SOURCES OF FINANCE FOR MICRO, SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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Abstract

Initial attempts of developed and developing countries to eradicate poverty focused on the development of large scale industries, based on the traditional economy of scale theory. However, the economic downturn that followed the collapse of the world oil market in 1980s and the financial crisis in Asia in the 1990s brought to fore the important role of Micro, Small and Medium Enterprises (MSMEs) in industrial and economic development in any given country. It has been recognized that among the constraints to effective development of MSMEs in Nigeria is the limited access of the investors to long term credit. Various credit initiatives have been instituted in the past to improve the access of MSMEs to long term funds. Analysis carried out in this study showed that commercial banks loans constituted over 90 percent of sources of funds to MSMEs in Nigeria and their loans and advances to agriculture and manufacturing sectors combined(where the MSMEs are dominant) grew from ₦83.40million in 1970 to ₦1,129,158.30 million in 2009 and averaged ₦149,106.08 million per annum thereby constituting 17.81% of total commercial banks loans and advances to the Nigerian economy on the average between 1970 and 2009, whereas the MSMEs currently contribute about 50% to the nation's Gross Domestic Product. Furthermore, the survey results indicated that MSME operators still do not have enough funds for their operations as a frequency analysis indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7%. In view of the assured role of MSMEs in economic development and poverty alleviation, it is recommended that all the funding apparatus directed at the MSMEs in Nigeria, be sustained and intensified.

Keywords: micro, small and medium enterprises, financing, economic development

1. Introduction

1.1. Definition and concept of micro, small and medium enterprises

Enterprises may be classified by size, sector, organisation, technology and location. From the perspective of policy and planning, size provides the most practical basis for classification. The usual criteria include one or more of the following; employment, turnover, assets, and paid-up capital (SMEDAN, 2007). However, definitions vary from country to country relative to the overall size and structure of the domestic economy.

In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees. In Britain for instance, small-scale business is defined as that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees.

According to the European Commission (EC) Small enterprises are defined as those employing less than 50 persons and with annual sales or total assets that do not exceed $13 million, while, micro enterprises are defined as those which employ fewer than 10 persons and with annual sales or total assets that do not exceed $3 million.

Meanwhile Asia Pacific Economic Cooperation (APEC) defines micro, small and medium enterprises (MSMEs) as enterprises with less than 100 people, whereby, a medium sized enterprise employs between 20 and 99 people, a small firm employs between 5 and 19, and a micro firm employs less than 5 employees which include self employed managers.

In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees (Elijah and Nsikak, 2011).

In Nigeria, before the launch of the National Policy on MSMEs in Nigeria in 2007, various institutions have adopted varying definitions according to their perception of the concept. For the purpose of a coherent national policy, the standard definition in order to provide a common object of reference by stakeholders in Nigeria today as contained in the National Policy on MSMEs in Nigeria (SMEDAN, 2007), is adopted in this paper as shown in Table 1. The National Policy document states that, where there exist a conflict in classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (₦7m) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro. This is because employment-based classification tends to be relatively more stable definition, given that inflationary pressures may compromise the asset-based definition.

Table 1. Classification of MSMEs in Nigeria

Size Category	Employment	Assets (₦ million) (excluding land and buildings)
Micro enterprises	Less than 10	Less than 5
Small enterprises	10 -49	5 less than 50
Medium enterprises	50 -199	50 – less than 500

Source: Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Abuja, 2007

1.2. Problem statement

The importance of micro, small and medium scale enterprises cannot be overemphasised. They are known to adapt with greater ease under difficult and changing circumstances because they are typically low in capital intensity and allow product lines and inputs to be changed at relatively low cost. They also retain a competitive advantage over large enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets (Olorunshola, 2003). In furtherance of this, MSMEs in Nigeria have expanded following the adoption of the Structural Adjustment Programme (SAP) to fill the supply gap in industrial consumer goods created by the difficulties faced by large scale firms which could not easily adapt to the policy changes of SAP (Adebusuyi, 1997). Similarly, in Indonesia their contribution to the country's Gross National Product (GNP) grew during the period of the monetary crisis as opposed to that of large scale enterprises which were more affected by the crisis (Timberg, 2000).

In both developed and developing economies, there are evidences of the immense contributions of MSMEs (WBCSD, 2004). In Indonesia, SMEs account for 98% of her enterprises and over 60% of her GNP (Timberg, 2000). Not all these MSMEs are in the formal sector; some occupy the unofficial labour market, which varies in size from an estimated 4-6% in developed countries to over 50% in developing nations (WBCSD, 2004). By global standards large enterprises are very few in Nigeria. Peasant agriculture predominates, accounting for about 95% of total agricultural output in Nigeria and employment in the sector (Central Bank of Nigeria (CBN), Research Dept., 2000), while the agricultural sector has been the mainstay of the Nigerian economy and currently accounts for 40.9% of the country's GDP (CBN, 2010). It is also estimated that non-farm MSMEs account for over 25% of total employment and 20% of GDP in Nigeria (SMEDAN, 2007). Empirical evidence shows that MSMEs dominate the industrial sector in Nigeria, accounting for about 70% of industrial employment and 10 – 15% of manufacturing output (CBN, 2000). Available information confirms that informal manufacturing enterprises are dominated by small-size operators in the country, in terms of number of people employed with percentage distribution ranging between 92 and 98 across activity sectors. Furthermore, the contribution of the entire informal sector (agricultural sector inclusive) to the GDP was put at 38.7% (CBN/FOS/NISER, 2001). They have been very prominent in the manufacture of bakery products, leather products, furniture, textiles and products required for the construction industry.

