

Government Financing of MSMEs – Is there progress?

Micro, small and medium enterprises (MSMEs) are recognized as the driving engine of socio-economic transformation of any economy. Internationally, the MSME sub-sector absorbs more than 80 percent of job opportunities, facilitates primary production and value addition, enhances capacity utilization and improves capital per head. It is thus, the surest avenue for providing needed goods and services in rural or semi-urban areas, addressing the problems of rural to urban migration and income distribution, growing the entrepreneurial talent and stimulating economic development in the community.

Micro, small, medium or even large enterprises evolve through the process of meeting a need in a society, doing business or engaging in entrepreneurship. Entrepreneurship is described as the lifeblood of any economy and the solution to unemployment and poverty. Consequently, it has been rightly pointed out that the economic development of the developed world emerged largely from the efforts of micro and small enterprises.

Without overlooking mega or large businesses, empirical findings have shown that a significant feature of a flourishing or thriving economy is a vibrant MSME sub-sector playing the ennobling role of creating employment, providing sustainability and innovation in the economy and the vital linkage between large businesses and individual consumers. It has also been found that countries with a higher share of MSME have higher growth than those with a lower ratio with the larger businesses having their origins traceable to MSMEs. In addition, a large percentage of the population depend on this sector directly or indirectly for one thing or the other in meeting their needs.

MSMEs are known to hold the future to the development and occupy a pivotal position in the economy, especially as it concerns industrial growth, youth empowerment and innovation. Despite the vital role played by MSMEs in economic development, MSMEs experience challenges such as weak market linkages, inclement business environment, inconsistent government policies, multiple taxation, obsolete technology, lack of information, inadequate skills and human capacity. All these combine to limit their growth, ability to do better and eventually early demise.

Another factor that impedes the growth of MSMEs in Nigeria is lack of affordable and reliable capital. Lack of capital or financial resources is a major barrier for MSMEs and entrepreneurs who usually have to mobilize their own capital to establish or expand their businesses. MSMEs in Nigeria have difficulty in accessing bank loans as a result of the inability to provide collateral and other securities. As a consequence of the above impediments, the Nigerian government needs to intervene by providing means of reaching some of these facilities and resources.

Another factor that requires government intervention is the provision of infrastructure. Lack of power, good road network to transport raw materials and finished products has been noted to be a serious impediment. To mainstream MSMEs and position them to optimally contribute to the fight against unemployment and poverty, a conscious commitment at governmental level is desired.





This has come with the successes that have been achieved in Japan, Italy and India amongst other nations which continue to have a large pool of vibrant MSMEs and where the sector has been instrumental in the fight against unemployment and poverty.

Government must therefore adopt a deliberate policy to promote entrepreneurship and enterprise creation through guidance, counselling and other forms of support. Government's role can come by making policies that will enthrone a hassle-free business environment, facilitating access to affordable and reliable finance, provision of infrastructure, human capacity building, facilitating information, market access and business development services.

In today's globalized world, entrepreneurship has assumed greater significance in the acceleration of economic growth and provision of economic facilities. According to SMEDAN, in the business sector, there is an overwhelming ratio of microenterprises in the MSME sub-sector in the country. Their 2012 survey showed that the sector currently employs 32.4 million people in various sectors and that the main source of capital for MSMEs in the country is personal savings, accounting for about 54.4%, followed by loans at 22% and family sources at 16.7%. About 83.2% of the enterprises have initial start-up capital of below N10m, while 7% have initial start-up capital of between N10m and N20m.

It also estimated that more than 80% of MSMEs do not survive beyond the first five years of existence because of a variety of issues that include but not limited to tough and inclement business environment (SMEDAN, 2012).

In view of the critical role which these enterprises play in the economy, their mortality rate as reported above presents a huge concern to policy makers and governments. Based on the number of MSMEs in the country, it is expected that Nigeria should easily meet its essential needs, notably in the area of employment generation, poverty alleviation, economic and industrial growth. But the reverse currently is the situation as a country now parades a population with adverse unemployment, poverty and lack of growth. While the officially reported rates of GDP well exceed population growth, the pace of poverty reduction and job creation does not. While some of the challenges faced by MSMEs are within the control of the businesses, others are external and thus beyond their control. In recognition of this, it is expected that with some deliberate intervention, the failure rate will be reversed.

The role of government is thus seen through the various programmes that are designed and put in place to address the typical needs of MSMEs. The role of government is usually ventilated through enterprise development initiatives and programmes which act as catalysers in their effort in stimulating entrepreneurial spirit among the different segments in the society. These programmes and initiatives are designed to ultimately lead to job creation and poverty alleviation through the MSMEs. In accordance with the national policy on MSMEs, SMEDAN has the role of coordinator, promoter and facilitator of government's policy on MSMEs. The agency oversees policy advocacy and its macroeconomic framework, capacity development, research and development, trade and economic globalization (SMEDAN, 2007).

In view of the above challenges and the potentials they represent, it has been universally acknowledged that MSMEs need support and protection if they will continue to provide the kind of services expected of them. Globally, the role of government in enterprise development is therefore expected to be in the form of provision of encouraging business environment, promulgating appropriate policies, formulation of suitable schemes, and provision of valuable incentives, institutional support and effectively implementing programmes that have been designed. In some cases, in spite of the mixed reactions towards government's involvement in business, government have even been seen to take the lead in the establishment of some types of business enterprise. However, Nigerian government according to SMEDAN scarcely interacts with individual MSMEs in the past, except through the cooperative or other officially recognized groups. Bank loans are rarely sought and very rarely obtained through government.

