-based financial systems. For underdeveloped financial sectors, bank-based systems outperform market-based systems, while for developed financial sectors; market-based systems outperform bank-based systems. Love (2003) shows that higher stock market liquidity or greater bank development lead to higher growth, irrespective of the development of the other. There are some evidence that financial markets and banks are complements rather than substitutes. Demirguç-Kunt and Maksimovic (1998) show that more developed stock markets tend to be associated with increased use of bank finance in developing countries. There is a large theoretical literature on the relative merits of bank-based and market based systems for innovation and growth. Allen and Gale (1994) ask whether financial markets or banks are better at providing finance for projects where there is diversity of opinion as in the development of new technologies. Diversity of opinion arises from differences in prior beliefs, rather than differences in information. The advantage of financial markets is that they allow people with similar views to join together to finance projects. This will be optimal provided the costs necessary for each investor to form an opinion before investment decisions are made are sufficiently low. Finance can be provided by the market even when there is great diversity of opinion among investors. Intermediated finance involves delegating the financing decision to a manager who expends the cost necessary to form an opinion. There is an agency problem in that the manager may not have the same prior information as the investor. This type of delegation turns out to be optimal when the costs of forming an opinion are high and there is likely to be considerable agreement in any case. The analysis suggests that market-based systems will lead to more innovation than bank-based systems.

1.2 Concept of Small and Medium Enterprises

Aderemi (2003) defined SME as any enterprise with a maximum asset base of N200 million, (excluding land and working capital); a labour size of between 10 and 200 employees; usually small, owner or family managed business offering basic goods and services; and tend to lack organisational and management structures. Some major criteria used in the definitions of Small Scale Enterprises (SSEs) include number of employees, financial strength, sales value, initial capital outlay, relative size, independent ownership and the type of industry.

1.3 Historical Development and Orientation of Small Scale Industries in Nigeria

Small scale industry orientation is part and parcel of Nigeria. Evidence abound in our respective communities of what successes our great grandparents made of their respective trading concerns, yam barns, iron smelting, farming, cottage industries and the likes. So the secret behind their success of a self-reliant strategy does not lie in any particular political philosophy, so much as in the people's attitude to enterprise and in the way by which the right incentive is adequate enough to make risk worth taking are provided. Economic history is well stocked with enough insights into the humble beginnings of present day grand corporations. Evidences abound that almost all of the multinational giant corporations were cottage enterprises, growing as their industry grew, and through their own sheer ability either reproduce existing products more cheaply or improve their ability. Even at the international level, in the early stages of her industrialization, Japan's economy was dominated by traditional industries, cottage firms, and by a large number of small scale firms, drawing their strength not from abundance of capital but rather from her supply or labour. Back home in Nigeria, the respective government policies accorded and gave priority to the country's small scale enterprises. This has been in recognition that they constitute the fountain head of vitality for the variation economy and consequently their problems have been viewed as those of the nation, by virtue of their number, diversity, penetration in all sectors of production and marketing, contribution to employment and to the prosperity of the particular areas in which they operate. In concrete terms, small scale industries constitute a greater percentage of all registered companies in Nigeria, and they have been in existence for quite a long time. Majority of the small scale industries developed from cottage industries to small enterprises and from small scale to medium and large scale enterprises (Basil, 2005).

1.4 The Importance of Small and Medium Enterprises in Economic Development

Among the significant roles played by the SMEs are as follows: First, the SMEs provide the training ground for the development and growth of indigenous entrepreneurs. They serve as vehicles for the propagation and diffusion of innovative ideas for far reaching dimensions. They are more flexible and can easily adapt to changes in the external environment. A second social contribution of SMEs according to Basil (2005) is the transformation of traditional industry. In both developed and developing countries, the traditional sector has served and continues to serve as the springboard for launching into a vibrant modern sector. Thus a fledging SMEs sector can be a means of achieving a smooth transition from the traditional to the modern industrial sector (United Nations, 1984). Third, SMEs due to their labor intensity and usage of low-level technology are able to garner and use the widely available local labor supply. SMEs assist in the dispersal of economic activities through encouraging the development and modernization of these activities outside the major metropolitan areas. Thus, they are able to stem the tide of rural-urban drift. Another economic role of the SMEs is their ability to mobilize financial resources, which would otherwise be idle or untapped by the formal financial sector (Iornem 2000). Fifth, SMEs facilitate the conservation of foreign exchange and the development of the scarce resources of management in developing countries. This is mainly due to their size or scale of operations and unsophisticated management structure. A high percentage of the profit of SMEs, most of which are locally owned is known to be ploughed back to ensure a higher rate of future growth and that the SMEs provide the desired linkage effects, especially agro-industrial linkages. It is pertinent to highlight the contributions of SMEs to the economics of some countries and also, that of Nigeria. A study carried out by the Small Business Research