It has been recognized that among the constraints to effective development of MSMEs in Nigeria is the limited access of the investors to long term credit and the general non availability of comprehensive information which can guide potential investors and hence reduce the cost of pre-investment information gathering which may be very high and prohibitive (Inang and Ukpong 1993, Essien 2001, Owualah, S. I. 2002, Anyanwu, Adebusuyi and Okafor 2003, Ogujiuba, Ohuche and Adenuga 2004, Akinyosoye 2006, Adelaja, 2007, Adamu, 2009).

While financing is obviously not the only problem militating against the MSME sector, it is certainly the most formidable. Like any other investment in the real sector of the economy (where the MSMEs are dominant), investment in MSMEs is relatively bulky because of the need for fixed assets such as land, civil works, buildings, machinery and equipment and movable assets. Moreover, empirical studies (Udechukwu, 2003; NISER, 2005), show that the incidence of the extra outlays required to compensate for deficiencies in the supply of basic utilities in Nigeria, is relatively heavier on MSMEs than large enterprises. While such extra investments have been shown to account for about 10% of the cost of machinery and equipment of large enterprises, they represent about 20 to 30% of that of MSMEs because of the absence of economies of scale. Similarly, The World Bank in its 1989 report notes that finance is the key to investment and hence to growth (World Bank, 1989).

Various funding initiatives have been instituted in the past to improve the access of MSMEs to long term funds in order to improve their performance and contribution to the economy. Funding consists of the financial resources required to transform the ideas of an entrepreneur into a viable project. It can take the form of loans, equity capital, venture capital, working capital or any other form (Raji, 2000). The main objective of this paper is to determine if access to credit by MSMEs in Nigeria has improved over the years with the introduction of various finance initiatives with specific focus on those in the agricultural and manufacturing sub-sectors where MSMEs are dominant in the country.

1.3. Data and methodology

Both secondary and primary data were used for the study. Secondary data were sourced from the Central Bank of Nigeria on the disbursements of funds to MSMEs by commercial banks, development finance institutions and under the various funding schemes over the years. With the aid of a structured questionnaire, primary data were sourced from MSMEs in five of the six geopolitical zones of the country where the SMEEIS funds were disbursed being the most recent finance initiative in the country. From inception in 2001 to March 2009 when the participation in SMEEIS was made optional to banks, a total of 333 projects were financed in 24 states and the Federal Capital Territory. Thus, a purposive random sampling technique was used to draw a sample of 100 for the study. The questionnaire was used to gather information on the socio-economic characteristics of MSME operators, firm characteristics, financing and operations of the MSMEs as well as their constraints.

A combination of analytical tools was employed in order to achieve the objective of the study. These include descriptive statistics (measures of central tendency and dispersion, proportional analysis, growth rate and trends, and frequency distribution) and analysis of variance.

2. Government funding schemes for micro, small and medium enterprises in Nigeria

A brief review of both the old and new funding initiatives for MSMEs in Nigeria is presented below (see CBN Briefs, 1992 to 2006 for details).

- **The Nigerian Industrial Development Bank (NIDB).** The NIDB was established in 1964 and charged with the function of harnessing local and foreign skills and local and foreign private capital in the development of new industries and the expansion of existing ones.
- **Small-Scale Industries Credit Scheme (SSICS).** The small-scale industries credit scheme was introduced in 1971 as a revolving grant by the federal and state governments to assist in meeting the credit needs of small-scale enterprises on liberal terms.
- **Promotion of small-Scale Enterprises.** The CBN, from 1970, was instrumental in promoting wholly-owned Nigerian enterprises. In its then Policy Guidelines, the Bank directed that with effect from April 30, 1970; credit to indigenous borrowers was to be at least 35% of commercial and merchant banks' total loans and advances. The proportion of loans to indigenous borrowers was raised in subsequent years with special emphasis on small-scale enterprises.
- **Promotion of Agricultural and Manufacturing Activities.** Through its Monetary Policy Circulars (before its abrogation in 1996), the CBN prescribed that not less than 15% of commercial and 10% of merchant banks' credit be granted to agricultural activities. The banks were also to allow grace periods on agricultural loans: one year for small-scale peasant farming, four years for cash crop farming, five years for medium and large-scale mechanized farming and seven years for ranching. To promote manufacturing activities, the Bank stipulated in its guidelines that not less than 35% of commercial and 40% of merchant banks' credit be granted to manufacturing enterprises.
- **Promotion of Rural Banking.** To encourage banking habit nationwide and channel funds into rural development, the CBN introduced the Rural Banking Scheme in June 1977 in three phases-1977-1980, 1980-1985 and 1st August, 1985 through 31st July, 1989. As at end-June 1992, 765 of the 766 branches stipulated by the CBN had been opened. Also, the CBN stipulated that not less than 50% of the deposits mobilized from the rural areas be advanced as credit to rural borrowers to solve the problem of inadequacy of credit to rural based small-scale industries.
- **The Nigerian Agricultural and Co-operative Bank (NACB).** The NACB was established in 1972 to assist in financing viable agricultural projects and thus enhance the level and quality of agricultural production.
- **The Nigerian Bank for Commerce and Industry (NBCI).** It was established by Decree 22 of May, 1973 and charged with the function of providing equity capital funds by way of loans to small and medium scale industries

