



Research, Credit Ratings, Credit Risk Management

A Review of the Nigerian MSME Policy Environment

PREPARED FOR:



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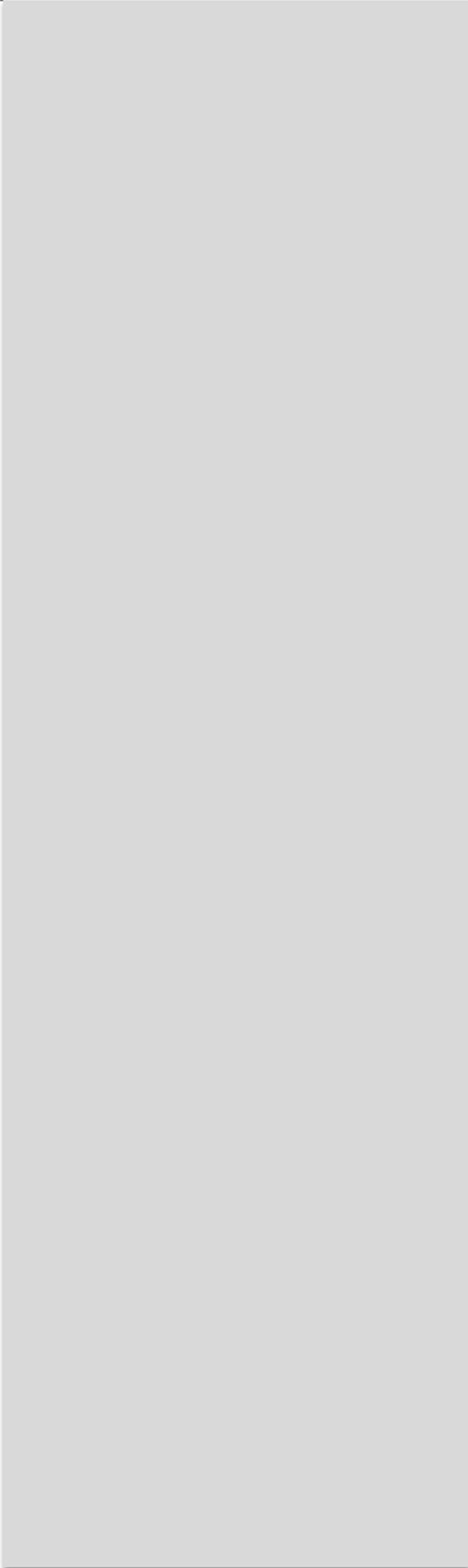
Glossary of Terms

ACGSF	<i>Agricultural Credit Guarantee Scheme Fund</i>
AGOA	<i>African Growth and Opportunity Act</i>
BDSPPs	<i>Business Development Service Providers</i>
BOA	<i>Bank of Agriculture</i>
BOI	<i>Bank of Industry</i>
BPs	<i>Basis Points</i>
CAC	<i>Corporate Affairs Commission</i>
CACS	<i>Commercial Agricultural Credit Scheme Fund</i>
CAP	<i>Cottage Agro Processing Fund</i>
CBN	<i>Central Bank of Nigeria</i>
DB Index	<i>Doing Business Index</i>
DFID GEMS	<i>The Department for International Development Growth and Employment in States Programme</i>
DFIs	<i>Development Finance Institutions</i>
DMO	<i>Debt Management Office</i>
EDC	<i>Enterprise Development Centre</i>
FAFIN	<i>Fund for Agricultural Finance in Nigeria</i>
FIRS	<i>Federal Inland Revenue Service</i>
FMARD	<i>Federal Ministry of Agriculture and Rural Development</i>
FMCT	<i>Federal Ministry of Communication Technology</i>
FME	<i>Federal Ministry of Education</i>
FMF	<i>Federal Ministry of Finance</i>
FMITI	<i>Federal Ministry of Trade and Investment</i>
FMLH	<i>Federal Ministry of Lands, Housing and Urban Development</i>
FMYD	<i>The Federal Ministry of Youth Development</i>
GEF	<i>Graduate Entrepreneurship Fund</i>
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH</i>
GMP	<i>Good Manufacturing Practice</i>
ICRC	<i>Infrastructure Concession Regulatory Commission</i>
IFC	<i>International Finance Corporation</i>
IPPs	<i>Independent Power Plants</i>
JICA	<i>Japan International Cooperation Agency</i>
LCCI	<i>Lagos State Chamber of Commerce and Industry</i>
MAN	<i>Manufacturers Association of Nigeria</i>
MANCAP	<i>Mandatory Conformity Assessment Programme</i>
MBPD	<i>Million Barrels per Day</i>



MMSD	<i>Ministry of Mines and Steel Development</i>
MSMEDF	<i>Micro, Small and Medium Enterprise Development Fund</i>
MSMEs	<i>Micro, Small and Medium Enterprises</i>
NACCIMA	<i>Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture</i>
NAFDAC	<i>National Agency for Food & Drug Administration Control</i>
NASME	<i>Nigerian Association of Small and Medium Enterprises</i>
NASSI	<i>Nigerian Association of Small Scale Industries</i>
NBA	<i>Nigerian Bar Association</i>
NBS	<i>National Bureau of Statistics</i>
NBTE	<i>National Board for Technical Education</i>
NCC	<i>Nigerian Communications Commission</i>
NERFUND	<i>National Economic Reconstruction Fund</i>
NEXIM	<i>Nigerian Export – Import Bank</i>
NGO	<i>Non-Governmental Organization</i>
NIPC	<i>Nigerian Investment Promotion Commission</i>
NIPR	<i>Nigerian Institute of Public Relations</i>
NIRSAL	<i>The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending</i>
NITA	<i>National Institute for Trial Advocacy Training</i>
NJC	<i>National Judicial Council</i>
NOA	<i>National Orientation Agency</i>
NUC	<i>National Universities Commission</i>
OECD	<i>Organisation for Economic Co-operation and Development (OECD)</i>
PFI	<i>Participating Financial Institutions</i>
RRF	<i>CBN's ₦200 billion Refinancing and Rediscounting Scheme</i>
SMECGS	<i>Small and Medium Enterprises Credit Guarantee Scheme</i>
SMEDAN	<i>Small and Medium Enterprises Development Agency of Nigeria</i>
SMEEIS	<i>Small and Medium Enterprises Equity Investment Scheme</i>
SMITIs	<i>State Ministry of Trade and Investment</i>
SON	<i>Standards Organisation of Nigeria</i>
SONCAP	<i>Standard Organisation of Nigeria Conformity Assessment Programme</i>
SPARC	<i>State Partnership for Accountability, Responsiveness and Capability</i>
VCAN	<i>Venture Capital Association of Nigeria</i>





Introduction



Introduction

FATE Foundation (FATE) is a not-for-profit organisation that was founded in March 2000 in response to the challenges of the Nigerian business environment particularly in relation to the development of small and medium scale enterprises. To date, FATE's programs have centred on business knowledge and enterprise development, providing post-graduation business support and ancillary services to prospective and aspiring entrepreneurs who have business ideas and innovative solutions.

FATE has also expanded its focus area to include research and policy as a means of driving knowledge and policies enabling SMEs to thrive in the Nigerian business environment. Accordingly, FATE's annual Policy Dialogue Series was conceived as an avenue to bring together stakeholders in the Nigerian SME space and high-level business experts from within and outside Nigeria to discuss factors and policies that impact on the SME sector in Nigeria with a view to proffering concrete actionable solutions. The Dialogue Series is geared towards initiating conversations around current SME policies and programs, reviewing policies and advocating for policy reviews required to ensure an enabling business environment for SMEs.

Agusto & Co. was therefore commissioned by FATE Foundation to complete an MSME study that would provide background and context for FATE's Policy Dialogue Series. The report is expected to review key SME policies, provide relevant data on implementation status, discuss the impact of these policies on the business environment and provide detailed policy recommendations.

Our Approach

Agusto & Co. adopted a two pronged approach to this study, which involved engaging both stakeholders involved in designing and implementing policies and schemes that affect MSME performance and MSMEs themselves. The aim was to get a balanced view on MSME policy effectiveness. The approach also revealed the array of challenges facing the various stakeholders in the MSME space in Nigeria and provided a basis for proffering recommendations to support MSME growth and development in the country.

Our Methodology

We conducted both primary and secondary research for the production of the FATE Foundation MSME Report. The identified stakeholders included micro, small and medium enterprises, government agencies, SME desks of commercial banks and multilateral financial institutions, private and non-governmental institutions involved in MSME capacity development, trade associations and MSME associations.



Primary data and information was gathered from stakeholders relevant to the MSME space through:

- face-to-face interviews
- telephone interviews
- surveys

Agusto & Co. also conducted secondary research (“desktop research”) to access macroeconomic data.

Secondary data was used in analysing the impact of various policies on MSME development in a selected number of countries with similar demographics and features like Nigeria.

Survey

Agusto & Co. conducted a survey across MSMEs in various industries in the following locations within Nigeria. The goal of our survey was to identify key challenges facing MSMEs, the government policies that affect MSMEs, the perception of MSMEs on some government agencies (regulators), determine the level of awareness of intervention funds, amongst others.

Geo-Political Zone	Cities
North Central	Abuja
South East	Aba and Owerri
South West	Lagos

Based on our goals, we used a cluster sampling method to select key clusters that MSMEs operate in. We selected the following clusters:

- Aba and Owerri were selected to represent Nigeria’s South East, based on the predominance of trade related activities in these locations.
- Lagos State has a population exceeding 20 million people and is the largest city in Nigeria. Lagos is considered the “commercial centre” of Nigeria, with numerous MSMEs operating across a wide array of industries.
- Abuja was selected to provide some views of MSMEs that operate in a largely administrative and political environment and was expected to bring about a divergence of views on the issues facing MSMEs and to get a sense of if these challenges were universal across the country.



Survey and Interview Objectives

The main objectives of the survey and interviews are listed below:

- Ascertain the key challenges facing MSMEs in Nigeria.
- Determine the major government policies that affect MSMEs.
- Determine the impact of the current business environment on MSMEs in Nigeria.
- Determine the financing needs of MSMEs in Nigeria.
- Determine the main source of MSME funding in Nigeria.
- Determine the level of awareness of intervention funds developed to support MSME development.
- Determine the impact of MSME intervention funds.
- Impact of other government policies on MSMEs operations.

Survey Sample Size

The questionnaires were administered to **119** respondents operating in the following sectors.

- Agriculture
- Manufacturing
- Trade & services

Under each sector, various industries were covered including:

- Agriculture
- Fashion
- Confectionery
- Wholesale trade
- Retail trade
- Paints manufacturing
- Information Technology



- Consulting

The survey conducted was not entirely quantitative. Nonetheless, using a confidence level of **95%**¹, the margin of error for questions with “yes”, “no”, “I don’t know” options averaged **8%** using the following formula:

$$z \sqrt{\frac{p(1-p)}{n}}$$

Survey Instrument and Design

A generic questionnaire was adopted and questions were designed in line with the survey objectives. Below is a list of the questions asked:

1. Name of business (optional)
2. What industry / sector do you operate in?
3. Where did you get money for your business from?
4. How much of your capital is borrowed money?
5. How much did you use to start your business?
6. Do you know that the Central Bank of Nigeria has funds for micro, small and medium sized businesses?
7. Which Central Bank of Nigeria funds do you know about?
8. Do you know that Bank of Industry has loans for micro, small and medium companies?
9. Which Bank of Industry (BOI) funds do you know about?
10. Do you know about the Federal Government YouWiN! Grant?
11. Have you ever applied for a loan from a commercial bank?
12. If you applied for a commercial bank loan, did you get the loan?
13. Why have you not applied for a commercial bank loan?
14. If you have received any commercial bank loans, please choose the interest rates that you pay on the loan?
15. What did you use your loans for?
16. What type of business are you running?
17. What is the size of your annual sales?

¹ Agosto & Co.'s aim was to account for 95% of the possible results, therefore, a 95% confidence level was chosen.



18. What are the top five challenges facing your business?
19. Do you import goods?
20. How long does it take to clear a container at the port?
21. Which government policies have positively impacted your business?
22. Does the tax system affect your business?
23. How many taxes and levies do you pay in the course of running your business?
24. What taxes does your company pay?
25. Have you registered your business?
26. How easy was it to register your business?
27. If you have not registered your business yet, what are the major reasons?