In Nigeria, the two strong points in favour of MSMEs are that they are numerous and are everywhere. Although the potential of MSMEs has long been recognized, it was only in the mid 1980s that a conscious policy was made to promote and encourage their development. Since then, several schemes have been created to address employment creation, empowerment and poverty reduction through MSMEs.

These programmes and measures addressing the needs of MSMEs have tended to concentrate on providing access to credit, capacity development and other critical measures. It is assumed that even a small improvement in their productivity and output will result in a more than proportionate improvement in employment, income and productivity in every nook and corner of the country. In Nigeria, the federal government is principally responsible for providing policy direction for the development of MSMEs in the country.

The roles of government in financing MSMEs in the past years include the establishment of Industrial Development Centre (IDC). This was another important effort of the Federal Government to promote SMEs under the Second National Development Plan (1970-1975). Under the Plan, N800, 000.00 was allocated for setting up IDCs in various parts of the country. The establishment of the IDCs no doubt, made it possible for government to provide extension services to the SMEs, especially as it relates to product development, entrepreneurial training, and technical appraisal of loan applications as well as managerial assistance.

Over the years, State Governments have been promoting the development of SMEs through their Industrial Development Centres (IDCs) as well as States' Ministry of Commerce and Industries. For example, in their annual budgets, certain sum of money is usually set aside by State governments that would help facilitate the development of SMEs in their respective states. In addition, some state governments have been promoting SMEs through state-owned Finance and Investment Companies. These investment companies were established at various times to specifically render technical advice as well as provide some form of financial assistance to small-scale industrialists.

Following the fall of oil price since the end of 2014, the role of the MSMEs in the Nigerian economy has become more crucial and the Nigerian government has become more aware of the need to boost the activities and growth of MSMEs and work towards ensuring that they take up a larger chunk of the country's GDP by eliminating the challenges they face. The progress of the government in the development of MSMEs can be seen from the various schemes and initiatives developed and its continued alliance with the financial sector to ensure easy and monitored access to fund, thus consequent expansion and growth in entrepreneurship.

Specific measures put in place to address the challenges faced by MSMEs and ensure a larger contribution from them includes the 'You Win' Programme initiated by the government of Nigeria in 2011. This has proven very successful, is yielding positive results and has nurtured over 3,000 young entrepreneurs with more than 35,000 jobs created in the first three rounds of its implementation. In a bid to ensure further success of this programme, the government has launched a N50 million venture capital fund accessible to YouWin beneficiaries and other viable MSMEs. The programme has also been extended to Nigerians in other countries.

In addition, the federal government designed a new scheme called small and medium industries equity investment scheme (SMIEIS) to tackle the challenges of financing small and medium industries in Nigeria. This scheme makes it mandatory for banks to reserve 10% of their pre-tax profit for equity investment in SMEs. In addition, the federal government of Nigeria has introduced intervention programmes to support MSMEs such as the establishment of the Central Bank of Nigeria Entrepreneurship Development Centres to provide basic business management skills training to MSMEs and unemployed youth in the 6 (six) geo-political regions of the country.

In a similar manner, the government in August 2013 launched an N220 billion micro, small and medium enterprises development fund (MSMEDF) to provide loans at single digit interest rate for MSMEs in the country. At the State level, each State is expected to follow suit and develop schemes and programmes that are suitable and peculiar to her own environment. It is in this direction that the Cross River State Government set up by law the Microfinance and Enterprise Development Agency in 2010 with the mandate to support the growth and development of micro, small and medium enterprises in the State.

The Central Bank of Nigeria, as the apex financial institution has, over the years, been playing a leading role in the promotion of SMEs. The CBN, especially during the regime of direct monetary control, was determining the rates for lending to specified sectors of the economy with the aim of encouraging lending to those sectors. The Bank ensured that the lending rates to SMEs were lower than the rates for other sectors of the economy. It also required mainstream banks to make available to indigenous industrialists a certain percentage of their credit portfolio. Recently, a new scheme was approved for the financing of the SMEs. The new scheme referred to as the Small — and Medium — Scale Industries Equity Investment Scheme (SMIEIS) requires banks to set annually, 10 percent of their Profit Before Tax (PBT) for the financing and promotion of small — and medium -scale industries in the system. The SMIEIS was an initiative of the Bankers' Committee.

The Bank of industry (BOI) which is Nigeria's oldest and largest development institution charged with providing financial assistance for the establishment of MSMEs as at January 2015 signed a memorandum of understanding (MOU) with 10 banks in order to provide loans at low interest rate to operators of micro, small and medium scale enterprises in the country. According to the MOU, the ten banks would provide working capital loans to MSMEs at interest rate of monetary policy rate (MPR) plus 6% with a tenor ranging from 6months to 12months. The BOI on the other hand would provide term loans to the qualified MSMEs at interest rate between 9 to 10% with tenor ranging from 3 to 5 years and moratorium of 6 to 12 years.

As part of measures to enhance the contribution of MSMEs to economic growth, the Federal Government will establish a Wholesale Development Finance Institution (DFI), which will provide long term funds of up to 15 years for industrial development. Existing DFIs would be restructured for better performance and improved access to finance by MSMEs.

These measures over the past years, and recent initiatives by government has pointed to the fact that there is progress in the government's financing of MSMEs. The future looks bright for the development of MSMEs, as the engine of growth in any development oriented economy.