- **The Agricultural Credit Guarantee Scheme Fund (ACGSF).** The Agricultural Credit Guarantee Scheme Fund (ACGSF) was established in 1977 and it took off in April, 1978 under the management of the CBN, while a Board of Directors was constituted for policy making. The scheme was designed to encourage banks to increase lending to the agricultural sector by providing some form of guarantee against risks inherent in agricultural lending. In case of default, the lending banks is expected to exhaust all legal means of loans recovery, including realisation of any security pledged for loan, before the ACGSF pays 75% of guaranteed loans in default.
- **The National Economic Reconstruction Fund (NERFUND).** NERFUND was set up by Decree No. 25 of 1988 as a funding mechanism aimed at bridging the gap in the provision of local and foreign funds to small and medium scale enterprises. The federal government set it up to provide relatively long-term loans (5-10 years) to small and medium scale enterprises at relatively concessionary rates of interest.
- **People's Bank of Nigeria.** The People's Bank of Nigeria (PBN) was established by the Federal Government in 1988 with an initial take-off grant of ₦30 million to meet the credit needs of small borrowers who cannot satisfy the stringent collateral requirements normally demanded by conventional banks. The bank was designed to cater for the credit needs of informal sector operators such as artisans and petty traders's in both the urban and rural areas and thereby increase their self-reliance.
- **Community Banks (CBs).** These were established in 1990 with the objectives of providing effective financial services for the rural areas as well as micro-enterprises in the urban centres. Community banks in Nigeria were self-sustaining financial institutions owned and managed by local communities such as community development associations, town unions, cooperative society's, farmers' groups, social clubs, etc to provide financial services to the respective communities.
- **The Small and Medium-Scale Enterprises (SME) Apex Unit Loan Scheme.** In order to increase access to credit by the SMEs, the CBN and the Federal Ministry of Finance, on behalf of the Federal Government, obtained a World Bank Loan for SMEs. The total project cost was US$451.8 million, of which the World Bank provided US$270 million or 64%. The CBN established an SME Apex Unit in the Bank in 1990 to administer the credit components and other related activities of the World Bank loan in order to facilitate project implementation. Loans disbursement under the Scheme ceased in 1996.
- **Nigerian Export-Import Bank (NEXIM).** The Nigerian Export Import Bank (NEXIM) was established by Decree 38 of 1991 to manage a number of credit facilities introduced specifically to boost Nigeria's non-oil export sector. The bank commenced operations on 2nd January, 1991 with facilities in the following areas: trade finance, project finance, treasury operations, export advisory service, and market information.
- **The Nigerian Agricultural, Cooperative, and Rural Development Bank (NACRDB), now Bank of Agriculture (BOA).** The bank was set up in October 2000 as an amalgam of the old Peoples Bank of Nigeria (PBN), Nigerian Agricultural and Cooperative Bank (NACB) and Family Economic Advancement Programme (FEAP). It is jointly owned by the Federal Ministry of Finance Incorporated (MOFI) and the Central Bank of Nigeria (CBN) with a shareholding ratio of 60 and 40% respectively. The primary aim is to finance agriculture as well as small and medium enterprises. While micro credit facilities account for 70%, the balance of 30% is for macro-credit facilities.

- **The Bank of Industry (BOI).** This is also an amalgam of the former Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). It was set up in 2000 principally to provide credit to the industrial sector. The mandate of the BOI include providing financial assistance for the establishment of large, medium, and small projects; as well as expansion, diversification and modernization of existing enterprises; and rehabilitation of ailing industries. The percentage of its annual lending to MSMEs increased to 96% by December 2010 from 35% in 2005 (Bank of Industry, 2011).
- **Small and Medium Enterprises Equity Investment Scheme (SMEEIS).** Bothered by the persistent decline in the performance of the Industrial sector and with the realization of the fact that the small and medium scale industries hold the key to the revival of the manufacturing sector and the economy, the Banker's Committee in 1999, initiated the Small and Medium Industries Equity Investment Scheme (SMIEIS) aimed at ensuring assistance to small-scale industries. Under this new scheme, banks are required to set aside 10.0% of their profit before tax for investment in small-scale industries in the country. A bank's investment in the scheme is conceived to be in the form of equity participation, project packaging/monitoring, advisory services and nurturing of specific industries to maturity. The SMIEIS was named Small and Medium Equity Investment Scheme (SMEEIS) in March 2005, to broaden the scope of activities that can be funded under it.