Survey Administration

Our first goal was to ensure that the respondents of our survey were MSMEs operating in Nigeria. To ensure the randomness of the survey, Agosto & Co. did the following:

- After identifying MSMEs operating in Nigeria, the other cardinal objective was to ensure a high degree of diversity within our sample.
- We distributed questionnaires to MSMEs cutting across industries from agriculture, trade and commerce, cottage manufacturing, ICT services, travel and hospitality etc.
- Thus, we distributed to MSMEs across industries within the Agosto & Co. MSME database.
- In statistics $n=30$ is touted as a representative sample size for statistical analysis and survey.
- However, in the course of writing this report we decided on expanding the sample size to 283 respondents encompassing MSMEs in Agosto & Co.'s Database, Aba, Abuja, Lagos and Owerri.
- This decision to expand our sampling universe was largely informed by the historical low response rates to questionnaires and surveys in the country.
- The questionnaire was sent to 283 MSMEs in Aba, Abuja, Lagos and Owerri.
- The response rate for the survey was **42%**.
- The response rate on SurveyMonkey was **28%** and the response rate of the field agents was **95%**.



The survey was distributed via two platforms:

- Use of field staff: Field staffs were trained on how to administer questionnaires and were well informed of the purpose of the survey and the target respondents.
- Online- Online questionnaires were administered via SurveyMonkey (a cloud-based software).

Data Processing and Analysis

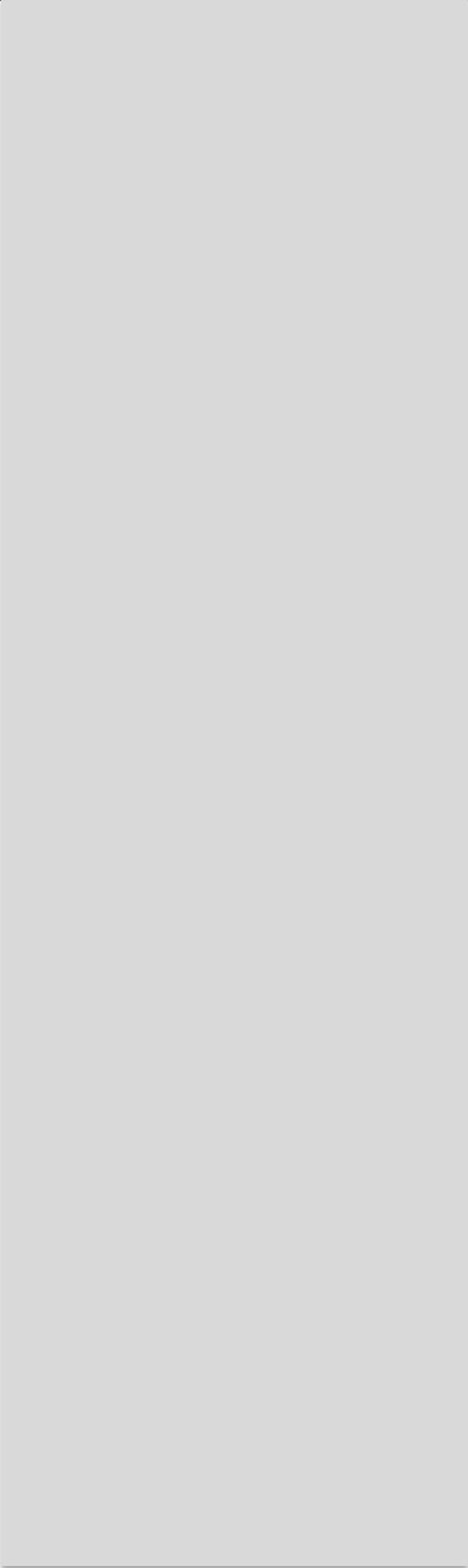
Data processing and analysis was completed at the Agosto & Co, office in UBA House, Marina, Lagos, Nigeria. The process involved data collection, data cleaning, data processing/analysis and data interpretation.

Data processing was conducted through the use of Microsoft Excel to develop charts and tables for analysis. The results of the processed data are communicated using Microsoft Word for report writing (data interpretation).

Report Writing

The report was written over a total period of 6 weeks by an Agosto & Co team comprising six analysts/senior analysts. The review process included peer, 1st level supervisory review, and 2nd level supervisory review.





Executive Summary



The Nigerian economy is currently facing strong headwinds triggered by the plunge in international crude oil prices that has pushed the country to the point where she now has to pay for the decades of bland rhetoric on economic diversification. In addition to the plunge in oil prices by over 60% from June 2014 to date, at the root of the Naira's current upheavals, is the fiscal crisis at the central government level as well as amongst the sub-nationals (states) which have led to the weakening of key macroeconomic fundamentals such as exchange and interest rates. These weak macroeconomic fundamentals are evidenced in the weak growth of the Nigerian economy in the last 12 months. Beyond these economic challenges, is the largely ignored but fundamental issue of unemployment which has been the bane of the recent social uprisings in the country particularly in the Niger Delta and the north east.

Micro, Small and Medium Enterprises (MSMEs) have long been identified in the western nations as the incubators of innovation and bedrock of employment. As Nigerian policymakers adapt to this reality, there has been a ratcheting up of policies and intervention funds for MSMEs. With the renewed focus on diversifying the economy from crude oil, there is a clamour for a progressive policy framework that can foster the growth and development of MSMEs. This progressive policy framework becomes more pertinent given that MSMEs are more vulnerable to the negative headwinds currently facing Nigeria. Moreso, as these economic difficulties may span into the medium term.

In this report, we have examined some of the key policies that have been introduced in the past to support MSME development – and their overall impact. We have also examined the intervention fund mechanism set up by the Federal Government and some of its institutions and agencies. But more importantly, we have examined the operating environment, especially amidst the strong economic headwinds to draw up a prognosis on the effects on small businesses in the country.

The Nigerian Macro-Economic Environment

- Owing to the material plunge in crude oil prices, from the highs of over \$100 per barrel (pb) in June last year to current levels of \$45 - \$50 pb, Nigeria has lost close to \$25 billion in oil revenues in just over a year. This has created a fiscal shock that has affected the country's economy negatively, leading to weaker economic growth, with GDP set to grow by only 2.5% - 3% in 2015 in contrast to 6.2% in 2014. The Naira's recent vulnerabilities despite the stringent demand management strategies of the Central Bank seems to only get worse with unending speculations on further depreciation of the currency. The Central Bank has also failed to rein in inflation as prices push above the bank's 6% - 9% target, to nearly 10%.
- It is against this backdrop that the new administration speedily implemented the Treasury Single Account (TSA) which aims to help the government consolidate on its revenue positions. Despite this worthy initiative, fiscal pressures especially from recurrent expenditure will pose significant risks to the Nigerian economy. In 2014, the recurrent expenditure of the Federal Government stood at close to 80% of the total spending and could rise to over 100% of spending in 2015.



- This implies that capital spending will suffer a material decline in a country sorely in need of infrastructure. In the 2014 fiscal budget, the Federal Government allocated only 22% of spending to capital expenditure and this is expected to drop to a measly 12% in 2015 resulting in the slow progress on capital projects across the country.
- Interest on debt repayment is also another constricting factor to the Central Government's fiscal position as this was 24% of total spending in 2014 and is expected to surpass 40% in 2015 fiscal year.
- Given the negative outlook for crude oil prices and consequently Federal Government revenues, we expect that the current administration will have to explore all avenues to shore up revenues.
- Given the dearth of policy communication by the new administration, we have based our economic prognosis on two major scenarios. The first scenario looks at oil prices at an average of \$65 per barrel in 2016 and the second scenario is at \$45 - \$50 per barrel. We have deemed the second scenario to be the Most Likely Scenario.
- Given the Most Likely Scenario, the macroeconomic challenges the country faces is likely to persist going into 2016. While the CBN remains adamant that the local currency will not be devalued or adjusted any further, we believe the dwindling export revenue of the government will lead to an inevitable adjustment of the Naira exchange rate. We expect the CBN to further adjust the Naira exchange rate in 2016 and our projections indicate the Naira could exchange at an average of ₦234/US\$ next year.
- We expect inflation to remain on the ascendancy owing to the currency depreciation, import restrictions, insecurity in the north east. Our forecasts indicate inflation will rise to between 11% and 12.5% in 2016.
- Past attempts at removing the fuel subsidy have proved ill-advised and led to protests by Nigerian citizens. Although the Country's economic realities have changed since the last attempt, we believe the government will maintain its current stance to keep the fuel subsidy. Despite the lower earnings from crude oil export, the Federal Government has identified key sectors (Agriculture, Solid Minerals, and Trade) targeted to diversify the country's revenue alongside fiscal measures to curb the nation's expenditure. With this stance, we do not believe the fuel subsidy will be completely removed in the short term.
- Our most likely scenario reveals a sombre prognosis of the Nigerian economy in 2016. The need for bold economic reforms that will be required to spur growth and avert this prognosis should be considered a non-negotiable in the face of the economic and fiscal headwinds Nigeria is stacked against.



Macroeconomic Dashboard (For Most Likely Scenario)

MACRO-ECONOMIC INDICATORS	OUTLOOK
Inflation	Negative
Interest Rates	Negative
Exchange Rate	Negative
FGN Debt	Negative
Sub National Debts	Negative
Unemployment	Negative
Tax Pressures on businesses	Negative
Consumption	Negative

- We have also examined the probability of performance by different segments of MSMEs under the Most Likely Scenario. While we see MSMEs in industries like fashion, entertainment, and software development proving resilient even in the face of further currency devaluation, we believe small businesses in automobiles, retail trade, ICT hardware may be materially affected by a slide in the value of the Naira.

Review of MSME Policy Environment

National Policy on Micro, Small and Medium Enterprises (MSMEs)

- In 2007, the first National Policy on Micro, Small and Medium Enterprises (MSMEs) was developed by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and approved by the Federal Executive Council (FEC) 9th May, 2007.
- However, overall implementation was affected by several challenges which include:
 - Weak stakeholder buy-in (public and private sector institutions)
 - Lack of strong commitment to MSME development by all tiers of government
 - Weak institutional synergy
 - Ineffective funding of the MSMEs development process.
 - Weak capacity among MSMEs
- This led to a policy review in 2012 with the unveiling of the new National Policy on MSMEs in May 2015, in the twilight of the Goodluck Jonathan administration.
- The revised policy is based on close partnership and cooperation between the various levels of government and community organisations on one hand, and private enterprises & business organisations on the other.
- The policy has also built on international best practices to classify MSMEs based on the dual criteria of employment and assets (excluding land and buildings).



- In addition, the policy takes into cognizance other international best practices such as a decentralized institutional framework that leverages synergies between the public and private sector for the development of MSMEs.
- It promotes the cluster approach for the development of MSMEs. Globally, this approach has proven to be a more effective and efficient way of reaching MSMEs as, clusters provide a healthy symbiotic ecosystem for small businesses.
- The revised policy also recognizes the use of ICT in improving Government's efficiency, effectiveness and service delivery to MSMEs. For instance, in order to "enable a regulatory environment that supports MSMEs", SMEDAN aims to establish MSME friendly registration windows and one-stop business registration points accessible in MSME clusters, federal institutions and select post offices. This one stop registration points is similar to the South Korean "Start Biz Online", an online system managed by the Small & Medium Business Administration to simplify business incorporation processes and facilitate easy, efficient and cost effective start-up environment.

Policies Relating to Access to Finance

- We also examined the performance of the various intervention funds by the Nigerian government on MSMEs highlighting the strengths and weaknesses of the various funds.
- One of the key strengths of the funds is the low interest rates of these loans. Some of the intervention funds also have moratoriums which allow the MSMEs to re-invest cash flows prior to the repayment period.
- However, we also observed that large corporates sometimes camouflaged as MSMEs on the back of the weaknesses in MSME definition to access these intervention funds.
- One of the biggest drawbacks of the government's intervention funds is the dearth of evaluation mechanisms to determine the success and weaknesses of the funds. In this report, we have designed an evaluation framework for the government's intervention funds called the "**The Augusto MSME Intervention Funds Performance Evaluation Model (Augusto MIFPEM)**". This framework will help determine the economic and social impact of the government's intervention funds. We believe that these funds should be considered as Impact Funds and thus returns of the funds cannot be confined to the interest rates accruing to the government and its financing partners. The MIFPEM model will seek to evaluate the social returns as well.
- The MIFPEM model will seek to evaluate the funds on three broad parameters. These are:
 - Disbursements relative to fund size
 - Impact on the MSMEs
 - Impact on the economy



Review of Taxation in Nigeria

- Given the dwindling crude oil prices which have significantly affected the Nigerian Government's revenues, we expect a strong focus on non-oil taxes to augment the revenue shortfalls. Should this aggressive tax drive be implemented, we expect a marginal increase in prices of goods and services that may slightly dent consumption.
- We also recommend for tax incentives for small businesses in Nigeria as tax reliefs in Nigeria seem to be reserved for only large corporations. Some of these reliefs include exemptions from import duties on ICT equipment solely meant for capacity building and not for onward sale.

