Small and Medium Scale Enterprises Financing In Nigeria: Problems and Prospects

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ABSTRACT
Having identified the indispensable roles of SMEs as the most viable engine for job creation, economic growth and development, and the need for the development of the Small and Medium Scale Enterprises in Nigeria, this paper limits its focus amidst many other factors inhibiting and stagnating the growth of SMEs in the country to financing. Adopting the descriptive survey method, this paper examined the major interventions in forms of institutions, policies and programmes in this all important sector, and how much these interventions have made finances accessible to the SMEs. This paper, also identified among others, the stringent and unrealistic conditions for accessing these interventionists funds through the banks, and the no clear standard guideline for banks to comply in the disbursement of these funds as the major obstacle to SMEs financing in Nigeria. Recommendation was thus made among others, for an approved guideline for all participating banks to comply in the administration of these interventionists funds.

Keywords: Small and Medium Enterprises, finance, employment generation, Nigeria,

INTRODUCTION
The dynamic role of Small and Medium Enterprises (SMEs) in developing countries as engines through which the growth and development objectives of developing countries can be achieved has long been recognized and stated in the literature. The advantages claimed for Small and Medium Enterprises (SMEs) are various, including: the encouragement of entrepreneurship (Ayozie and Latinwo, 2010; Ayesha, 2007); the greater likelihood that SMEs will utilise labour intensive technologies (Salami, 2003) and thus have an immediate impact on employment generation (Ayozie and Latinwo, 2010; Udechukwu, 2003; Ogjuruba et. al., 2004; Henriquees and Klock 1999); they can usually be established rapidly and put into operation to produce quick returns; SMEs development can encourage the process of both inter- and intra-regional decentralization (Ogjuruba et. al., 2004); and, they may well become a countervailing force against the economic power of larger enterprises (Salami, 2003). More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Ayozie and Latinwo, 2010; Udechukwu, 2003).

Small and Medium Scale Enterprises have been acknowledged to have huge potential for Sustainable Development. Yet in Nigeria, the Small and Medium Scale Enterprises sub-sector has stagnated and remains relatively small in terms of its contribution to the Gross Domestic Product (GDP). Activity mix in the sector is also quite limited - dominated by import dependent processes and factors. Although there
is no precise data, imprecise indicators show that capacity utilization in the sector has improved perceptibly since 1999 due to the return of democratic rule and the economic reforms of the government. But the sub-sector is still faced with a number of constraints with inadequate financial facilities as the principal constraint.

Finance has been viewed as a critical element for the development of Small and Medium Scale Enterprises (SMEs). Previous studies have decried the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development (Berger and Udell, 2004; Wattanapruttipaisan, 2003; Ogijiuba et. al., 2004; Hossain, 1998 etc.). Typically, Small and Medium Scale Enterprises (SMEs) face higher transactions costs than larger enterprises in obtaining credit (Lee, 2004). Poor management and accounting practices have hampered the ability of Small and Medium Scale Enterprises (SMEs) to raise finance (Lee, 2004). Information asymmetries associated with lending to small-scale borrowers have restricted the flow of finance to SMEs (Berger and Udell, 2004).

While finance is obviously not the only problem militating against the development of the Small and Medium Scale Enterprises (SMEs), it is certainly the most formidable (Lawrence, 2003). Like any other investment in the real sector of the economy, investment in Small and Medium Scale Enterprises (SMEs) is relatively bulky because of the need for fixed assets such as land, civil works, buildings, machinery and equipment and movable assets. Invariably, loans to Small and Medium Scale Enterprises for capital investment must be long-term in order to avoid a fatal mismatch between project gestation and loan maturity. Consequently, the cost of funds is a critical factor in the sense that it impacts significantly on the competitiveness and survival of these enterprises. Long gestation in an unstable environment coupled with unsound financial packaging tends to subject SMEs to a high failure rate, which in turn makes the sector relatively risky and unattractive to the banking system’s credit.

Small and Medium Scale Enterprises (SMEs) often operate at such a low scale that is unattractive to banks. Many of them are unincorporated and banks are not forthcoming in investing in a multiplicity of small ventures that are scattered all over the country. Besides, Small and Medium Scale Enterprises are mostly family businesses and they are therefore reluctant to open their businesses up, especially to the banks that they regard as intruders. The concomitant effect is that less financial facilities are made available to Small and Medium Scale Enterprises (SMEs) by banks.