3. Examination of trend in institutional financing of MSMEs in Nigeria

3.1. Commercial banks

The financial system plays a fundamental role in the growth and development of an economy, particularly by serving as the fulcrum for financial intermediation between the surplus and deficit units in the economy. For many years, theoretical discussions about the importance of credit development and the role that financial intermediaries play in economic growth have occupied a key position in the literature of developmental finance. Shaw (1973), stated that financial or credit development can foster economic growth by raising savings, improving efficiency of loan-able funds and promoting capital accumulation.

Table 1. Commercial Banks Selected Performance Indicators (Averages, 1970-2009, in Million Naira)

Total Credit to the Economy(A)	Demand Deposits	Time, Savings and Foreign Currency Deposits(B)	Total Deposit Liabilities (C)	B as a proportion of C	A as a proportion of C
836,995.45	382,923.58	499,172.44	882,096.02	56.59%	94.89%

Source: Data Analysis

Table 1, indicates that between 1970 and 2009 total deposit liabilities of the deposit money banks in Nigeria averaged ₦882.1 billion, while total credit to the Nigerian economy averaged ₦837.0 billion. This means that banks gave out 94.9% of the total deposits mobilized as credit for productive activities in the Nigerian economy in the period under review on the average. However, the table also reveals that demand deposits constituted almost half of the banks' total deposit liabilities from which loans were granted to the economy as time deposits constituted 56.6% of total deposit liabilities, and these have implications for tenure of these loans. Further analysis of commercial banks loans and advances revealed that credit to agriculture and manufacturing sectors combined grew from ₦83.40 million in 1970 to ₦1,129,158.30 million in 2009 and averaged ₦149,106.08 million per annum.

Table 2. Commercial Banks Loans and Advances to Agriculture and Manufacturing as Proportion of Loans to the Economy

Year	Average loans & Advances to Agric. & Manufacturing(A)	Average Total Loans to the Economy(B)	A as a Proportion of B
1970-2009	₦149,106.08 mil	₦836,995.45 mil	17.81%

Source: Data Analysis

Similarly, total commercial banks loans and advances to the whole economy grew from ₦351.5 million in 1970 to ₦9, 667,876.70 million in 2009, averaging ₦836,995.45 million per annum. Consequently, commercial banks loans and advances to agriculture and manufacturing constituted 17.81% of total commercial banks loans and advances to the Nigerian economy on the average between 1970 and 2009 (Table 2).

3.2. Other institutional loans/funds granted to MSMEs in Nigeria

An attempt is made to analyze the fund that has been targeted at MSMEs in Nigeria by the two development finance institutions (BOI and BOA) and the two special fund and scheme (ACGSF and SMEEIS) reviewed above.

Table 3. Summary Statistics of the Other Institutional Loans/Funds Granted to MSMEs in Nigeria (1978 -2009)

	ACGSF (₦ ‘M)	BOI (₦ ‘M)	BOA (₦ ‘M)	SMEEIS (₦ ‘M)
Maximum	8,328.566	17,798.4	6,104.2	7054.1
Mean	1,069.073	2,372.6	931.695	3525.51
Minimum	12.839	16.5	6.7	99.3
Total	34,210.333	66,432.96	23,292.39	28204.1
S. D.	2,046.504	4,688.376	1,530.163	2215.75
C.V.	1.914	1.976	1.642	0.628
No. of Years	32	28	25	8

Source: Data Analysis

A descriptive analysis of other institutional loans/funds granted to MSMEs in Nigeria is as shown in Table 3, while Table 4 shows the analysis of variance to test the difference among the mean values of the annual value of loans given to the MSMEs by the various institutions. Results indicate that there is clearly a significant difference among the mean values of loans disbursed at 5 and 1% levels of significance, as the calculated F-value is higher than the critical value at 3 degrees of freedom.

Table 4. Analysis of Variance

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	2.39023E+13	3	7.96744E+12	5.461596987	0.00171506	2.706998797
Within Groups	1.29834E+14	89	1.45881E+12			
Total	1.53737E+14	92				

Source: Data Analysis

The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) has the highest mean annual value of funds granted to SMEs which averaged, ₦3, 525.51 million per annum followed by the Bank of Industry (BOI) which gave an average of ₦2, 372.6 million per annum. Under the Agricultural Credit Guarantee Scheme Fund (ACGSF), an average of ₦1,069.07 million was granted per annum while the Bank of Agriculture (BOA) recorded the lowest mean annual value of loans disbursed, ₦931.69 million. The major reason that might be responsible for the huge volume of funds by the SMEEIS is that it was an initiative of the Bankers' Committee and so they were committed to it and backed it by their financial strength, commercial banks being the custodian of most of the deposits in the Nigerian economy. On the other hand, the BOA has suffered policy interventions and inconsistencies which have affected its viability and ability to achieve self-sustainability over the years hence it offered the least volume of funds to the MSMEs in the period under consideration (CBN./World Bank, 1999; Evbuomwan, 2002; Akinyosoye, 2005; CBN, 2006). In terms of variability, grants from the SMEEIS were much less dispersed around the average compared with those of the other three. This is an indication of the fact that in some years the grants were very high while in some others they were very low in the three others that showed high coefficient of variation (CV). This further confirms the fact that the capital bases of the various specialized financial institutions established by the government were seriously eroded and thus prompted their restructuring and merger in the late 1990s. Unfortunately, the situation seem not to have abated as even in 2006 the CBN reported in its Annual Report and Statement of Accounts that, 'an analysis of the asset portfolio of the DFIs indicated a general deterioration in quality………a far cry from what is required for these institutions to play their expected role of financing development projects in the economy.' It will be recalled that it was also the failure of the past financing initiatives to purvey enough funds to the MSMEs that prompted the evolution of the SMEEIS which provided substantial funding for SMEs from 2001 before it was suspended in the third quarter of 2008. An assessment of the funds disbursed under the SMEEIS now follows.