Review of Ministries and Departments with Regulatory Oversight

Customs and Port Operations:

- Augusto & Co. believes that the bureaucracy at the ports contributes to the delay in clearing imported goods. In addition, the prevalence of bribery at the Nigerian seaports, land borders and air cargo terminals has increased inefficiency, contributing to Nigeria's negative positioning on the trading across borders index.
- A Corruption Risk Assessment (CRA) in the Ports jointly carried out by the Independent Corrupt Practices and Other Related Offences Commission (ICPC); the Technical Unit on Governance and Anti-Corruption Reform (TUGAR); and Bureau of Public Procurement (BPP) in 2013 identified huge discretionary powers enjoyed and exercised by officials of government agencies as the major source of corruption at Nigeria's seaports.
- We believe that these excessive powers should be curbed particularly with the coming on stream of a new Comptroller General of the Nigeria Customs Service in H2'2015. Our survey corroborates our view that custom related challenges are quite prevalent amongst MSMEs. The survey indicates that of the top six challenges affecting MSMEs in Nigeria, three (high import duty, missing orders at the ports, bribery at the Nigerian seaports and land borders) are custom related.

SON & NAFDAC:

- Many MSMEs believe that SON and NAFDAC's regulations are often duplicated and should be harmonized especially the Good Manufacturing Practice (GMP) used by NAFDAC to regulate manufacturers in Nigeria and the mandatory conformity assessment programme (MANCAP) advocated by the Standards Organization of Nigeria (SON).
- For instance, a product inspection report produced by SON could be rejected by NAFDAC and vice-versa as, each regulatory body prefer to carry out an independent analysis for the same product. We believe that there is need for all standard regulatory bodies in Nigeria to co-operate and harmonise their laws particularly in the aforementioned industries, in order to avoid



duplication of services which often creates a system of multiple levies. However, this would involve effective collaboration amongst these regulatory agencies.

Stronger SMEDAN

- SMEDAN should be strengthened to provide business advisory services and mentorship to MSMEs. We have considered these twin factors as low hanging fruits that can yield great returns.
- While the agency's brick and mortar presence across the country may be largely streamlined by cost considerations, this makes it imperative to strengthen its online presence as this offers a greater platform to reach out to more entrepreneurs. A stronger online presence will also help SMEDAN provide more capacity building resources to budding entrepreneurs like sample business plans, newsletters, experts' opinion etc.
- Overall, restructuring government-owned MSME support agencies like SMEDAN and other government organisations like the Customs and NAFDAC will significantly improve the Nigerian business environment and reduce the operational bottlenecks suffered by MSMEs.

Recommendations to Improve National Policy on Micro, Small and Medium Enterprises

Some of our key recommendations to improve on the National Policy on MSMEs include the following:

Availability of Credible Institutions

The availability of good institutions at all levels of government supporting and promoting MSMEs. This will ensure that corruption and regulatory bureaucracy are minimized and the rule of law, land & property rights, creditors' rights amongst others is upheld accordingly.

Encouraging Innovative Entrepreneurs

The Nigerian Government needs to encourage creative entrepreneurs with innovative ideas. Progressive policies that support investments in broadband should be promoted to encourage investments by these MSMEs. In addition, the country should be open to foreign technology and technology driven business should be encouraged to adapt these foreign technologies.

Promotion of Intellectual Property Law

Most MSMEs do not have patented products. In addition, there is poor protection of intellectual property rights in the country. The Ministry of Industry, Trade and Investment, SMEDAN and NOTAP should assist the MSMEs in this regard by setting up an intellectual property facilitation cells, which will provide a range of intellectual property related services, such as prior art search, patent landscape and interface for technology transfer.



Government Cross-Country Study on International Best Practice for Cluster Development

While the new policy emphasizes the need to adopt cluster approach in supporting MSMEs, it is necessary for the Nigerian Government to undertake a cross-country study in a bid to adopt international best practises for cluster development.

Efficient Port Operations

Bottlenecks around port operations and weaknesses in border controls have not only increased the operational inefficiencies of MSMEs but pushed some to the brink in a threat to going concern. We recommend increased investments and efficiency in port operations and processes adopted by the customs.

Cross-Country Comparison

- In our cross-country comparison, we studied SME development policies that have been implemented with resultant success in the peer countries. However, some of the policies we have highlighted were designed more on SMEs than MSMEs and thus if Nigeria is to replicate these policies, there will be a need to absorb the Micro businesses in the framework.
- The peer countries we picked were India, Indonesia and South Africa. The Indonesian and Indian economies are similar to Nigeria in terms of huge population size, GDP per capita, ethnic diversity and oil producing status. South Africa, on the other hand, was highlighted in this section as an example of an African country that has recorded success in implementing SME policies. Furthermore, these countries are fraught with similar challenges confronting the Nigerian economy. These challenges include corruption, an inefficient public sector, significant poverty levels and low spending on education.

Indonesia: Cluster Funding

- To accelerate the development of local SMEs, the Government (through the Ministry of Cooperatives and SMEs) in conjunction with SME- focused NGOs has actively advanced the adoption of cluster-funding. Research has revealed that companies situated in clusters have easier access to suppliers and buyers, greater ability to access larger local markets and are more innovative due to stiff rivalry within clusters. The clustering approach was adopted in the 1970s with the major objective of promoting technological development in the Indonesia.
- The Government of Indonesia initially managed SME-development directly through the provision of business incubators, consulting clinics and technology centres. However, these models attained limited success as government-backed SME development programs were usually hampered by frequent changes in policy formulation. Consequently, the Ministry transferred the support of local SMEs to the control of Business Development Service Providers (BDSPs). These privately-run BDSPs offer consulting services, business, financing and regulatory information to clusters located in different areas.



- The Ministry of Cooperative and SMEs assists BDSPs in supporting clusters. Each BDSP enters into an initial three year contractual partnership with the Ministry in exchange for start-up capital which is repaid by servicing nearby clusters over a three year period. Contracted BDSPs are required to attend consultation meetings with government officials at field level, submit regular reports on undertaken activities and the progress of MSMEs under purview. For non-governmental BDS providers, the major sources of funding are universities, international organizations, and technology and incubation centres.
- The Ministry of Cooperatives and SMEs also implemented measures to regulate incubator programs for start-ups. The start-ups Incubator Program was conceived as a means of promoting local entrepreneurship and providing aspiring entrepreneurs with adequate opportunities for setting up businesses. The Program is most prominent in technology and telecommunications due to the dearth of local entrepreneurs in these sectors.

Lessons for Nigeria

- Cluster financing and cluster based development has been linked to the increased productivity and innovation among MSMEs.
- While we do recognise that the Bank of Industry (a quasi-government agency) has adopted the BDSP model in its MSME financing, we believe this model can be adopted by agencies like SMEDAN as well.
- We also believe that cluster development should be executed in phases for the Nigerian Government to gain on the learning curve. Thus, cluster financing can commence with high impact areas such as Ladipo Market in Lagos (“the auto spare parts market”), Auto Spare Parts and Machinery Dealers Association (ASPAMDA) Market in Lagos, Otigba (Computer) Village in Lagos and the Aba Shoe & Leather Goods Market in Abia State. Overall, cluster development approach will require a great deal of research to effectively stratify large markets into smaller clusters, cooperatives or other similar groupings for lending purposes.

South Africa: Supplier Development Program

- In the Case of South Africa, we highlighted the impact of the Supplier Development program, a policy which has been actively promoted by the Government and actively adopted by large enterprises and multilateral organisations alike.
- The Supplier Development Program was borne out of the need to improve the capacity, capability and competitiveness of local manufacturers to meet the import requirements of large enterprises. Prior to the commencement of the program, it was estimated that import requirements for companies in the automotive and infrastructure investment space stood as high as 40%.



- Consequently, the Government of South Africa (through the Department of Public Enterprises and State Owned Enterprises) set up the Competitive Supplier Development Programme (CSDP) to improve the competitiveness of the services being proffered by State Owned Enterprises (SOE) through savings obtained from using more competitive suppliers.
- The CSDP consists of demand-side and supply-side measures in order to increase the competitiveness, capacity and capability of local suppliers. State Owned Enterprises (SOEs) are principally responsible for the demand side measures. On the other hand, Industry stakeholders and the Government are mainly responsible for implementing supply-side measures.
- The emphasis of the programme on the demand side consists of SOEs developing long term supply networks and win-win partnerships that will attain best value for money over the product life cycle rather than the lowest initial cost.
- The United Nations Development Programme (UNDP) has also created a supplier development programme (SDP) to assist the Government in realising its objective of SME development in South Africa. The Supplier Development Programme (SDP) provides SMEs with technical assistance over a period of 9-10 months. The objective of the SDP was to mentor selected SMEs or agribusiness cooperatives which will in turn become suppliers of larger corporates.
- To achieve this mandate, UNDP provided technical assistance to help selected SMEs enlarge the volume, quality and punctuality of sales. In addition, UNDP specialists provided technical assistance and collaboration structures for the smooth integration of SME suppliers with the large firms as off-takers. Furthermore, UNDP engaged in an in-depth diagnosis of management processes of the selected SMEs as the programme involved a long period of interaction between the procurement department of large enterprises and the target SMEs.
- These measures enabled the Supplier Development Programme record success among SMEs and large enterprises alike. SMEs had to significantly improve management processes and run more efficient businesses to meet standards and delivery deadlines set by large enterprises. There has been a 6% growth in employment and 12% growth in sales by SMEs enrolled in the Supplier Development Programme.

Lessons for Nigeria

- The Federal government in Nigeria already has a well-developed procurement program which has also been replicated across the states. However, we do not believe this procurement framework adequately embraces MSMEs. We believe the procurement framework should fully support the growth of MSMEs by creating opportunities for small businesses to compete fairly in the bidding processes for public sector contracts.



- We also believe large corporations and multinationals in the country can also replicate the UNDP Supplier Development Programme. This even becomes more pertinent with the large supermarkets operating in the country.
- Local suppliers often face a herculean task with the large supermarkets but we believe the UNDP SDP would help remove the bottlenecks and create a synergy that incorporates local businesses in the supply chains of the latter.
- These supplier programs can also be designed around the Fair Trade framework by ensuring that local businesses enjoy better terms of trade with large corporations while promoting sustainability.
- The government's procurement process can also examine contracts and supplies that inadvertently lead to job losses in Nigeria while creating jobs abroad. For instance, government still engages in a lot of printing in foreign countries while lots of Nigerian businesses have built scale and capacity around domestic investments.
- This is a policy leakage that leads to the distortion on the demand side for printing while the same government seeks to create policies which stimulates the supply side.

India: Implementation of Credit Ratings

- Prior to the adoption of credit ratings for SMEs in 2004, Small and Medium Enterprises in India could rarely access funds from formal sources. Access to funding from formal sources stood as low as 11%, but has now increased to about 34%. Credit rating simplifies decision making for lenders by providing information on the creditworthiness of SMEs.
- The Government has also incentivized SMEs by restricting certain contracts for firms that have undertaken credit ratings. In addition, the Government would require SMEs to undertake credit ratings before loan disbursements to them as it serves as a credible measure for evaluating internal risks.
- Credit rating services for SMEs are conducted by SME Rating Agency (SMERA) and selected rating agencies in the Country. SMERA is a public-private partnership between government/private/multinational corporations/lenders and banks committed to the SME sector such as the Small Industries Development Bank of India. SMERA has entered into MOUs with 29 banks and financial institutions to incentivise SMEs by providing commercial benefits to highly rated SMERA units. SMERA commenced rating SMEs in 2004 and had completed about 40,000 SME ratings as at the end of Q'3 2014.