Firms depend on a variety of sources of financing, both internal and external. The relationships among these sources and their effects on investment, however, remain unclear in the literature. In the case of SMEs, bank credit or loan is major alternative of external funding. According to Valverde et al (2005) bank credit play a crucial role in providing external financing to Small and Medium Scale Enterprises (SMEs). But in Nigerian context, this crucial source of finance for Small and Medium Scale Enterprises is apparently non-functional. This is evident in the ratio of loans to Small Scale Enterprises to Commercial banks’ total credit, which shows that a meager 0.15% of commercial banks’ total credit was granted to Small Scale Enterprises in the last quarter of 2010 (CBN, 2010). More worrisome is the fact that this ratio has been falling over the years and continued unabated in the post-consolidation era.

CONCEPTUALIZATION

There is no one definition of Small and Medium Scale Enterprises (SMEs) in Nigeria as in other economies of the world. SMEs in Nigeria are defined in the context of the following:

- the size or amount of investment in assets
- total annual turnover, and
- The number of employees.

Within this conceptual framework, the classification of enterprises as ‘medium', 'small' and ‘micro’ enterprises naturally varies from one economy to another. In Nigeria, the National Council of Industry (NCI), under the Federal Ministry of Industries, periodically revises the classification of SMEs. Also in Nigeria, other institutions, such as the Central Bank of Nigeria (CBN), the Nigerian Association of Small Scale Industries (NASSI), the National Association of Small and Medium Enterprises (NASME) among others adopt classifications that vary from one another and from those of the National Council of Industry.
There is however, greater concurrence of opinion when it comes to defining SMEs in terms of assets' value than on any other basis as the vagaries of business cycle impact more on turnover and the number of people employed on assets' value.

The table below divides SMEs into Medium Scale (MSE), Small Scale (SSE) and Micro Enterprises (ME). The National Council of Industry defines a medium scale enterprise as any company with operating assets less than ₦200 million, and employing less than 300 persons. A small-scale enterprise, on the hand, is one that has total assets less than ₦50 million, with less than 100 employees. Annual turnover is not considered in its definition of an SME. The National Economic Reconstruction Fund (NERFUND) defines a SSE as one whose total assets is less than ₦10 million, but made no reference either to its annual turnover or the number of employees. These and other definitions of NASSI, the National Association of Small and Medium Enterprises (NASME), the Central Bank of Nigeria and other institutions are indicated in table 1.

Table 1: Summary Definitions

<table>
<thead>
<tr>
<th>Institution</th>
<th>MSE Assets (m)</th>
<th>SSE Assets (m)</th>
<th>ME Assets</th>
<th>MSE Annual Turnover (m)</th>
<th>SSE Annual Turnover (m)</th>
<th>ME Annual Turnover (m)</th>
<th>MSE No. of Employees</th>
<th>SSE No. of Employees</th>
<th>ME No. of Employees</th>
</tr>
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<tbody>
<tr>
<td>NCI</td>
<td>&lt;200</td>
<td>&lt;50</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>&lt;300</td>
<td>&lt;300</td>
<td>&lt;10</td>
<td>&lt;10</td>
</tr>
<tr>
<td>CBN</td>
<td>&lt;150</td>
<td>&lt;1</td>
<td>n.a</td>
<td>&lt;150</td>
<td>&lt;1</td>
<td>&lt;100</td>
<td>&lt;100</td>
<td>&lt;50</td>
<td>n.a</td>
</tr>
<tr>
<td>NERFUND</td>
<td>n.a</td>
<td>&lt;10</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>NASSI</td>
<td>n.a</td>
<td>&lt;40</td>
<td>&lt;1</td>
<td>n.a</td>
<td>&lt;40</td>
<td>n.a</td>
<td>3-35</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>NASME</td>
<td>&lt;50</td>
<td>&lt;50</td>
<td>&lt;1</td>
<td>&lt;500</td>
<td>&lt;10</td>
<td>&lt;100</td>
<td>&lt;50</td>
<td>&lt;10</td>
<td>&lt;10</td>
</tr>
</tbody>
</table>

Source: World Bank, SME country Mapping 2001

The Committee for Economic Development of United States of America (1974:14) identifies that if a business is characterized by two or more of the following four features, it is a small business: the owners are also managers, the capital for running the business is supplied, and one individual or a small group holds ownership, the area of business operations is mainly local; and when compared to other businesses in the field, the business is small. In order to cover all classes of SMEs, this paper will adopt the NASME definition of the SMEs.