3.3 Disbursement under the Small and Medium Enterprises Equity Investment Scheme

From inception in 2001 to end December 2008, the cumulative sum set aside by banks under the SMEEIS was ₦42.0 billion. The sum of ₦28.2 billion or 67.1% of the sum was invested in 333 projects, out of which the real sector accounted for 205 projects, and the service-related sector, excluding trading, accounted for 128 projects (CBN, 2008). Table 5, indicates that 45 projects were funded under agro-allied (including wood work and water bottling), to the tune of

₦2.3 billion, and this represented 13.5% of the total number of projects financed and 8.2% of total amount invested by banks in SMEs from 2001 to 2009. In the manufacturing (including printing & publishing) sector, 144 projects were funded to the tune of ₦8.1 billion, which represented 43.2% of the total number of projects financed and 28.7% of the total amount invested by all the banks under SMEEIS. In total 189 projects were funded under SMEEIS in the agricultural and manufacturing sector to the tune of ₦10.4 billion, representing 56.8% of the total number of projects financed and 36.9% of total amount invested during the period under review. In proportional terms, this 36.9% of total amount invested in the agricultural and manufacturing sector under SMEEIS compares favourably with the 17.8% of total credit which was given to the agricultural and manufacturing sector by all the commercial banks between 1970 and 2009 (refer to Table 2). An analysis of the geographical distribution of SMEEIS investments revealed that Lagos State got the highest number and amount. Banks funded 187 projects in Lagos to the tune of ₦11.6 billion, which represented 56.2% of the total number of projects funded and 41.3% of total amount invested. This is not unconnected with the fact that most of the banks' headquarters are in Lagos where the officers in charge of the SMEEIS were domiciled.

Table 5. Sectoral Distribution of SMEEIS Investments

A. Real Sector/Enterprise	Investment as at March, 2009			
	No. of Projects	Amount (₦)	Number %	Amount %
Agro-allied (including wood work and water bottling)	45	2,311,975,707	13.51	8.20
Manufacturing (inclu-ding printing and publishing)	144	8,103,773,769	43.24	28.73
Construction (including quarrying)	13	2,786,287,000	3.90	9.88
Solid Minerals	3	59,440,000	0.90	0.21
Sub- Total	205	13,261,476,476	61.56	47.02
B. Service- related Sector				
Information Technology and Telecommunications	24	1,821,809,249	7.21	6.46
Educational Establishment	7	897,935,000	2.10	3.18
Services	74	4,768,855,719	22.22	16.91
Tourism & Leisure	23	7,454,001,847	6.91	26.43
Sub-Total	128	14,942,601,815	38.44	52.98
C. Micro Enterprises Sector	0	0	-	-
Grand Total	333	28,204,078,292	100	100

Total Amount Set Aside under SMEEIS by Consolidated Banks: ₦42, 024,988,746.00

Source: Development Finance Department, Central Bank of Nigeria, Abuja

Certainly, it was cheaper and more convenient for the banks since they were required to appoint their staff as Directors on the Board of the Companies they financed. However, this skewed distribution of SMEEIS investments has negative implications as 12 out of the 36 states in Nigeria did not benefit from the SMEEIS during the period under review (Table 6).

Table 6. Geographical Distribution of SMEEIS Investments

	Investment as at March 2009				
S/N	State	No. of Projects	Amount (₦)	Number (%)	Amount (%)
1	Abuja FCT	10	1,548,335,999	3.00	5.49
2	Abia	9	728,400,000	2.70	2.58
3	Adamawa	0	-	0.00	0.00
4	Akwa-Ibom	2	118,075,000	0.60	0.42
5	Anambra	6	422,398,123	1.80	1.50
6	Bauchi	1	68,400,000	0.30	0.24
7	Bayelsa	0	-	0.00	0.00
8	Benue	3	88,420,000	0.90	0.31
9	Borno	0	-	0.00	0.00
10	Cross-River	7	6,190,341,647	2.10	21.95
11	Delta	7	247,731,000	2.10	0.88
12	Ebonyi	0	-	0.00	0.00
13	Edo	8	493,144,958	2.40	1.75
14	Ekiti	2	57,600,000	0.60	0.20
15	Enugu	2	117,994,000	0.60	0.42
16	Gombe	0	-	0.00	0.00
17	Imo	2	214,938,994	0.60	0.76
18	Jigawa	0	-	0.00	0.00
19	Kaduna	7	436,000,000	2.10	1.55
20	Kano	8	343,898,346	2.40	1.22
21	Katsina	0	-	0.00	0.00
22	Kebbi	0	-	0.00	0.00
23	Kogi	0	-	0.00	0.00
24	Kwara	5	274,004,000	1.50.	0.97
25	Lagos	187	11,634,618,774	56.16	41.25
26	Nassarawa	1	153,000,000	0.30	0.54
27	Niger	0	-	0.00	0.00
28	Ogun	26	1,923,606,250	7.81	6.82
29	Ondo	6	622,700,000	1.80	2.21
30	Oshun	1	80,000,000	0.30	0.28
31	Oyo	18	443,201,792	5.41	1.57
32	Plateau	4	194,661,228	1.20	0.69
33	Rivers	9	1,724,943,181	2.70	6.12
34	Sokoto	1	27,665,000	0.30	0.10
35	Taraba	0	-	0.00	0.00
36	Yobe	0	-	0.00	0.00
37	Zamfara	1	50,000,000	0.30	0.18
	Total	333	28,204,078,292	100	100