Unit in the United Kingdom between the periods 1982-1988, showed that SMEs created between 800,000 and 1,000,000 new jobs. Also, Gibb (1996) opined that small and micro enterprises were by far the most common form of enterprises in Europe and constitute over 98% of all registered Companies. In Japan, the industrial strength of the nation is premised on SMEs. They employ more than 82% of the total labour force and account for more than 50% of the total manufacturing value added. In Nigeria, the SMEs have through BOI assisted projects and created a lot of jobs (Iornem, 2000)

1.5 Small and Medium Scale Enterprises in Nigeria

The Nigerian industrial scene is characterized by a wide diversity of industrial structures, technologies, factor intensities, input requirements and product qualities. Also, the industrial scene shows different levels of organization, administration/managerial and technical skills. This is because Nigeria adopted the classical approach to industrialization. However, the industrial development of the 1960s and 1970s concentrated on Large Scale Industries (LSI). These industries subscribed to by the government and foreign multi-nationals had a dramatic downturn in the early 1980s as a result of the collapse of the oil boom. The reduction in the foreign exchange allocated for the importation of raw materials and spare parts for these LSIs, led to the general shut-down or reduction in capacity utilization of these firms between 1983 and 1996. Accompanying this economic downturn was massive retrenchment by the industries, scarcity of basic goods and services and the subsequent devaluation of the nation‘s currency (the Naira). The above economic scenario led to the adoption of the Structural Adjustment Programme (SAP) in 1986 and a change in the industrial policy in 1988. This change shifted the priority focus from LSIs to SMEs. The change was highly necessary. According to Iornem (2000), the biased strategy towards large scale production activities invariably undermined the growth and development of indigenous industries most of which are small and medium scale in sizes. The public sector preoccupation with public sector investment led to the neglect of and inadequate attention to development of infrastructural facilities – roads and railways, water and human resources development, telecommunications and lastly electricity and other energy supplies. Also, the SMEs are widely accepted as having greater capacities to utilize locally available raw materials, technologies, manpower and promote even and balanced industrial development.

The major activity in the SMEs development occurred between 1987 and 1989 with the establishment of several institutions to provide financial assistance to small and medium enterprises. Such institutions include: The Nigeria Industrial Development Bank, the Nigerian Bank for Commerce and Industry, Nigerian Agricultural and Cooperative Bank and the National Economic Reconstruction Fund (NERFUND). However, by the mid-1990s, the funds being made available by these institutions had dried up and most of the SMEs had collapsed as a result of the debt burden (Inflated foreign exchange) and the value of the Naira. In addition to the above, the contributions made by the SMEs to the economy were low. The above scenario necessitated the formulation of new policies and attitudes towards the growth and development of SMEs in Nigeria.

1.6 Credit Schemes and Institutions

The access to institutional finance by SMEs has remained a problem to the development of the sub-sector in Nigeria. In the area of working capital (short term finance), the larger industries edge out the small enterprises. The SMEs are classified as high risk ventures by financial market operators and therefore remain unassisted. By and large, this problem led the government to establish specialized institutions and credit schemes to support SMEs development. These agencies are mainly Development Finance Institutions/Banks (DFIs), which Iornem (2000) considers to be having a three-tier structure in Nigeria. The first-tier includes the National Development Banks i.e. the National Agricultural and Rural Development Bank (NACRDB) now Bank of Agriculture (BOI), Urban Development Bank (UDB), National Bank of Commerce and Industries (NBCI) and the Nigerian Export-Import Bank (NEXIM). The second-tier consists of Inter-State Development Finance Institutions (DFIs) i.e. The New Nigeria Development Company Limited (NNDC). The third-tier consists of the state-owned Development Finance Institutions.

1.7 Establishment of Bank of Industry (BOI)

The Bank of Industry Limited (BOI) was established in October, 2001, then Nigerian Industrial Development Bank (NIDB) Limited, following it's, to absorb the mandate of Nigerian Bank of Commerce and Industry (NBCI). It is Nigeria's oldest, largest and most successful Industrial financing institution. The Nigerian Industrial Development Bank (NIDB) Limited was incorporated in 1964 to address the problem of long term financing to manufacturing and service industries in Nigeria. The Bank took off in 1964 with an authorised share capital of $2 million.

BOI devotes 85% of the Bank's resources to SMEs and 15% for large enterprises who have linkages with small or medium enterprises. As can be seen in table 1, BOI has partnered with State Governments and encourages them to set up Industrial Parks (PIs) to assist in situating entrepreneurs in the same area and help them reduce operating costs. The Bank also renders support to businesses that add value to local raw materials (creating value chains), generate employment, and have the potential for export. The bank carries out its mandates with the aid of its subsidiaries highlighted in table 1.