**SMEs Funding Challenges and Interventions**

Owing to the inaccessibility of funds/loans from the banks by the SMEs, the Banker’s Committee of the Central Bank of Nigeria (CBN) initiated the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) which required all banks to set aside 10 per cent of their Profit After Tax (PAT) for equity investment and promotion of small and medium enterprises. The funding was to come in the form of equity investment in eligible enterprises and or loans at single digit interest rate in order to reduce the burden of interest and other financial charges that arise under normal bank lending operations. The SMEEIS was made voluntary, leaving the prerogative of participation to the banks. It was not surprising to find out that only a handful of banks chose to actively participate in the scheme, in numbers that were insufficient to meet the funding needs of SMEs in the country at that time.

Funding for the scheme was based on PAT from banks. It is on record that for the year ending 2009, several banks recorded losses following the requirement that the banks account for non-performing loans in their accounts. With losses being made, certainly, there would be no contributions from such banks for that year.

SMEs have played important roles in the development process in most developed economies, and have proved to be the most viable engines of economic growth and development, a potent tool for employment generation and poverty reduction strategy (PRS). The successes recorded by these countries were because of serious consideration of the future rewards from sustained investment in this sector. Due to their size
and scope of operations, these enterprises require relatively small capital investment to start, thereby offering a relatively high labour-to-capital ratio. They also demand low technology and managerial skills, which are readily available within the country. The extent to which the opportunities offered by SMEs are exploited and their contributions maximized in any economy depends on the enabling environment created through the provision of requisite infrastructures. These include roads, telecommunications, power, ports, finance facilities, and the introduction and pursuit of policies such as concessionary financing to encourage and strengthen their growth. Among these, paucity of finance facilities occupies a very central position. Globally, commercial banks which remain the biggest source of funds to SMEs have in most cases, shied away because of the perceived risks and uncertainties. In Nigeria, the fragile economic environment and absence of requisite infrastructure has rendered SME practice costly and inefficient, thereby worsening their credit competitiveness. The Government in addressing this basic bottleneck to the growth of SMEs has taken some interventionists steps which include:

- Merge all SME/Industry financing agencies comprising the Nigerian Bank for Commerce and Industry (NBCI), NERFUND, and the Nigerian Industrial Development Bank (NIDB) into one agency, The Bank of Industry to administer loan schemes to SMEs at lower than commercial banks' rates.
- Set up a Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), an umbrella agency to coordinate the development of the SME sector.
- To improve access to finance by SMEs, the Central Bank, in a renewed effort, came up with an initiative in the middle of 2010 to issue ₦500 billion as bailout funds to industries and SMEs in the country. Guidelines to these funds stated that: “loan amount is a maximum of ₦1 billion for a single obligor in respect of refinancing/restructuring. The fund shall be administered at an all interest rate/charge of seven per cent per annum payable on quarterly basis. Specifically, the Managing Agent, Bank of Industry (BOI), shall be entitled to a one per cent management fee and the banks, a six per cent spread.” CBN said that ₦300 billion would be applied to power projects and ₦200 billion to the refinancing/restructuring of banks’ existing loan portfolios to Nigeria’s SME manufacturing sector. Business that are eligible for the funds include SMEs having an asset base (excluding land) of between ₦5 million and ₦500 million and with a labour force of between 11 and 300.

The objectives of the ₦200 billion re-financing and restructuring of banks’ loans to the manufacturing sector are to:

- Fast-track the development of the SMEs and manufacturing sector of the Nigerian economy.
- Improve the financial position of the deposit money banks.
- To complimentary the above, the Bank has also established a ₦200 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), for promoting access to credit by SMEs in Nigeria. The Scheme shall be wholly financed by the Central Bank of Nigeria (CBN).

The objectives of the SMECGS are to:

- Provide guarantee for credit from banks to SMEs and manufacturers.
- Increase the access of promoters of SMEs and manufacturers to credit.
- Set the pace for industrialization of the Nigerian economy.