Source: Development Finance Department, Central Bank of Nigeria, Abuja

As stated in the SMEEIS guidelines, a minimum of 10% of the total sum set aside by banks was to be invested in Micro Enterprises, but this never happened despite the fact that as much as ₦13.8 billion or 32.9% of the total sum set aside remained un-invested as at end December, 2009. In addition, following the decision to make participation under the SMEEIS optional for banks, the balance of the total funds set aside by banks under the scheme and total sum invested remained at ₦42.02 billion and ₦28.2 billion respectively, just like in December 2008, while the cumulative number of projects was reported to be 336 (CBN, 2009). All these have negative implication for the purveyance of finance to the MSMEs. In specific terms, the access of MSMEs to funds under the SMEEIS did not improve between 2008 and 2009 because the SMEEIS had become optional for banks from the 3rd quarter of 2008. This confirms the views by previous authors that increased access of MSMEs in developing countries and Africa in particular, can only be achieved and(or) enhanced by deliberate policy (WBCSD, 2004; UNEP Finance Initiative, 2007; Adamu, 2009; and Kormawa et al, 2011).

3.4. Comparative analysis of per beneficiary loan/fund disbursement under the ACGSF and the SMEEIS

Analysis of available data indicated that the amount disbursed under SMEEIS averaged ₦83.9 million per project between 2001 and 2009, compared with an average of ₦0.053 million disbursed under the ACGSF per project from inception in 1978 to 2009. This implies that per beneficiary amount under the ACGSF is only about 0.1% of that under the SMEEIS. Thus, the SMEEIS made more money available to their beneficiaries compared with the ACGSF (Table 7).

Table 7. Average amount of loan/fund per beneficiary under ACGSF and SMEEIS

Total Value of Loans Granted under ACGSF(1978-2009)	Total Number of Beneficiaries	Average amount per beneficiary
₦34,210.35 million	642,886	₦0.053million
Cumulative Value of Investment under SMEEIS	Cumulative Number of Project Funded under SMEEIS	Average amount per beneficiary
₦28,203.10 million	336	₦83.94 million

Source: Data Analysis

3.5. Geographical analysis of per beneficiary loan/fund disbursement under the ACGSF and the SMEEIS

The geopolitical analysis of per beneficiary funding revealed that the South-South Zone came first both under the ACGSF and the SMEEIS with ₦99, 250.53 and ₦264, 413,127.4 respectively. Under the ACGSF, the North-Central Zone came last with ₦39, 748.04 while, the North-West Zone came last under the SMEEIS with ₦40, 217,431.08 (Table 8). These have implication for the level of economic activity in the zones and ultimately on poverty level. Inadequate credit or the lack of it has been cited as being responsible for MSMEs not being able to expand their operations and have therefore remained poor (Owualah, 2002; CBN/CeRAM, 2007). In the same vein, poverty indices have been reported to be highest in the Northern part of the country (CBN, Research Department, 1998; NBS, 2004). In fact, available data from the National Bureau of Statistics show that the North East zone recorded the highest poverty incidence of 54.9, 54.0 and 72.2% in 1985, 1992 and 2004 respectively, while the North West zone recorded the highest incidence of 37.7% and 77.2% in 1980 and 1996 respectively.

Table 8. Per Beneficiary loan/funds Distribution by Zone

Zone	Loan Per beneficiary under ACGSF (1978-2009)	Ranking	Fund Per beneficiary under SMEEIS (2001-2009)	Ranking
South-South	N99,250.53	1st	N264,413,127.4	1st
South-East	N77,372.49	4th	N79,449,879.42	3rd
South-West	N81,119.05	2nd	N62,234,620.6	5th
North-West	N45,452.72	5th	N40,217,431.08	6th
North-East	N77,649.36	3rd	N68,400,000.00	4th
North-Central	N39,748.04	6th	N83,843,125.75	2nd

Source: Data Analysis

The trends in geographical distribution of poverty in Nigeria seem to move in tandem with trend in geographical distribution of per beneficiary loan/fund under ACGSF and SMEEIS. Furthermore, out of the six states reported with the highest incidence of poverty in 2004 (NBS, 2004), namely Jigawa, Kebbi, Kogi, Bauchi, Yobe and Kwara, four of them namely; Jigawa, Kebbi, Kogi and Yobe did not benefit from the SMEEIS fund. Similarly, out of the six states with the lowest incidence of poverty, namely; Oyo, Osun, Imo, Bayelsa, Abia and Ogun, only one state (Bayelsa) did not benefit from the SMEEIS fund (refer to Table 6 above). This further confirms the fact that access to credit can help alleviate poverty.