Strong external working relations have also been developed with both local and International Development Organisations such as; United Nation Development Programme (UNDP), United Nations Industrial Development Organisation (UNIDO), African Development Bank (AfDB), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Nigerian Association of Small Scale Industrialists (NASSI) and Nigerian Association of Small and Medium Enterprises (NASME), Manufacturers Association of Nigeria (MAN) etc. The bank also partners with commercial banks that assist the entrepreneurs with working capital (Oputu, 2012)

Table 1: BOI Triple Role: Products and Services.

Financier	Partner	Advisor
1. Lender- Long and medium term loans, structured working capital. 2. Investor- Equity Financing 3. Finance Arranger- Co-Financing/Syndication 4. Fund Mobiliser- Management of specialised Funds 5. Grant-maker BOI's Subsidiaries: Leasing, Trustees, Insurance, Micro-financing, etc. 6. International Operations/Trade Services	1. Catalyst- Facilitating business' access to market, technical resources etc. 2. Agent 3. Development facilitation 4. Infrastructure Development/Cluster Facilities	1. Advocacy 2. Business support services to entrepreneurs/companies 3. Capacity building & training 4. Support for Research and Development 5. Industrial Policy analysis and Formulation 6. Development Information
BOI Subsidiaries 1. Leasing company of Nigeria 2. NIDB Trustees Limited (NLT) 3. NIDB Consultancy and Finance Limited (NIDB Consult) 4. Insurance and Development Insurance Brokers (IDIB)		

Source: Oputu (2013)

1. Methodology

A number of descriptive and graphical analyses were conducted to assess the correctness of the data file. Accordingly, SPSS version 17.0 descriptive option was used to determine means and standard deviation on all the variables (Field 2009). All individual questionnaires were carefully identified so it was easy to trace and make corrections. The population of the study is the 50 Small and Medium Scale Businesses in Bauchi metropolis. Due to data screening only responses of fourty (40) valid Questionnaires out of the fifty (50) SMEs were analysed. Correlation was used for the analysis. According to Hinton et al, (2004) correlation is used to describe the strength and direction of relationship between variables and is the common measure of linear relationship; the coefficient range from -1 to +1. Where the value is +1, it implies perfect positive correlation while, on the hand where the value is -1 it implies perfect negative correlation.

Equation 1, explains the correlation between Development of SMEs and the Role of the Bank of Industries (ROBOI). Similarly, it explains the association between the Development of SMEs and Access to Credit by SMEs (ACSMEs). It also explains the correlation between the Development of SMEs (DEVSMEs) and Utilisation of Credits by SMEs (UTLSMES).

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{(n\sum x^2 - (\sum x)^2)(n\sum y^2 - (\sum y)^2)}} \qquad \text{equation ----1}$$

2. Data Presentation and Analysis

According to table 2, the mean of the distribution ranges from 1.125 for firm applying for loan without purpose to 2.975 for BOI grant a lot of loan to firm and the median also ranges from 1.00 for stringent conditions attached to BOI loans to 3.00 for most of the variables such as BOI support to the SMEs. The mode of the distribution is similar to the median of the distribution. The minimum for all the variables is 1.00 except for BOI grant a lot of loan to the firms and the maximum all is 3.00 except for firm applying for loan without purpose which is 2.00. The standard deviation ranges from the minimum 0.15811 for BOI grant a lot of loans to SME firm to the maximum 0.94868 for BOI play significant role on the development of SME firms.

Table 2: Analysis of Questionnaires Administered

	BOI Support My Firm	BOI Offer Feasibility Assistance	BOI Play Sig Role On The Devt Of My Firm	BOI Grant A Lot Of Loan To My Firm	My Credit Requirem-entHigher Than What BOI Offers	Stringent Conditions Are Attached To BOI Loans	My Firm Utilise The Loan Collected From BOI	My Firm Apply For Loan without purpose	There Are Proper Recording/Accounting Of Loans From BOI	My Firm Has Witness Tremendous Growth In Output	Growth In Earnings	My Firm Become More Competi-Tive
Mean	2.3500	2.4750	2.3500	2.9750	2.9000	1.50000	2.75003.0000	1.1250	2.5500	2.6250	2.5500	2.6000
Median	3.0000	3.0000	3.0000	3.0000	3.0000	1.00000	3.00	1.0000	3.0000	3.0000	3.0000	3.0000
Mode	3.00	3.00	3.00	3.00	3.00	1.000	.54302	1.00	3.00	3.00	3.00	3.00
Std. Deviation	.86380	.81610	.94868	.15811	.37893	.847319		.33493	.74936	.74032	.81492	.74421
Minimum	1.00	1.00	1.00	2.00	1.00	1.000	1.00	1.00	1.00	1.00	1.00	1.00
Maximum	3.00	3.00	3.00	3.00	3.00	3.000	3.00	2.00	3.00	3.00	3.00	3.00