The overall goal of these two initiatives are to increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide inputs for the industrial sector on a sustainable basis. The International Finance Corporation (IFC), a member of the World Bank Group, made significant contributions towards SME funding in Nigeria. In 2010, it was reported that IFC more than doubled its existing exposure to Nigeria’s banking sector, investing almost $400 million of equity and loan financing in First Bank Nigeria, First City Monument Bank (FCMB) and GT Bank. IFC had committed new
investments, combined with advisory services to help banks reach segments such as infrastructure and SMEs.

In November, 2010, FCMB received $70 million to help it increase financing of SMEs. IFC operates an African MSME programme designed to speed up the transfer of technological know-how to banks serving micro, small and medium enterprises in sub-Saharan Africa with the goal to raise the standard of financial services provided to micro-entrepreneurs and small businesses.

Unfortunately, most SMEs, could not access these bailout funds facilitated by either the CBN or other international agencies due to bottlenecks in the disbursement channel which are the banks. This may have arisen partly because of the stringent criteria attached to the eligibility and distribution of the funds which crowded out most operators.

### Highlights of Key Problems of SMEs in Nigeria

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching:

1. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
5. High cost of packaging appropriate business proposals
6. Uneven competition arising from import tariffs, which at times favour imported finished products
7. Lack of access to appropriate technology as well as near absence of research and development
8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
11. Weakness in organization, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.
12. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazette tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
13. Widespread corruption and harassment of SMEs by some agencies of government over unauthorised levies and charges
14. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs
15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:
   I. Lack of equipment, which have to be imported most times at great cost (capital flight) and which would require expatriate skills to be purchased at high costs.
II. Lack of process technology, design, patents, etc., which may involve payment of royalties, technology transfer fees, etc. and heavy capital outlay.

III. Lack of technical skills in the form of technological and strategic capability

IV. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.

V. The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export.

16. Lack of initiative and administrative framework or linkage to support and sustain SMEs’ development, which to a large extent, is also a reflection of poor technological capability or intellectual resource

17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system, etc on the part of many founders and managers of SMEs in Nigeria. As fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage ab initio for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.

18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate SME businesses.

The Way Forward

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment. These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succour to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs.

It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive. From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualization, or were not truly and religiously implemented. Investigations also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases. All the stakeholders in the SME sub-sector should be involved in policy formulations and implementation for them to be effective and yield expected results. The comfort is that the Governments are neither relenting nor giving up in their bid to revamp and invigorate the fortunes of SMEs as to enable them play the expected role in Nigeria’s economic growth and development.

This is evidenced by the government’s establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers’ Committee’s institutionalization of the Small and Medium Enterprises Equity
Investment Scheme (SMEEIS), the federal government’s drive and focus on realizing the objective of NEPAD, the government’s endorsement and support of multilateral agencies and loans, and the government’s backing of international development finance facilities such as the European Investment Bank (EIB) facilities, the International Finance corporation (IFC) and the likes. Other indications relate to the government’s programmes aimed at poverty alleviation and providing succour to those whose jobs could be affected by the current government reforms as well as the establishment of a Credit Guarantee Scheme for loans to SMEs. Given the crucial role SMEs play in the industrial and economic growth and development of countries like Nigeria, the various governments in Nigeria cannot afford to relax in their efforts towards making the SME subsector very vibrant and productive.

Aside from the government’s efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the subsector. The capital market driven by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) have been not only expanding its facilities but also working to make it cost effective for SMEs to access funding from the market. Professional groups and associations such as the various Chambers of Commerce, Nigerian Association of Small and Medium Enterprises (NASME), and Nigerian Association of Small Scale Industries (NASSI) are vigorously pursuing, pushing and lobbying the governments for improved welfare and a better and more enabling operating environment. Given the current awareness of the Nigerian investing public as well as the depth of the Nigerian capital market, it is expected that many SMEs would approach the capital market to raise funds. On a related note, there is a reawakening and new impetus towards the establishment of venture capital companies primarily targeted at developing SMEs. Even some banks are exploring this option towards finding a sure window or vehicle through which they would invest the SMEEIS funds, which they have reserved since the commencement of the scheme (total amount set aside under SMEEIS by bank as at 2010: ₦42,024,988,746.00 – CBN).