3.6. Survey result

Out of the 100 questionnaires that were administered, 80 gave consistent response. This signifies a response rate of 80%. However, information supplied by the respondents were quite revealing and confirmed the findings of previous surveys by the Central Bank of Nigeria, the National Bureau of Statistics and the Nigerian Institute for Social and Economic Research on the structure of MSMEs in Nigeria (2001 and 2004).

Type of business enterprise

In line with the Central Bank of Nigeria classification of enterprises eligible for funding under the SMEEIS, the type of businesses engaged in by the respondents were analyzed. Results show that 37.7% of the respondents were engaged in the agriculture/agro-processing sector, 42.9% were in the manufacturing sector, 16.9% were in the services sector while 2.6% were in the construction sector. This sectored distribution of business enterprises confirms that MSMEs are dominant in the real sector of the Nigerian economy (80.6%).

Size of enterprise

Enterprises were classified into sizes based on the number of employees as contained in the National Policy on MSMEs (SMEDAN, 2007). The analysis revealed that more than half of the respondents (53.5%), were in the micro-enterprise category (having less than 10 workers). This was followed by those in the small-scale category (29.6%), employing 10 to 49 workers. The medium enterprise category constituted 14.1% (employing 50 to 199 workers). The least were those in the large scale category (2.8%), employing 200 workers and above. This result further validates previous studies that MSMEs dominates Nigeria's economic landscape (CBN, 2004, SMEDAN, 2007, Ojo, 2010).

Sources of fnance

Analysis of survey results indicated that 75.7% of respondents relied mostly on own funds to finance their businesses while 20.3% relied mostly on banks to finance their operations. About 2.7% of the respondents financed their operations from the share capital while 1.3% relied on suppliers'credit. This survey result confirms the copious literature on the problem of access to credit by MSMEs in Nigeria (Inang and Ukpong 1993, Essien 2001, Owualah, S. I. 2002, Anyanwu, Adebusuyi and Okafor 2003, CBN 2004, Ogujiuba, Ohuche and Adenuga 2004, Akinyosoye 2006, Adelaja, 2007, Meludu and Adekoya, 2007; Adamu, 2009).

Distribution of operating expenses and capital expenditure

Analysis of the survey data revealed that on average, raw materials constituted 61.7% of respondents operating cost, while labour cost was about 12.5%. This has implication for working capital availability. As regards capital expenditure, plant and machinery took the highest proportion (about 40%), confirming the fact that plant and machinery constitute a huge part of MSMEs investment outlay (Udechukwu, 2003). The study by Ogunrinola and Alege, 2007, further confirm that business equipment and working capital constitute major expenditure items for credit users.

Constraints limiting the performance of MSMEs in Nigeria

MSMEs in Nigeria have not performed like their counterparts in Asia, Latin America and some other African countries (Oyelaran-Oyeyinka, 2007; Ojo, 2010; Elijah and Nsikak, 2011). In order to appreciate the problems militating against their effective performance, they were asked to list them in the questionnaire administered to them. Analysis of their responses is presented in Table 9. A frequency analysis indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7%. This therefore means that access to credit is still a major problem militating against the effective performance of MSMEs in Nigeria despite all the funding programmes that have been put in place all over the years.

The problem of poor power supply/inadequate infrastructure was also mentioned severally. It took a percent share of 55.7%. This also confirms that the problem of inadequate infrastructure which has been a major issue being focused since the new democratic governance started in Nigeria in 1999 is still with us. Inadequate power supply has been reported as largely responsible for low capacity utilization rates by the Manufacturers Association of Nigeria (MAN) while this together with poor road network and other infrastructure has been reported to have been responsible for high overhead cost (MAN, 2008), which ultimately reduce MSMEs operators profit margin.

Table 9. The major constraints listed by MSMEs in order of severity

Type of Constraint	Percentage share
Inadequate fund/working capital	60.7
Poor power supply/inadequate infrastructure	55.7
Unfriendly Macroeconomic Policy	26.2
High Cost of Raw Materials	21.3
Low Demand	21.3
High labour Turnover/Unskilled Labour	13.1
No Modern Equipment	8.2
Natural Disaster	4.9
Security Problems	3.3

Source: Survey Returns

Unfriendly macroeconomic policy (monetary, fiscal and external sector policies) also rated highly at 26.2%. High cost of raw materials also featured prominently at 21.3%. So was the problem of low demand due to a sluggish economy. MSMEs also complained of problem of high labour turnover/unskilled labour. This may not be unconnected with problem of poor wages as workers will always seek 'greener pastures'. The problem of lack of modern equipment was also mentioned (8.2%) which may not be unconnected with the problem of inadequate funding which most of them complained about.