Lessons for Nigeria

- A key challenge affecting the ability of MSMEs to access funding is the lack of information on the creditworthiness of most MSMEs. This challenge can be alleviated by encouraging the adoption of credit ratings for SMEs. Although, there exists credit bureaus in the Country, the level of information proffered by these services are not commensurate to risks borne by lending institutions upon loan disbursement.

Conclusion

- Overall, the drop in oil prices provides a unique and compelling reason for the Nigerian state to “think and act” beyond oil. The nation’s current insecurities can best be tackled with jobs and gainful employment. Small business owners have emerged Nigeria’s largest job creators without the requisite infrastructure and adequate policy framework. In addition, expensive interest rates from financial institutions especially micro finance banks constrict the growth of MSMEs in the country.
- The capacity of the new administration to integrate MSMEs in its policy framework while preserving progressive MSME policies from the previous administration will also mitigate policy risks and reduce risks associated with policy flip flops.
- Overall, we have proffered solutions that should improve the policy environment and also stimulate affordable bank credits to MSMEs. Other policy initiatives include increasing synergies between large businesses and MSMEs. We believe this investment by large corporations in backward linkages and supply chains that are largely dominated by MSMEs would help the former resolve long term supply chain disruptions and also spur growth of the latter. It will also integrate MSMEs in the value chain of major large corporations and have a significant multiplier effect on the economy.



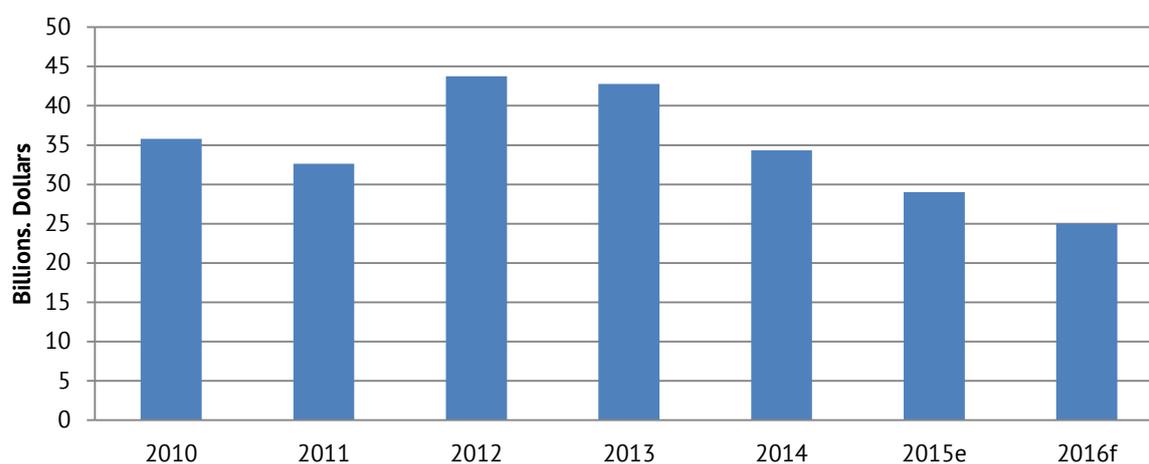
Section 1: Review of Nigeria's Macroeconomic Environment



Drop in Crude Oil Prices provides a litmus test to the Nigerian economy

Nigeria's GDP rose from \$522 billion (₦81.9 trillion) recorded in 2013 to \$552 billion (₦90.1 trillion) in 2014². However, the economy is expected to record slower growth in 2015, due to adverse shocks from declining crude oil prices. The excess crude account has plunged from \$4.11 billion in October 2014 to \$2.2 billion in August 2015³. In addition, the Country's foreign reserves have declined significantly due to the CBN's attempts at defending the Naira. The Country's reserves have dipped by 23% from \$40.66 billion in January 2014 to \$30.05 billion in October 2015. We believe the country's foreign reserves will dip further to \$29 billion by December 2015 and an estimated \$25 billion in 2016 as the CBN continues to defend the Naira. At the current level of imports, the Country's import cover stands at 5 months. This is comparable to other African countries such as South Africa (4 months), Ghana (4 months), Uganda (5 months), Kenya (4 months) and Angola (7 months). With the declining reserves and continued reliance on imports, we anticipate a further decline in the country's import cover.

Figure 1: Nigeria's Foreign Reserves, 2010-2016 ('Billions, Dollars)



Source: Central Bank of Nigeria

In the third quarter of 2015, the nation's Gross Domestic Product (GDP) grew by 2.84% (year-on-year)⁴ in real terms. This was marginally higher by 0.49% points from growth recorded in the preceding quarter and; yet lower by 3.38% points from growth recorded in the corresponding quarter of 2014. During the period under review, preliminary data crude oil production, stood at an average 2.17 million barrels per day (bpd), reflecting about 8.5% growth from about 2 million bpd production in the second quarter of 2015⁵. In the same vein, oil production increased albeit marginally by 0.93% from 2.15 million bpd recorded in the corresponding quarter of 2014. The oil sector accounted for 10.27% of GDP in the third quarter of 2015, compared to 9.8% recorded in the second quarter of 2015. We expect growth of the oil & gas sector's contribution to the GDP in 2015 to remain flat, following the global oil price shock.

² National Bureau of Statistics

³ Central Bank of Nigeria

⁴ National Bureau of Statistics

⁵ National Bureau of Statistics



Figure 2: Sector Analysis of Nigeria's GDP, 3rd Quarter 2015

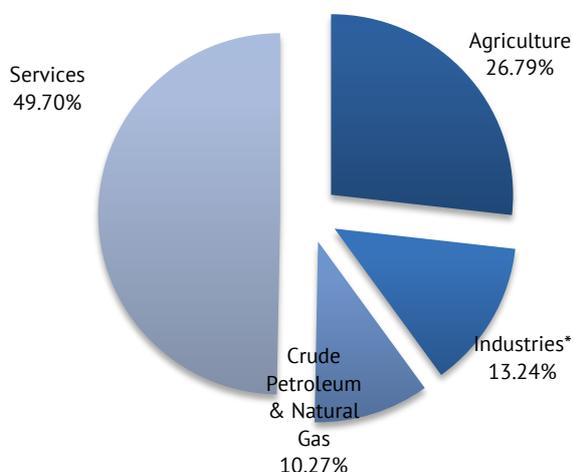
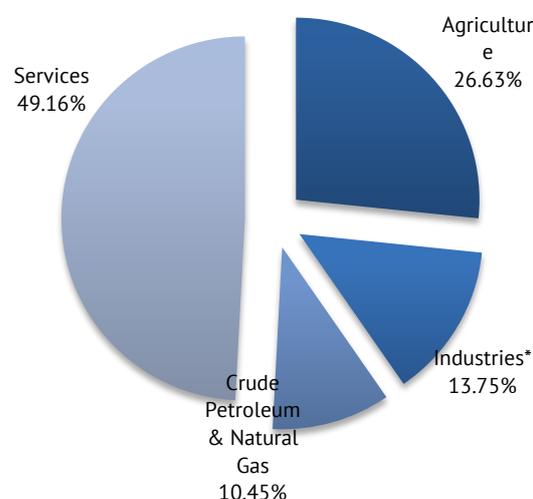


Figure 3: Sector Analysis of Nigeria's GDP, 3rd Quarter 2014



Source: National Bureau of Statistics

Industries*: The GDP contribution for Crude Petroleum & Natural Gas has been removed from Industries for these charts.

The Non-oil segment remains largely driven by the activities of crop production, trade, construction and telecommunications. The non-oil sector grew by 3.05%⁶ in real terms in the third quarter of 2015. This was 4.45% points lower than the corresponding quarter in 2014. In real terms, the non-oil sector contributed 89.73% to the nation's overall GDP, marginally lower than the 90.2% recorded in the second quarter of 2015 and slightly higher than 89.55% recorded in the corresponding period of 2014⁷.

Growth in the Agriculture sector in the second quarter of 2015 was primarily driven by crop production which accounted for 83.83% of overall growth of the sector. Agriculture contributed 24.51% to nominal GDP during the quarter under review, higher than the corresponding quarter in 2014 and the second Quarter of 2015 by 0.74% points and 6.62% points respectively. We expect the sector to continue to record modest growth going forward as the Federal Government shifts its attention away from oil & gas and pursues a diversified economy with cocoa and cassava production, ricing milling expected to take centre stage in the sector.

In the same period, the trade sector represented 18.78% of the GDP, slightly lower than 18.87% recorded in the second quarter of 2015. However, this was higher than 17.36% recorded in the corresponding period of 2014. While trade remains a key sector in the Nigerian economy, adverse movements in foreign exchange rates has plagued the sector which is heavily dependent on imported goods. We thus expect slower growth in the trade sector going forward. Construction represented 3.15% of nominal GDP, less than 4.18% and 3.17% recorded in the second quarter of 2015 and the corresponding period of 2014 respectively. The growth of construction activities is largely attributable to the election induced

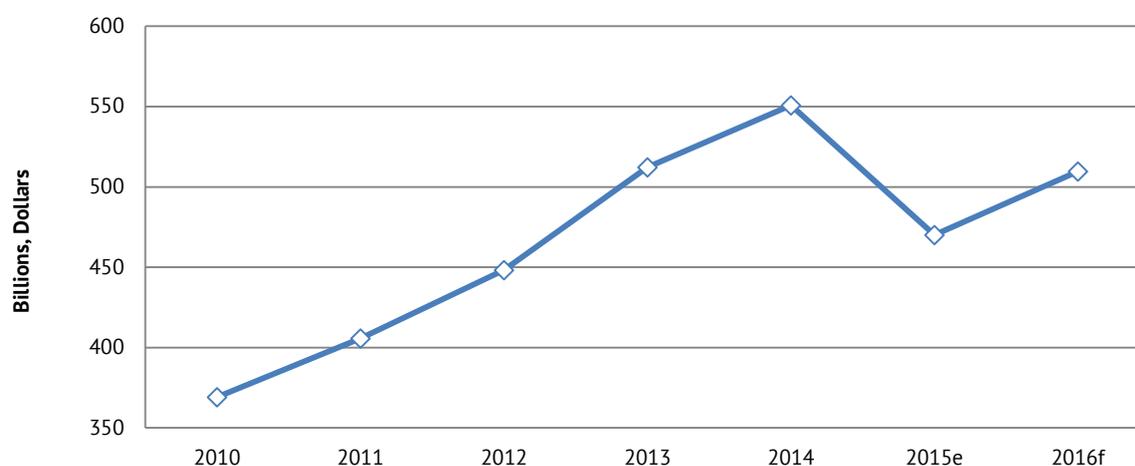
⁶ National Bureau of Statistics

⁷ National Bureau of Statistics

economic slowdown. We however, expect slower growth in the sector due to the dwindling revenue of the Federal Government.

The IMF forecasts a real GDP growth rate of 4% for Nigeria in 2015, noticeably lower than the 6.3% growth recorded in 2014, with the non-oil sector remaining the key growth driver. Accordingly, we expect growth in the Nigerian economy to be derived mainly from trade, crop production and telecommunications activities as the oil sector remains plagued by the dip in both crude oil prices and exploration activities in the short to medium term. Agosto believes GDP to rise to an estimated ₦101.9 trillion in 2015. However, adverse movements in foreign exchange market against the Naira should see a dollar equivalent of \$485 billion in 2015. In our opinion, GDP will rise to \$510 billion in 2016.

Figure 4: Nigeria's Gross Domestic Product, 2010-2016 (Billions, Dollars)



Source: National Bureau of Statistics, Agosto & Co. Research

New President Emerges, Ending PDP's 16 year Reign

In February 2015, it was announced that the general elections due to hold on 14 February 2015 would be postponed by six weeks due to security threats, prolonging the anticipation and speculation regarding the next Head of State. Although both domestic and international communities were weary of violent elections, largely peaceful elections were held on 31 March 2015. General Muhammadu Buhari (Rtd), the All Progressive Party (APC) candidate was sworn in as the President of Nigeria on 29 May 2015, after five years of the Goodluck Jonathan administration and 16 years of governance under the People's Democratic Party (PDP). The ceremony marked the first time in Nigeria's history an incumbent president was overthrown in a general election.