The on-going reforms being undertaken by the government ministries, interministerial departments, agencies and parastatals are bound to render quite a handful jobless. Certainly one sub-sector, which many of the affected persons may want to venture into would be the SME. Thus, this scenario would make it compelling for the government not to ignore this one of the most important subsectors of the Nigerian economy.

At the international front, SMEs in Nigeria have better and much improved operational environment. The commercialization and privatization of government-owned companies has also opened up new vista for SMEs and entrepreneurs. The effect of globalization has also had salutary impact on the sub-sector. The liberalization of trade through WTO agreements has provided awareness through which SMEs could access international markets. The African Growth and Opportunities Act (AGOA), which favours and gives incentives to exporters from African countries to the United States of America represents another opportunity. Similarly, NEPAD has provided other growth opportunities for Nigerian SMEs.

On a related note, the Federal Government has been consistently making overtures to developed countries to come to invest in Nigeria. Efforts in this direction include personal visits by the president, trade missions, trade fairs, exhibitions and other promotional and showcasing activities. The intensified activities of the Nigerian Export Promotion Council (NEPC) and the Nigerian Investment Promotion Council (NIPC) underscore the government efforts in this direction. In the same token, Nigeria, by virtue of its huge economic and investment opportunities, as well as the vaste market, has attracted so many foreign trade delegations and missions.

The focus of the World Bank’s IFC, which emphasizes on SMEs, has remained high in its priority. The same can be said for many other international agencies like the United Nations Industrial Development Organisation (UNIDO), the United Kingdom’s Department for International Development (DFID), the United States Agency for International Development (USAID), and the World Bank’s International Development Agency (IDA) In February 2005, the Institute of Directors (IOD) president, Ms. Bennedikter Molokwu confirmed that the Blair Commission for Africa is to assist the SMEs in Nigeria by creating access to loans and a structure for on-lending through banks. She noted that it is a well-known fact that the African economy is government-driven while SMEs are the veritable engine of growth in
developed economies. Molokwu stated that SMEs are the largest employer of labour, providing livelihood for over 80 percent of the African workforce especially women and the young. She noted that statistics have it that only about 10% of SMEs in Nigeria are involved in manufacturing while the rest are in agriculture, services and commerce. This fact largely informed the February 2005 modification of the SMEs fund, which is no longer limited in its scope. As regards SMEs challenges in Nigeria, the IOD president had this to say: “Unfortunately, these SMEs over the years, have been bedeviled by several inhibitions, which tend to make their growth perpetually stunted by infrastructural decay, insecurity of lives and property, multiplicity of taxation, lack of access to good and modern technology, lack of research and development as well as good entrepreneurship, difficulties in building coalitions and business linkages among others”.

Similarly, during the commissioning of the headquarters of the Small and Medium Enterprises Development Association of Nigeria (SMEDAN) on March 1, 2005, the then President of the country, Olusegun Obasanjo charged the Central Bank of Nigeria (CBN) to ensure the realization of the primary objective of the Small and Medium Enterprises Equity Investment Scheme (SMEIS), which is expected to complement the development efforts of the financial institutions like the Bank of Industry (BOI), the Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), which provide a medium for long-term financial resources to enterprises in Nigeria. He also noted that the then on-going reform of commercial banks by the CBN is expected to boost the flow of funds at competitive interest rates to businesses including the SMEs. Obasanjo reminded Nigerians that his administration had made the development of SMEs a primary focus of its reform programme as stipulated in the National Economic Empowerment and Development Strategy (NEEDS) stressing that “our primary goal is to provide greater access to income-generating opportunities for our people and enhance their capacity to respond to those opportunities” adding that “our economic history and experiences of other countries show us the immense potentials of SMEs to redress poverty, growth, wealth creation, employment generation and job creation. Unfortunately, these were largely neglected for many years prior to our coming into office in 1999”. Obasanjo further acknowledged that the increasing hostile operating environment, including the deteriorating state of infrastructure, in the past led many companies to fold up while other operators moved their business activities to the informal sector. He also confirmed that SMEs in Nigeria lack access to business information, markets, finance facilities and even production technology.