N=40 Source: Field Survey 2013

After presentation of the data the relationship among the variables under study is analysed below using correlation analysis, see table 3. The correlation co-efficient result presented in Table 3, revealed that the correlation between Role of the Bank of Industries (ROBOI) and Development of SMEs (DEVSMEs) is 0.379 which is positive, the correlation for Access to Credit by SMEs (ACSMEs) and Development of SMEs (DEVSMEs) is negative i.e. -0.211. The correlation between Utilisation of Credits by SMEs (UTLSMES) and Development of SMEs (DEVSMEs) is positive (i.e. 0.461). The correlations for Role of the Bank of Industries (ROBOI) and Utilisation of Credits by SMEs (UTLSMEs) are significantat @5% level of signifiance (*p-value<0.05),* ACSMEs is negative and not significant.

Table 3: Pearson Correlations on the Financial and Management Support of BOI and factors influencing the Development of SMEs in Bauchi Metropolis

	DEVSMEs	ROBOI	ACSMEs	UTLSMES
Pearson Corrélation DEVSMEs	1.000			
ROBOI	.379 0.008*	1.000		
ACSMEs	-.211 .0096	.020 0.0451	1.000	
UTLSMES	.461 0.001*	.193 0.117	-.481 0.001*	1.000

N= 40 * Significant @ 5%

This implies that there exist high positive relationship between the development of Small and Medium Scale Enterprises (SMEs) and ROBOI and UTLSMES. Also, the t statistic test result revealed that the probability value (*p-value*) is 0.008 and 0.001 respectively and this indicates significance at 5% level. Therefore, the analysis revealed that there exist significant positive relationship between SMEs, the role of the Bank of Industry and the utilization of loans collected from the bank of industries by the SMEs in Bauchi metropolis.

3. Conclusion

Small and Medium Enterprises (SMEs) in Bauchi Metropolis are highly affected by the role the Bank of Industry is playing in the form of credits collected by the SMEs and the utilization of the loans for the purposes they are intended as revealed by the research. The expansion of the power of BOI as the apex institution for the development and promoting of SMEs in Nigeria should be considered with vigor, a well-conceived and coordinated scheme aimed at strengthening and improving the information system and counseling services for wider dissemination and greater effectiveness should also be pursued.

References

Aderemi A. (2010) ‘’ Small and Medium Enterprises- the Nigerian situation'' European Central Bank of Nigeria (2010) ‘’Bank of Industry corporate brief’’ BOI publication corporate publication Division BOI, Lagos, Nigeria.
Allen, F and Gale, D (1994)."A Welfare Comparison of the German and U.S. Financial Systems," Working Paper No. 94-12. The Wharton Financial Institutions Center.
Basil A. N (2005) Small and Medium Enterprises (SMEs) In Nigeria: Problems and Prospects, Unpublished PhD Thesis in Management the St. Clements University
Demirgüç-Kunt, A, and Maksimovic, V. (1998). Law, Finance, and Firm Growth, Journal of Finance 53.
Evelyn N Oputu (2012) The Role of Bank of Industry in the Growth and Sustainability of the Industrial Sector of the Nigerian Economy, Annual Lecture of The College of Management Sciences Bells University of Technology, Ota Ogun State
Evelyn N. Oputu (2006) ‘’Optimising Nigeria’s Industrial Potentials’’ The official quarterly journal of Bank of Vol.1,
Evelyn N. Oputu (2006) Optimising Nigeria’s Industrial Potential, Quarterly Journal of BOI 1 (1)

Evelyn N. Oputu (2007) ''Delivering on our mandate'' Bank of Industry publication 3(1)
Evelyn N. Oputu (2007) ''Delivering on our mandate'' Bank of Industry publication 3 (1)
Field, A. (2009). Discovering statistics using SPSS. SAGE Publications.
Gerschenkron, A (1962). Economic Backwardness in Historical Perspective - A Book of Essays, Cambridge: Harvard University Press.
Goldsmith, R. W. (1969). Financial Structure and Development, New Haven, CT: Yale University Press.
ISornem, David (2000), How to Start and Manage Your Own Business,JVC Press, Kaduna
Levine, R (1996). Financial Development and Economic Growth Views and Agenda: The World Bank Policy Research Department Finance and Private Sector Development Division October.
Love, I (2003). "Financial Development and Financing Constraint: International Evidence from the Structural Investment Model." Review of Financial Studies 16.
Ndukwu E. (2001) ''New focus Economic key point'' Ever May Nigerian Publishers, Port Harcourt, Nigeria
Perry R. Hinton, Charlotte Brownlow, Isabella McMurray & Bob Cozens (2004). SPSS Explained, Routledge 27 Church Road, Hove, East Sussex USA
Tadassee, S. (2002)."Financial Architecture and Economic Performance: International Evidence," Journal of Financial Intermediation, 11.