Overall, Agosto & Co. believes that the capacity of the new administration to make a positive difference will depend on their drive for economic reforms. The absence of a cabinet over 6 months after the elections had consequently held up key sectors of economy with no clear policy direction. Major investment decisions are yet to be taken across many industries with companies awaiting a clear



economic and policy framework from the government. In addition, the government continues to battle insurgency in the north east. Despite these, we hinge our medium term economic outlook on the reform initiatives of the government. The appointment of a ministerial cabinet, a pro-reform economic agenda for the Country and an effective anti-corruption framework should spur economic activities in the short to medium term.

Short to Medium Term Prospects

Currently, investment decisions seem to be largely on hold until investors get greater clarity from the Federal Government in the absence of a ministerial cabinet to oversee the various sectors of the economy. However, the conduct and credibility of the polls has played a significant role in improving the Country's image in the global community. We believe this, alongside the anti-corruption campaign embarked on by the President, could inspire confidence and future investments into the economy in the medium term.

Nonetheless, it is very difficult to predict the outcome of key issues that currently plague the Nigerian economy in the short to medium term. As a result, we have created two scenarios showing elements that could materialise. From these scenarios, we have drawn conclusions on what we believe would be the most likely scenario for Nigeria in 2016. Both scenarios are explained below.

Table 1: Short to Medium Term Scenarios for Nigerian Economy

Scenario 1	Scenario 2
Crude oil prices averages between \$65 and \$85 per annum in 2016	Crude oil prices averages between \$40 and \$65 per annum in 2016
CBN to maintain official exchange rate at current level	CBN to devalue the Naira further between now and December 2016
Inflation to dip to between 6% and 9% average in 2016	Average inflation rate to average between 8% and 11% in 2016
CBN to lift current foreign exchange restrictions	CBN to maintain current foreign exchange restrictions
Nigerian Military ends Boko Haram Insurgency by 31 December 2015	Nigerian Military ends Boko Haram Insurgency by year end 2016
Federal Government fully removes fuel subsidy	Federal Government delays removal of fuel subsidy
Unemployment to rise to between 26% and 28%	Unemployment to fall below 26%

Source: Agosto & Co. Research

Impact of Most Likely scenario on Fiscal Position of Federal Government

- Crude oil prices are expected to improve slightly albeit remain low, within the \$40 to \$65 bracket. We expect recent developments in the global oil market to hinder any major upsurge in oil prices. Continued weakened global demand, appreciation of the dollar, OPEC's renouncement of price support and expansion of oil supply from unconventional sources such as United States will continue to damper any progressive movement in the global market. We anticipate that Nigeria's crude export revenue will rise to no more than \$50 billion in 2016 with oil prices remaining low.*



In addition to the adoption of the Treasury Single Account (TSA), the Federal Government has outlined a number of initiatives aimed at increasing transparency, boosting efficiency and increasing federally collected revenue. These include the set-up of the Anti-Corruption Committee and capacity building for public servants. In particular, the Integrated Personnel Payroll Information System (IPPIS), adoption of zero-based budgeting and bottom-up economic planning model specifically target leakages and wastage prevalent within the system.

- Despite these worthy initiatives, continued dip in crude oil prices and exports as well as fiscal pressures from recurrent expenditure still pose significant risks. At an average price of \$50 per barrel for crude exports, revenue of the Country/FGN we project that oil revenues in 2016 (\$14.6 billion) will remain around the same levels in 2015 (\$13.5 billion) and largely insufficient to fund the new administration's ambitious infrastructure and welfare plans. The high level of recurrent expenditure will be an area of major concern to the new administration. In 2014, the recurrent expenditure of the Federal Government stood at ₦3.6 trillion, a 33% rise from ₦2.7 trillion recorded in 2010⁸. This represented 4% of the Country's GDP in 2014. In the same vein, the Country's interest payments stood at ₦0.9 trillion, a significant rise from ₦0.4 trillion recorded in 2010. In contrast, the Country's capital expenditure in 2014 stood at ₦1.1 trillion⁹, relatively unchanged from 2010; indicating the slow growth of capital projects within the Country Henceforth, the new administration has prioritised the adoption of the initiative to increase transparency and monitor the expenditure of Federal Government agencies. In addition, the Federal Government has recovered ₦1.4 trillion from the TSA.

⁸ Central Bank of Nigeria

⁹ Central Bank of Nigeria



Table 2: Finances of the FGN

REVENUE & SPENDING OF THE FGN		2011	2012	2013	2014	2015E	2016F
1	REVENUE	100%	100%	100%	100%	100%	100%
2	Transfers	12%	11%	11%	14%	16%	14%
3	Interest payments	13%	18%	24%	20%	43%	42%
4	Payroll and pensions	45%	47%	54%	59%	82%	69%
5	Overheads	16%	15%	15%	19%	18%	12%
6	Capital expenditure	22%	23%	32%	22%	12%	21%
7	TOTAL SPENDING	108%	114%	136%	138%	173%	151%
8	BUDGET BALANCE	-8%	-14%	-36%	-38%	-70%	-58%
9	Average price of Bonny Light per barrel – USD (\$)	114	110	110	101	55	50
10	Balance on Excess Crude Account – in billions of USD (\$)	3.8	9.0	3.2	3.1	-	-
11	FGN local currency debt – in trillions of NGN (₦)	5.6	6.3	7.1	7.9	9.4	10.9

Source: Agosto Consulting

- Past attempts at removing the fuel subsidy have led to political backlash which triggered social unrest. Although the Country's economic realities have changed since the last attempt, we believe the government will maintain its current stance to keep the fuel subsidy. Despite the lower earnings from crude oil exports, the Federal Government have identified key sectors (Agriculture, Solid Minerals, and Trade) targeted to diversify the country's revenue alongside fiscal measures to curb the nation's expenditure. With this stance, we do not believe the fuel subsidy will be completely removed in the short term.

The zero-based budgeting alongside the IPPIS, which constitutes a major part of the current administration's bottom-up economic plan, if implemented efficiently, should curb misappropriation of funds, wastage and increase the level of accountability in the civil service. While we expect capital budget performance to be dismal in 2015 due to the poor release of budget allocations and the elections, we anticipate an uptick in 2016 in line with post-election years. In addition, we believe the implementation of these initiatives, if executed efficiently, will lead to a marginal rise of about ₦300 billion in capital expenditure and a slight decline in recurrent expenditure to an estimated ₦2.35 trillion in 2016.

Given the negative outlook for crude oil prices and consequently Federal Government revenues, we expect that the current administration will explore all avenues to shore up revenue. Tax revenue should therefore increase as the Federal Inland Revenue Service (FIRS), brings more firms into the tax bracket.



Federal Government tax revenue fell to ₦4.69 trillion in 2014 from ₦4.8 trillion recorded in 2013¹⁰. According to the agency, only 125,000 companies, representing 27.7% of an estimated 450,000 firms operating in Nigeria, pay any form of tax. The FIRS plans to commence a comprehensive tax audit of all registered companies in the country and identify the 325,000 firms who have neglected to pay taxes. Most of these firms are MSMEs who have been able to operate under the radar due to their relatively small businesses and earnings. The audit, which will be done in collaboration with audit firms, tax consultants and professional service providers, is expected to ascertain the actual number of registered firms in Nigeria, those that have ceased to exist and those who have evaded tax. Nigeria tax revenue represents 5% of the Country's GDP (2014). This is a stark contrast to other African countries such as Ghana (17.1%), Kenya (16.5%), Angola (19.7%) and South Africa (25.0%)¹¹. In the same vein, The Federal Government has also ordered the audit of key revenue generating agencies such as Nigeria Customs Service (NCS), the Nigerian Maritime Administration and Safety Agency (NIMASA), Central Bank of Nigeria (CBN) and the Department of Petroleum Resources (DPR) amongst others in an effort to plug alleged leakages and enhance efficiency within these agencies. In line with this, we also expect a number of state governments to also adopt an aggressive tax drive boost their internally generated revenue.

Inflationary Pressures Expected to Trend Higher in the Near Term

We expect inflation to remain on the ascendancy owing to the currency depreciation, import restrictions, insecurity in the north east. Our forecasts indicate inflation will rise to between 11% and 12.5% in 2016.

The year 2015 has so far seen a gradual but steady rise in headline inflation. In September 2015, the Consumer Price Index (CPI) which measures inflation edged higher to 9.4% from 9.3% in August 2015¹². The marginal increase was as a result of slower increases in alcoholic beverages, tobacco and kola; health, transport; and recreation and culture divisions. In comparison, the corresponding period in 2014 had a headline inflation rate of 8.5%. While inflation in 2015 has remained in single digits so far, we expect the trend to continue following heavy rains which have increased water levels and resulted in flooding in a number of agriculture markets across Nigeria. Higher levels of rainfall in the Country's northwest region have led to the banks of the Sokoto and Rima rivers overflowing in the Sokoto and Zamfara states.

Consequently, rice plantations have been flooded, destroying an estimated 626,250 metric tons¹³ of the staple in these states and adversely affecting a combined 635,000 hectares of low-land, rain-fed plantations. In addition, the recent CBN restriction of 41 items from accessing foreign exchange from the interbank market, which includes rice, may lead to a shortage in supply. Rice millers may not be able to satisfy the high levels of demand due to being unable to obtain paddy rice (unprocessed rice) needed for their mills for local suppliers. Agosto & Co. believes this may lead to an increase in the price of paddy rice further fuelling food inflation. We thus expect the inflation rate to hit 10% by December 2015 and

¹⁰ FIRS

¹¹ The World Bank, Agosto & Co. Research

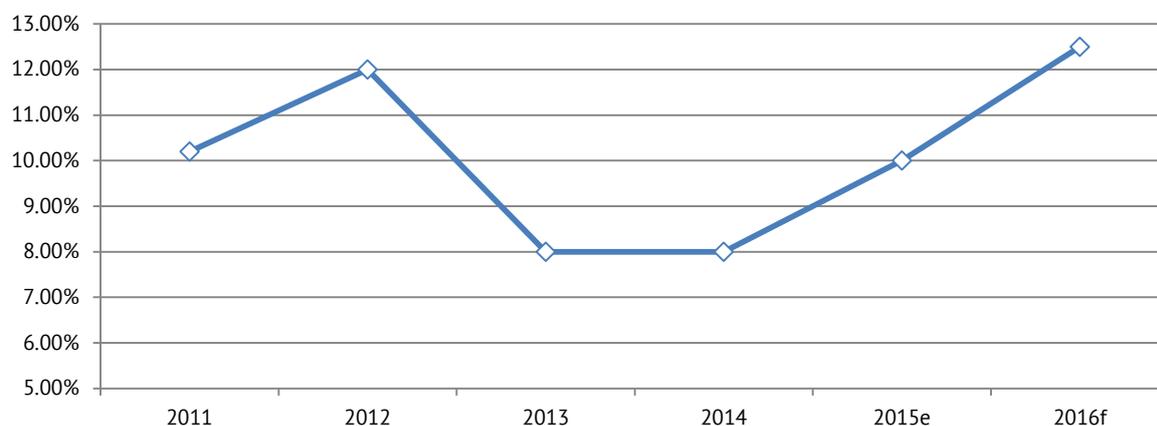
¹² September 2015 CPI Report- CBN

¹³ Bloomberg



rise to 12.5% in 2016 as poor weather conditions, the book haram insurgency and continued dependence on imported items persists. A fall in the inflation rate is unlikely in the short to medium term.

Figure 5: Nigeria's Headline Inflation Rate (End-Period), 2011 - 2016



Source: National Bureau of Statistics

With the country largely dependent on the economic activities of MSMEs, we believe the rising inflation rate will have a negative impact on small to medium scale businesses in Nigeria, as many would be unable to pass on these rising prices unto consumers. Consequently, they may record lower profit margins, and business failure rates could increase. In particular, businesses operating in the manufacturing, food & beverage amongst others remain the most susceptible and may have to adjust to higher operating costs following the planned increase in electricity tariffs.

In addition to these industries, operators in the personal care products, retail, hotels & restaurants and oil & gas are highly reliant on prices in the food and non-food segment, such as housing, water, power, transport, gas and communication amongst others, which are essential to their operations. In contrast, industries such as entertainment, arts & craft, fashion are not as susceptible to the rising inflation rate due to their largely unstructured operations. These industries have no major regulatory oversight and are not as dependent on local inputs for their operations unlike many other industries.