The current thrust of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) gives hope, confidence and optimism that going forward, government’s attention would continue to be attracted to the SME sub-sector. The Agency has already concluded a nationwide census/survey of micro, small and medium enterprises (MSMEs), which it commenced in March 2004. Given its challenging mandate of initiating and articulating ideas for micro, small and medium enterprises’ policy thrust as well as promoting and facilitating development programmes, instruments and support services to accelerate the development and modernization of MSMEs, SMEDAN badly needed to have a comprehensive understanding and knowledge of the population of MSMEs in the country, their distribution by sectors such as agriculture, manufacturing, services, trade, construction, mining, technology, etc, and their distribution by rural and urban areas as well as the level of vertical and horizontal linkages within and between various sectors of industry so as to access the level of industrial integration and the incidence of sub-contracting and its potential in giving a fill to industrial development.

The census/survey will also enable SMEDAN to determine and assess the major operating difficulties of MSMEs relating to both market functions (such as demand-pricing factors, supply factors, raw materials, technology infrastructure, etc) and policy environment as it relates to regulatory, incentive and support regimes. The overall benefits of the survey would hinge on the expected robust data and information, which SMEDAN and other intervening institutions and agencies would employ as a basis for policy formulation, implementation and intervention, effective developmental planning, vital advice on new investments, growth and profitable areas, raw materials availability as well as available technology, available markets, available sources of funds and assistance.

The survey exercise is also expected to adequately equip and empower SMEDAN to effectively do the following, inter alia:
i. Map out effective strategies for revamping and reforming the MSMEs sub-sector through appropriately advising the government on policy formulation and execution.

ii. Recommend the right operators for various incentives and support by government including funding, be it loan, equity and grants.

iii. Offer relevant advisory services to state governments on how best to support and invigorate MSMEs in their domains bearing their peculiarities and circumstances in mind.

iv. Identify viable projects for both local and foreign investors in order to attract foreign investment.

v. Identify viable projects with export potentials and also identify and advise on the appropriate foreign markets in order to boost foreign exchange earnings.

vi. Identify and assess MSMEs critical requirements in the areas of capacity building, skills gap, knowledge, skills and process and liaise with the relevant institutions and agencies of government like the National Poverty Eradication Programme (NAPEP), the Centre for Management Development (CMD), the National Directorate of Employment (NDE), etc.

vii. Establish a befitting business support centre for each state in the federation.

viii. Facilitate the promotion and government patronage of quality local products of MSMEs for either local consumption or export or both.

CONCLUSION AND RECOMMENDATIONS
From the foregoing analysis and findings, we can derive empirical conclusions with respect to financing options available to SMEs and that adequate capital and credit have remained a key success factor for SMEs. The ranges of finance available are numerous, but there are no easy accesses to these funds. Inadequate access to financial resources and credit facilities in formal financial institutions continued to persist because there are more discerning in their choice of SMEs they choose to finance. These institutions grant more short term commercial credit to SMEs because of higher interest charges than disbursement from SMEEIS fund. The conditions for accessing SMEEIS fund are very stiff and unrealistic. There is no clear standard guideline for all banks to comply. The un-regulated informal financial intermediaries provide substantial and effective access to credit facilities through savings mobilization. The downside is that their portfolio does not address the problems of micro-enterprises whose level of financial need is still too low to meet the Fund’s optimal scale of investment. They are also unaware of the advantages of using the stock market as a source of financing. The relaxed listing requirements of second-tier security market have not been fully exploited. Among the sampled SMEs, none accessed the funds in the second-tier security market. To address the financing needs of these SMEs, the following recommendations are put forward:

1. It is important for the SMEs to consider all alternative financing options, probably through professional advice, to select an appropriate financing mix that maximizes the value of the business enterprise.

2. The SMEs should be enlightened on the advantages of using the stock market as a source of financing.

3. For the SMEEIS fund to create expected impact on SMEs, they have to be an approved guideline for all banks to comply in the administration of the fund. The fund should be given a specific mandate to fund start-up and survival stages of SMEs that are mostly denied financing opportunities

4. Community Banks and development banks are a potentially important source of micro financing. Savings in them should be further encouraged, and their active participation in local business associations encouraged. The informal savings should be given a legal backing.

5. Private leasing; there are some specialized leasing companies, and some banks are developing leasing services for selected clients. They should be encouraged by government to provide cost-effective services to SMEs in view of the advantages of equipment leasing.

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