Use of SMEEIS funds

According to Frank and Bernanke (2007), credit is not an end in itself; it is a means to an end. The ultimate goal is to affect productivity. Thus, a successful economy not only saves, but also uses its savings wisely by applying these limited funds to the investment projects that seem likely to be the most productive. Consequently, this study sought to know the use(s) to which the SMEEIS funds were applied by the MSMEs. The result of the survey analysis revealed that business expansion took the greatest proportion (36.4%), followed by working capital finance (27.3%). A good number of the respondents (22.7%) used it to purchase new equipment while 9.1% of the respondents used it for debt finance. The rest of them (4.5%) used the SMEEIS fund to resuscitate their dying businesses. Similarly, the study by Ogunrinola and Alege (2007), revealed that 67% of their respondents claimed to have invested the last loan received on business equipment, while the remaining 33% maintained that theirs was spent on working capital for their business expansion. This analysis is quite instructive on the enormous potentials of the MSMEs in the Nigerian economy if their access to credit is enhanced.

Problem with SMEEIS

As stated in the SMEEIS guidelines, a minimum of 10% of the total sum set aside by banks was to be invested in Micro Enterprises, but this never happened despite the fact that as much as N13.8 billion or 32.9% of the total sum set aside remained un-invested as at end December, 2009 (CBN 2009 Annual Report and Statement of Accounts). This state of affairs is an indication that there is a problem. Thus, respondents were requested to list the problem with SMEEIS from their perspective. The major problems the respondents complained about with the SMEEIS are presented in Table 10. The MSMEs complained of too stringent requirements for the assessment of SMEEIS. This problem scored 48.1%. This is not surprising as less than fifty percent of them did not register their company as limited liability company which is a major requirement to assess the SMEEIS. This was followed by the problem of long/cumbersome processing period which scored 37%. This is a problem that had characterized the earlier funding schemes and the SMEEIS was not spared because of our peculiar environment.

Table 10. Respondents' Problem with the SMEEIS

Type of Problem	Percentage share
Stringent Requirement	48.1
Long/Cumbersome Processing Period	37.0
Inadequate Enlightenment	14.8

Source: Analysis of Survey Returns

4. Summary and conclusions

From the result of the survey carried out the fact that MSMEs dominate the country's landscape has once again been validated and they are dominant in the real sector of the Nigerian economy (agriculture and manufacturing). This calls for need to focus on policies that will support their activities as they have been confirmed as agents of economic development. In specific terms, as stated by the World Business Council for Sustainable Development (WBCSD), 'the key to poverty alleviation is economic growth that is inclusive and reaches the majority of people. Improving the performance and sustainability of local entrepreneurs and micro, small and medium enterprises (MSMEs), which represent the backbone of global economic activity, can help achieve this type of growth' (WBCSD, 2004). In this vein, the activities of government institutions focused on MSMEs in Nigeria such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), as well as those in the organized private sector such as the National Association of Small Scale Industries (NASSI), Lagos Chamber of Commerce and Industry (LCCI), etc. should be encouraged, particularly now that unemployment rate and poverty index in Nigeria are on the upward trend (CBN, 2010, World Bank, 2012). Furthermore, the Action Plan and Institutional Framework for the Implementation of the National Policy on MSMEs in Nigeria (which is one of the key literature for this study) is quite comprehensive. It is recommended that it should be implemented fully to achieve the laudable goals of the Federal Government in the MSME sector.

Empirical studies have confirmed a positive relationship between volume of credit and performance of MSMEs Worldwide, it is therefore recommended that every effort should be made to improve access to credit by MSMEs so that they can play their effective roles of employment generation and wealth creation and move the nation out of poverty. In specific terms, it is recommended that the deposit money banks in Nigeria should increase the proportion of their credit portfolio to the agricultural and manufacturing sectors as these two sectors are dominated by MSMEs. Furthermore all the funding institutions, schemes and funds directed at the MSMEs in Nigeria, such as the Bank of Industry, the Bank of Agriculture, The Agricultural Credit Guarantee Scheme Fund, the Small and Medium Enterprises Credit Guarantee Scheme Fund (SMECGS) should be sustained, in order to improve the access of MSMEs to credit as it has been demonstrated that MSMEs access to funding is boosted by specific funds/schemes targeted at them. In addition, adequate attention should be paid to geographical spread in credit initiatives as the poverty indices seem to have been moving in tandem with access to credit as demonstrated by the result of the geopolitical analysis carried out in this study with the SMEEIS disbursement data and the National Bureau of Statistics data on geopolitical distribution of poverty in Nigeria. Most of the states with high poverty incidence did not access the SMEEIS, while most of those that could access the SMEEIS had low poverty indices.

The problem of inadequate power supply needs to be urgently tackled as it is really hampering the activities of the MSMEs and impoverishing Nigerians. Similarly, the problem of inadequate road network and bad roads if addressed will boost MSMEs activities in Nigeria. Finally, the Central Bank of Nigeria and the Ministry of Finance and other government agencies in charge of Nigeria's economic management process should intensify efforts to provide a conducive macroeconomic environment for MSME operations.

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