Furthermore, the solid minerals industry, which has suffered from a dearth of large scale formal activities and remains dominated by informal small scale operations, mostly operates outside the net of macro-economic occurrences. The solid minerals industry is not directly affected by rising prices within the economy and thus, the rising inflation may not have a significant effect on industry activities.

Table 3: Vulnerability of Various MSME-related Industries to Rising Inflation

Low to Medium	Medium to High
Entertainment	Food & Beverage
Solid Minerals	Personal Care Products
Arts & Crafts	Transport
ICT (Local Software Development)	Oil & Gas downstream
Fashion	Agriculture
Financial Services	Retail (trade)
	Hotels & Restaurants
	Beauty & Cosmetics
	Textiles
	ICT (Hardware)
	IT (Foreign Software Development)

Source: Agosto & Co. Research

Impact of most likely scenario on the Naira Exchange Rate

- *The currency challenges the country faces is likely to persist going into 2015. While the CBN remains adamant that the local currency will not be devalued or adjusted any further, we believe the continued dependence on imported items and dwindling export revenue of the government will lead to an inevitable adjustment of the foreign exchange rate. We expect the CBN to further adjust the foreign exchange rate in 2016 i.e. a depreciation of the Naira vis-a-vis major international currencies.*
- *The CBN retains ban on imports of 41 items from accessing foreign exchange market. While the CBN has stated the ban will be lifted eventually, we do not anticipate its removal in the short to medium term. With the declining oil prices, depleting foreign reserves and appreciating value of the US dollar, the Naira remains highly susceptible to a fall in value. In our opinion, the import prohibition will persist.*

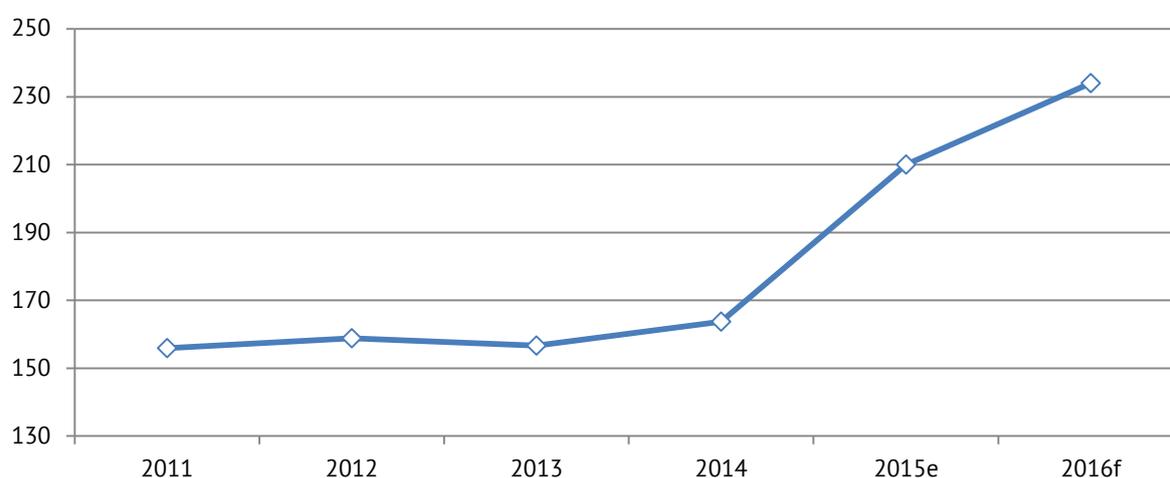
The continued fall in global oil prices and the subsequent pressure mounted on the local currency resulted in the CBN lowering the official values of the Naira against the dollar from ₦155/\$1 to ₦168/\$1 in November 2014. The devaluation of the Naira became inevitable due to the incessant decline in government revenue from oil production and sales. The devaluation was expected to increase the volume of Naira available to the federation account and to various levels of government to prosecute their local programmes. Despite this, the apex bank was forced to further devalue the currency in February 2015 from ₦168/\$1 to ₦198/\$1.

In addition, the CBN ended its managed float exchange-rate regime, closing down the Dutch Auction System window. The exchange rate is now set in the interbank market. The Naira rebounded in March and was stable through April, as successful elections helped improve market sentiment. However, exchange-rate volatility remains a challenge with oil prices yet to rebound in 2015. The CBN's defence of the Naira with about \$4.9 billion in the first quarter of 2015 led to the depletion of the nation's external



reserves as it fell to \$29.3 billion at the end of the quarter from about \$34 billion as at the end of 2014. The nation's reserves currently stand at \$30.05 billion¹⁴ as at October 2015.

Figure 6: CBN Average Exchange Rate, Naira to Dollar; 2011 - 2016



Source: Agosto & Co. Research

Furthermore, the CBN restricted the sale of foreign exchange to importers of 41 items including rice, poultry, textiles and tomato paste amongst others to curb the Country's fast depleting foreign reserves. The policy is expected to conserve foreign reserves and facilitate the resuscitation of domestic industries as well as generate employment. However, we remain concerned over the ban as, this could consequently lead to a scarcity of these items and subsequently hike up prices, even as importers resort to the parallel market to source foreign exchange at much higher rates. The CBN's policies have yielded mixed results, at best. Most local manufacturers and other small to medium businesses differ with the apex bank on the classification and definition of some of the items restricted from access to the official foreign exchange market, stating that some of them are raw materials used in the course of production.

Overall, we believe the import prohibition, while seen as a bold step to control the depreciating currency, has played a vital role in increasing dollar demand in the parallel market. As a result, the exchange rate in the parallel market remains between ₦220/\$1 and ₦230/\$1 in comparison to ₦197/\$1 on the official market as at October 2015. Local manufacturers, supermarkets and other small to medium retail stores have been adversely affected by the policy. These enterprises already face challenges rampant in the Nigerian business environment. The restriction further compounds their challenges and serves as a major threat to their margins due to the higher costs associated with importing essential items necessary for their operations using foreign exchange sourced from the parallel market. Consequently, we expect a further adjustment of the official exchange rate in 2016. We believe the rising spread between the official and parallel exchange rate markets, low crude oil prices and the continued dependence on imported items could lead to further devaluation by the CBN.

¹⁴ Central Bank of Nigeria

Local businesses operating in the manufacturing, food & beverage, retail and trade industries remain the most susceptible to the depreciating value of the Naira. These industries, alongside personal care products, automobiles, IT (hardware) and beauty & cosmetics amongst others, are highly reliant on imported items and inputs for their operations. As a result, adverse movements in the exchange rate are a major threat to their profit margins and overall sustainability. In contrast, businesses within the services industries should remain mostly unhurt from foreign exchange adversities. Operators within the financial services, entertainment, restaurants mostly depend on local patronisation of their services with a limited need for overseas assistance or procurement of inputs and services. Furthermore, agriculture-focused industries, such as poultry rearing, animal husbandry, and local IT software development mostly require local skills and technical abilities alongside tools which may be locally sourced for their businesses.

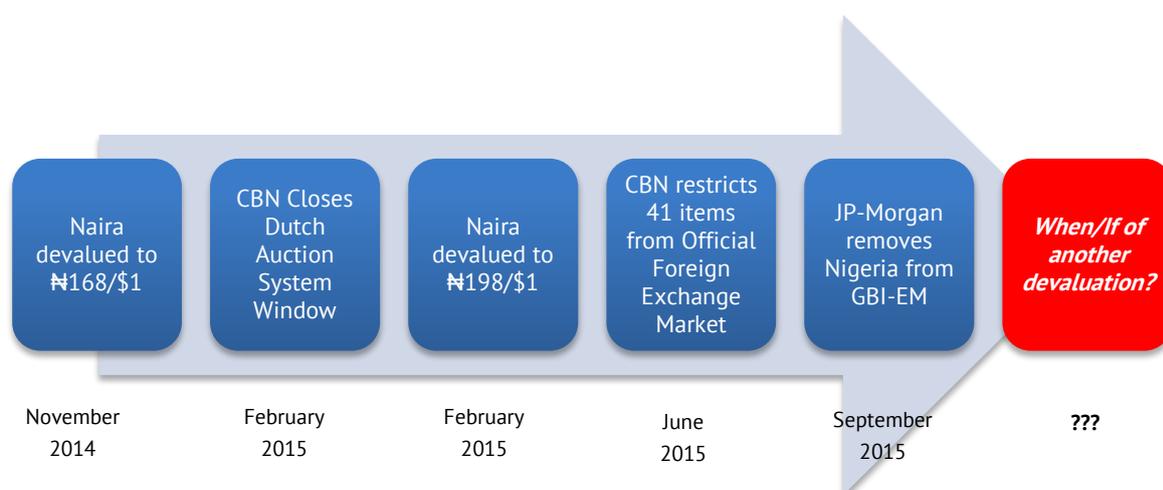
Table 4: Effect of Depreciating Naira on Various MSME-related industries

Low to Medium Impact	Medium to High Impact
Entertainment	Food & Beverage
Fashion	Personal Care Products
Financial Services	Retail (trade)
Real Estate	Automobiles
Crop Production	Commodities
Hotels & Restaurants	Oil & Gas (downstream)
Arts & Craft	Solid minerals
Poultry Rearing	Confectionary/ Bakeries
Animal husbandry	Beauty & Cosmetics
IT (Local Software Development)	Agro-allied Industries
	IT (Hardware)
	IT (Foreign Software Development)

Source: Agosto & Co. Research

Despite the continued calls to further devalue the Naira, the CBN has continued its monetary policy stance, by maintaining the monetary policy rate (MPR) at 13% through 2015 so far. In addition, the apex bank reduced the cash-reserve ratio from 31% to 25% in September 2015 to ease liquidity within the banking system following the implementation of the TSA. While this ensures commercial banks are remain strong enough to support the economy, the underlying issue of the depreciating Naira and the true success of the policies aimed at protecting the currency remain unanswered.

Figure 7: Timeline of Major Milestones Relating to the Naira Devaluation



Source: Agosto & Co. Research

Impact of most likely scenario on Security

- *We are of the opinion that the Nigerian Military is making major strides towards the eradication of the Boko Haram sect. However, the current timeline is not feasible. Despite regaining control of most of the towns ceased by the sect and destroying a number of their camps, the military has been is yet to recover a number of hostages held by the sect, most notably the Chibok girls. We believe the war will persist well into 2016 as the Federal Government begins to rehabilitate the affected regions.*

The Boko Haram insurgency remains a major threat to economic stability of the north east despite recent gains made by the Nigerian military in re-capturing towns once occupied by the sect. The insurgency has crippled the economy of Borno State where at one point; the sect was believed to have been in control of as many as 13 local governments. The sect has also carried out sporadic bombings outside of the north east in cities such as Kano, Kaduna and Abuja. These attacks come at a sizeable cost to the Nigerian economy and have culminated in significantly increased uncertainty and considerably higher risk of carrying out business activities in the Country.

Data from the Internal Displacement Monitoring Centre (IDMC) in the same period shows that as many as 3.3 million people have been internally displaced in Nigeria by violence, including at least 150,000 people who have taken refuge in neighbouring Chad, Niger and Cameroon. Also, operations of micro, small and medium businesses involved in agriculture, trade are the key drivers of economic activities in the region. For instance, a significant portion of beef, fresh fruits and vegetables supplied to traditional markets, supermarkets and other retail outlets originates from the north east. Disruptions in these activities have had an adverse impact on their supply, which has largely contributed to rising inflation in the Country.

Furthermore, major industries operating in the region continue to record financial losses with the telecommunications industry estimated to have lost over ₦1 billion¹⁵ and several base transceiver stations. In addition, expansion plans of cement companies, most notably Lafarge Nigeria Plc which incurred losses of over ₦2.5 billion¹⁶ between November 2014 and April 2015, remain constrained by the insurgency. Other major companies which have been adversely affected by the threat include PZ Cussons Nigeria Plc, Unilever Nigeria Plc amongst others. These industries have a direct effect on MSMEs operating in the region as they mostly service households and local businesses involved in retail trade. Consequently, the success of these industries has a direct impact on economic activities in the region.

Agusto & Co. is optimistic of the Federal Government ending the insurgency within the medium term, albeit remains apprehensive of the Military's 31 December 2015 deadline. In our opinion, the major concern is not the inevitable triumph of the Nigeria Military, but the Federal Government's capacity to maintain the peace and rebuild the broken socio-economic state of the region. Hence, we believe the war will most likely persist until mid-late 2016.

Impact of Most Likely Scenario on Unemployment

Nigeria has a chronic unemployment malaise with a five-year average of 24.5%¹⁷ unemployment rate. The Nigerian Bureau of Statistics (NBS) put the country's 2014 unemployment rate at 25.1%¹⁸ up from 24.7% the previous year. This high unemployment rate poses a significant social security risk and has been identified as the root of the militancy in the Niger Delta and Boko Haram insurgency in the north east. Paradoxically the biggest job creators in the economy have suffered the most neglect from the government. Small businesses create the most jobs in Nigeria especially within the informal segment of the economy. According to the NBS, the informal segment of the economy created over 70% of the total jobs created in Q1, 2015 and over 60% in the second quarter. We believe that this trend will persist in the medium to long term. This is why it is important for the government to provide strong support to small businesses in the country as they undertake this germane social task of creating jobs and value for the economy.

According to a Federal Government report on Job Creation¹⁹, the growth of SMEs in Nigeria could unlock up to 12.6 million jobs if a progressive transformation strategy is put in place for micro firms to grow to small firms, and small firms grow to medium firms, within two to three years. According to the Committee, a 25% transformation of micro enterprises into small firms could create 8.7 million jobs. While the expansion of just a tenth of small businesses into medium sized firms would lead to the creation of about 3.25 million jobs.

In spite of this, we do not foresee any material change to the current state of unemployment in the short to medium term. While we expect unemployment to rise to over 27% in 2015, we anticipate a slight dip to 26.0% in 2016. Although the falling crude oil prices does not have a direct impact on MSMEs, the

¹⁵ *Thisday*

¹⁶ *The Nation*

¹⁷ *National Bureau of Statistics*

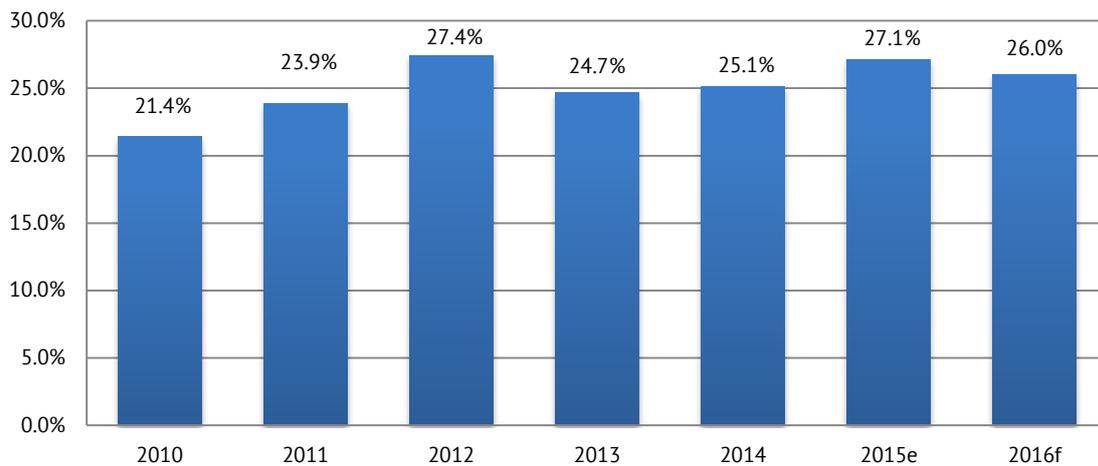
¹⁸ *Report of national stakeholders' workshop on the review of definition and methodology for computing unemployment statistics in Nigeria held*

¹⁹ *Federal Government Report on Job Creation (2010)*



declining foreign currency revenue which has subsequently led to a drastic fall in the value of the Naira since August 2014 adversely affects local households and businesses. With MSMEs being the largest employers of the country's populace and Nigeria relying heavily on imports, currency protective policies of the CBN have worsened operations for many businesses with job losses in the manufacturing, oil & gas and retail (trade) industries amongst others.

Figure 8: Nigerian Unemployment Rates (2010-2016)



Source: Nigerian Bureau of Statistics

If implemented effectively, the progressive transformation strategy could significantly curb the unemployment rate. However, we believe the strategy will require a significant amount of time and resources in order to successfully curb the country's high unemployment. With a number of priorities including diversifying the economy through non-oil sectors, blocking leakages and eradicating insurgency amongst others, the current administration has a wide number of objectives on its schedule. Hence, the full implementation of the strategy may be delayed. In our opinion, unemployment is most likely to remain high, albeit slightly dipping in 2016.

2016 Macroeconomic Dashboard (For Most Likely Scenario)

MACRO-ECONOMIC INDICATORS	OUTLOOK
Inflation	Negative
Interest Rates	Negative
Exchange Rate	Negative
FGN Debt	Negative
Sub National Debts	Negative
Unemployment	Negative
Tax Pressures on businesses	Negative
Consumption	Negative

Source: Agosto & Co. Research

Overall, our 2016 macro-economic dashboard indicates that Nigeria will struggle across all the major indicators under our most likely scenario.

Section 2: Review of the Revised MSME Policy



Background

In 2007, the first National Policy on Micro, Small and Medium Enterprises (MSMEs) was developed by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), with technical and financial support from the African Institute of Applied Economics (AIAE) and the United Nations Development Programme (UNDP). The Policy was approved by the Federal Executive Council (FEC) on Wednesday, 9th May, 2007 and was officially launched on Thursday, 26th July, 2007. The 2007 MSME policy aimed to forge synergy amongst stakeholders and provide a roadmap to the development of the MSME space. The implementation of the Policy commenced with the inauguration of the National Consultative Committee (NCC) on Thursday, 18th October, 2007. However, overall implementation of the erstwhile policy on MSMEs was affected by several challenges which include:

- Weak stakeholder buy-in (public and private sector institutions)
- Lack of strong commitment to MSME development by all tiers of government
- Weak institutional synergy
- Ineffective funding of the MSMEs development process.
- Weak capacity among MSMEs

After five years of implementation, the Federal Government revised the policy, taking into account feedback and lessons learned so far. The Government also wanted an updated policy that is in tune with current challenges. The revised policy which was unveiled in May 2015 incorporates inputs from various stakeholders including international organizations such as the United Nations Conference on Trade and Development (UNCTAD). The emphasis of the revised policy is to create flourishing MSMEs that would spread the benefits of economic growth more evenly. The revised policy also draws from a number of previous national policies addressing various areas of national development such as the National Economic Empowerment and Development Strategy (NEEDS) which is complemented by SEEDS (State Economic Empowerment and Development Strategy) at the State level and LEEDS (Local Economic Empowerment and Development Strategy) at the Local Government level.

Strengths of the Revised MSME Policy

- The overall objective of the National Policy on MSME is to create, nurture and promote the necessary conditions for the growth and development of MSMEs. The policy is based on close partnership and cooperation between the various levels of government and community organisations on one hand, and organised private sector on the other.
- We believe that Nigeria's revised National Policy on Micro, Small and Medium Enterprises has been better articulated as it outlines the general parameters, benchmarks and directions within



which MSME programmes, interventions and initiatives will be designed, implemented, monitored and evaluated.

- The Policy was also built on international best practices to classify MSMEs based on the dual criteria of employment and assets (excluding land and buildings).
- In addition, the policy takes into cognizance other international best practices such as a decentralized institutional framework that leverages synergies between the public and private sector for the development of MSMEs.

Table 5: Classification of MSMEs (according to the National Policy on MSMEs)

S/N	Size Category	Staff Count	Assets (Excluding Land and Buildings in ₦ millions)
1	Micro enterprises	Less than 10	Less than 10
2	Small enterprises	10 – 49	10 - less than 100
3	Medium enterprises	50 – 199	100 - less than 1,000

Source: National Policy on MSMEs

Other strengths of the new policy include:

- It promotes the cluster approach for the development of MSMEs. Globally, this approach has proven to be a more effective and efficient way of reaching MSMEs as, clusters provide a healthy symbiotic ecosystem for small businesses.
- The Revised Policy also recognizes the use of ICT in improving Government's efficiency, effectiveness and service delivery to MSMEs. For instance, in order to "enable a regulatory environment that supports MSMEs", SMEDAN aims to establish MSME friendly registration windows and one-stop business registration points accessible in MSME clusters, federal institutions and select post offices. This one stop registration points is similar to the South Korean "Start Biz Online", an online system managed by the Small & Medium Business Administration to simplify business incorporation processes and facilitate easy, efficient and cost effective start-up environment.
- The MSME policy also adopts a measurement and evaluation framework with credible baseline to evaluate its impact. The key performance indicators of the proposed evaluation index will be adapted from indicators of various countries' MSME indices as well as local experience.
- The policy incorporates themes relating to youth and gender inequality taking into account the incidence of "youth bulge²⁰" in Nigeria, the alarming rates of youth unemployment and the need for women empowerment in Nigeria.

²⁰ The youth bulge is a common phenomenon in many developing countries, and in particular, in the least developed countries. It is often due to a stage of development where a country achieves success in reducing infant mortality but mothers still have a high fertility rate. The result is that a large share of the population is comprised of children and young adults (World Bank).

The revised policy also integrates UNCTAD's recommendations which include that Nigeria's revised policy on MSMEs should:

- Pay attention to the objective of entrepreneurship creation in the framework and action plan;
- Set a specific policy objective to generate start-ups in diversified industries and services outside farming;
- Specify actions for priority targets groups such as women youth, physically challenged people.

While we believe that with the revised policy, MSMEs in Nigeria have been given the impetus to drive national growth, Agosto & Co. believes that the under listed factors constraining the growth of MSMEs, should be considered and tackled to ensure better effectiveness of the policy.

Factors to be Considered to Ensure Better Effectiveness of the MSME Policy

Education

The quality of basic education in Nigeria is extremely poor, leading to low demand and unacceptably low academic performance. There are 30 million primary school-aged children in the country, of whom an estimated 10 million are not enrolled in school²¹. Of those students currently in primary school, less than one third will attend junior secondary school and even fewer will proceed to senior secondary school. According to the United States Agency for International Development (USAID), "Nigeria's education system has not kept pace with the rapid population growth and growing school-age population. Consequently, Nigeria has a massive number of out-of-school children and youth, with limited literacy and numeracy skills who have little hope of ever joining the formal workforce". Further research from the World Bank also reveals the following pertaining to Nigeria's poor education system:

- The available state and privately funded universities are more expensive compared to cheaper Federal Universities with overcrowded classes. In our opinion, the inability of average income earners to access these "better quality" schools impacts negatively on Nigeria's educational system.
- There is a disconnect between senior secondary school curricula and post-secondary life activities especially for non-formal/informal sector. In addition, there is shortfall of students in Science & Technology courses.
- There is also a disconnect between pre-service Science & Technology teacher training and teacher requirements in post-basic institutions.
- Disconnect between post basic Science & Technology education curricula and labour market requirements.

²¹ United States Agency for International Development (USAID)



- Disconnect between formal and non-formal/informal education, and lack of synergy for acceptable and qualification framework.
- Need for more national public investment for Science & Technology education and in particular, for research and development which is currently is inadequate and inequitable.

In our opinion, poor basic education affects MSMEs development grossly. The negative effects of poor educational system are evident in the inability of some small business owners to read and understand collateral requirements of banks and understand business registration requirements. Bank account opening procedures can also be very cumbersome for unlearned MSMEs. Whilst the MSME policy advocates entrepreneurship and financial education for MSMEs, basic education is of utmost importance to foster competitiveness, technological innovativeness and managerial competencies for Nigeria's private sector development through the growth of small businesses.

Restructuring Entrepreneurship Education

While the new policy emphasizes the infusion of entrepreneurship education into formal education in Nigeria, it is necessary that teachers are trained to be able to deliver such lectures. Agosto & Co. proposes that only successful entrepreneurs with successful businesses of between 10-20 years in Nigeria should be employed as lecturers for entrepreneurship development studies as, this will make learning active, with the tutor providing real life examples to students and possibly serve as mentors for business minded students. In addition, since entrepreneurship has been included in the basic education curriculum for primary and junior secondary school students (launched in November 2007), a baseline survey is necessary to assess how effective the skill has been taught at this level.

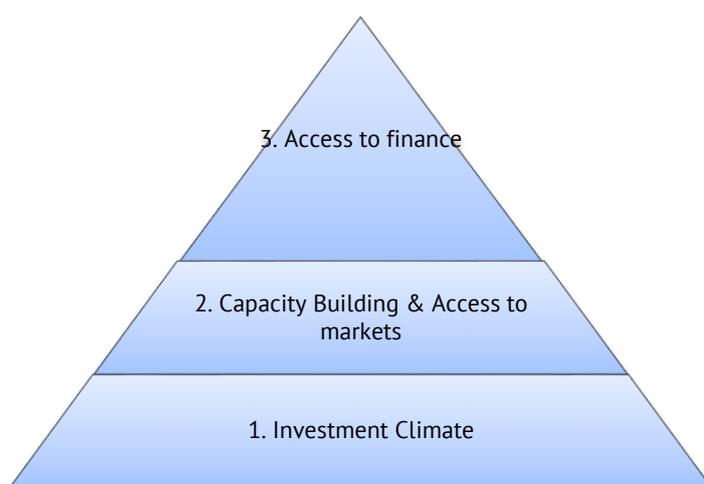
Enhancing the Credit Capacity of MSMEs Through Credit Bureau Records

Our survey reveals that excluding poor financial management skills, some MSMEs also have malevolent intentions when approaching banks for finance and can easily diversify the funds to other uses if not properly monitored. This is why many banks pay directly to suppliers when financing the assets or supplementing working capital of their MSME clients. Nonetheless, some financing institutions revealed that some MSMEs still connive with suppliers to undermine the banks. The end result of these sharp practises is that it crimps the borrowers' repayment capacity. To reduce the incidence of fraudulent activities by MSMEs and suppliers, we believe that financing institutions must fully embrace the credit bureau, updating accurate records in the credit database. This creates an incentive for borrowers to become financially responsible as credit scores now become a determinant for interest rates. Delinquent borrowers with abysmal credit scores may suddenly find it difficult to raise additional financing through banks and other Central Bank regulated financial institutions. Thus we recommend that the Central Bank strengthen the framework around the Credit Bureau to ensure it provides comprehensive database of borrowers' credit history.

Partnerships

While the MSME policy accommodates a good number of private sector organisations, it is necessary that the Bankers' Committee be included as part of the National Council on MSMEs in Nigeria. This in our opinion will enable commercial banks understand the challenges in lending to MSMEs. We also believe that a holistic approach is necessary for the effective implementation of the MSME policy. We suggest that the MSME policy operators adopt the International Finance Corporation (IFC'S) holistic approach to enhancing SME competitiveness. This model offers solutions to address key challenges SMEs face.

Figure 9: The International Finance Corporation Model



Source: International Finance Corporation (IFC)

The three 'building blocks' in Figure 10 above describe IFC's approach to supporting SME development across regions. Firstly, an enabling business environment serves as the foundation of IFC's support for SMEs. In Nigeria this conducive climate necessitates the provision of adequate infrastructure and social amenities particularly electricity. In our opinion, having adequate electricity not only reduces operating expenses but also improves productivity especially for manufacturing MSMEs. For instance, a roadside tailor in Gambia using an electricity powered sewing machine produces local attires with better finishing touches faster than a local tailor in Nigeria using manual sewing machines.

Secondly, IFC believes that development results are improved when capacity building is linked to SME's access to markets and finance. Therefore, IFC developed several programs in some countries that create linkages between SMEs and large businesses. These linkages create powerful incentives for SMEs to build managerial and operational capacity within their own operations. By accessing new markets more effectively, SMEs create opportunities for long-term financial sustainability which can lead to increased job creation. For instance, since 2007, IFC has worked with investee client Dialog Axiata Telecom in Sri Lanka, which relies on a network of 55,000 retailers and distributors across the country. Nearly 8,000 micro and small retailers have been trained on business management in local languages to improve their business skills. For Dialog, these trainings have resulted in more than \$2.6 million of increased revenue

from these retailers²². The Nigerian MSME policy can adopt this process albeit, it is necessary for the policy to put in place protection for MSMEs particularly as they often complain that they are arbitrarily owed by large businesses for days longer than their company's receivables period. This in turn increases their need for working capital.

Access to finance is the final building block in IFC's approach. IFC has developed several single and multi-country programs in collaboration with local financial intermediaries that enable SMEs grow their businesses with affordable credits. For example, by enabling banks to provide products and services to the untapped SME segment, IFC's Africa MSME Program has provided thousands of SMEs in 14 countries with opportunities to fund and grow their businesses. Augusto & Co. believes that for access to finance to be more effective in Nigeria, development institutions such as the Bank of Industry (BOI) need to be better empowered, with adequate funding so they can establish more credit schemes targeted at different sectors. In addition, development institutions should also be appraised to ensure that they disburse loans to credible MSMEs, evidenced by a low ratio of non-performing loans in their books. We also believe that development institutions should target MSMEs at the "edge of breakthrough" (breakeven points). For instance, firms that are currently "Micro Enterprises" but could become "Small Enterprises" in the short term, "Small Enterprises" but could become "Medium Scale Firms" in the short term and "Medium scale firms" but could scale up to large scale firms in say 2-3 years if adequately funded. In our opinion, it is support to MSMEs at this breakeven point that will quicken national development.

Cluster Development

While the new policy emphasizes the need to adopt cluster approach in supporting MSMEs, it is necessary for the Nigerian Government to undertake a cross-country study in a bid to adopt international best practises for cluster development. We also believe that cluster development should be executed in phases for the Nigerian Government to gain on the learning curve. Thus, cluster financing can commence with high impact areas such as Ladipo Market in Lagos ("the auto spare parts market"), Auto Spare Parts and Machinery Dealers Association (ASPAMDA) Market in Lagos, Otigba (Computer) Village in Lagos and the Aba Shoe & Leather Goods Market in Abia State. Overall, cluster development approach will require a great deal of research to effectively stratify large markets into smaller clusters, cooperatives or other similar groupings for lending purposes.

Technology

The policy aims to create and maintain a dynamic web portal – "BizGROW" that will aggregate the available information about MSMEs in Nigeria, including resources and information, links to financing sources, markets, mentors, etc. While we believe that this project is laudable, we recommend that SMEDAN works closely with organisations like FATE Foundation and the Pan Atlantic University's Enterprise Development Centre (EDC)²³ and other organizations with robust Nigerian MSME database. IT Education is also necessary as many MSMEs are not IT savvy. With the number of internet users on the telecom networks in Nigeria at more than 93 million subscribers as at H1'2015, we expect more IT savvy MSMEs in the near term.

²² IFC's stories of impact

²³ Pan African University has an existing MSME business directory in its SME toolkit website - <http://nigeria.smetoolkit.org/nigeria/en>.



Publicity

Under the new MSME policy, “broad-based awareness and appreciation” was categorised as the policy’s first priority. One of the key strategies to achieving this priority is that publicity campaigns will be launched. However, Agosto & Co. believes that before these publicity campaigns are launched, it is necessary that research be carried out to highlight industries where opportunities exist for MSMEs to key into in the Nigerian economy. For instance, in the healthcare sector, given the deficit in the number of old people’s homes in Nigeria, providing geriatric care services is an opportunity for MSMEs. These kinds of opportunities should be highlighted and used as publicity tools across various communication platforms.

Other Expert Recommendations²⁴ aimed at Improved Productivity for SMEs in Nigeria

- There is need for the availability of good institutions at all levels of government supporting and promoting MSMEs. This will ensure that corruption and regulatory bureaucracy are minimized and the rule of law, land & property rights, creditors’ rights amongst others is upheld accordingly.
- The Nigerian Government needs to encourage the coming on stream of creative entrepreneurs with original ideas. Stable policies that provide sustained support and guidance should be promoted in order to encourage investments by these MSMEs. In addition, the country should be open to foreign technology and ICT driven businesses should be encouraged to adapt these foreign technologies.
- MSMEs need good policies that will encourage stable exchange rates, low inflation, minimize entry regulations and promote attainment of higher levels of productivity. In addition, as the economy grows, appropriate rules and regulations that encourage fair competition should be in place to guide the increasing number of companies involved in the domestic and export markets.
- MSMEs generally lack the understanding and ability to determine the competencies that are necessary for an employee to fulfil his/her role. These skill gaps exist in all the sectors. MSMEs will therefore need to invest in training and development of employees. Government through SMEDAN should strive to provide a solution to the skill gaps in the MSME sub-sector. This makes the issue of capacity building an important area to focus upon. In addition, the building of new technical colleges as well as the renovation of existing technical colleges is vital.
- The competitiveness of any economy depends on how efficient all the resources in the process of production are utilized and how efficient these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. The operational cost of MSMEs should be addressed towards attaining cost efficiency through the use of the latest technology. The issue of power

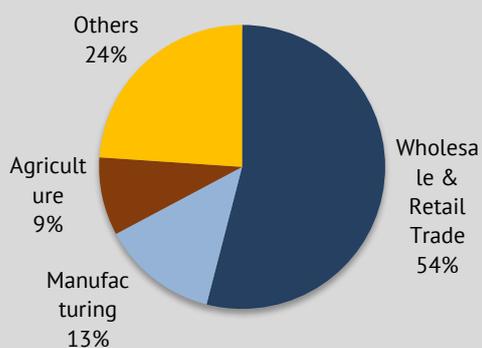
²⁴ Recommendations were culled from the 2013 NBS-SMEDAN MSME Survey; The Economist’s Report on “Enabling a More Productive Nigeria: Powering SMEs” and Agosto & Co. Research.



outages and other basic infrastructure such as access roads and transportation should also be addressed. There is also an urgent need for renewal and upgrade of MSMEs' infrastructure located in the existing industrial development centres through a cluster development approach. The development centres needs to be expanded with ample work space coupled with the provision of common cluster infrastructure to enhance MSMEs' productivity.

- Most of the MSMEs do not have patented products. In addition, there is poor protection of intellectual property rights in the country. The Ministry of Industry, Trade and Investment, SMEDAN and NOTAP should assist the MSMEs in this regard by setting up an intellectual property facilitation cell, which will provide a range of intellectual property related services, such as prior art search, patent landscape and interface for technology transfer.
- SMEDAN's services to MSMEs should be restructured for more positive impact. The Agency should be able to provide a wide spectrum of technical services to the MSMEs. These should include common facilities for testing, tool room services, technology upgrade, modernization, quality improvement, training for entrepreneurship development, a number of training for skill upgrade, preparation of project and product profiles, technical and managerial consultancy, assistance for exports and advocacy to government on issues affecting MSMEs in Nigeria.
- Most of the MSMEs are not registered with the Corporate Affairs Commission and SMEDAN. Hence, creating a huge informal economy with its adverse implication on Government policies and programmes. SMEDAN should strive to mainstream these huge informal enterprises to the formal economy.
- The 2013 NBS-SMEDAN survey reveals that awareness/information dissemination of SMEDAN and its activities is poor. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.
- Most of the sectors are operating below optimum capacity. SMEDAN should endeavour to help MSMEs enhance their capacity and encourage them to benchmark their peers in the international market.
- Reducing import barriers and tightening border controls would provide protection to SMEs without limiting their access to inputs. Rules that ban the importation of items not readily available in Nigeria do not serve a development purpose and can adversely affect SMEs.
- The government needs to fast-track the release of spectrum for mobile and fixed broadband operators. The cost of spectrum also needs to be reduced if broadband is to be expanded nationwide.

Distribution of Micro-Enterprises by Economic Sector



***Others include mining & quarrying, information & communication, real estate and education*

Source: NBS and SMEDAN

A Review of Government Intervention Programs for MSMEs

In Nigeria, MSMEs are particularly dominant in the wholesale & retail, manufacturing (cottage industries) and agriculture sectors, as low capital requirements and the weak regulatory framework in these sectors create a lower entry threshold for small business owners. Even in sectors like energy (particularly the oil and gas industry largely dominated by multinationals and large businesses), small businesses still provide the critical base on which the entire sector is built.

Nigeria’s huge population also provides a large market for these MSMEs to offer their products and services. Despite the myriad of commercial opportunities in Nigeria, the tough operating environment in the country puts businesses especially MSMEs on the back foot, further worsening the divide between large corporates and small businesses. Nigeria has a relatively difficult operating environment, evidenced by the country ranking of 169th out of 189 on the World Bank’s most recent ease of doing business report, “*Doing Business in 2016*” reflecting the bold structural reforms required to provide an enabling environment.

Challenges affecting MSMEs in Nigeria range from infrastructural deficiencies to ambiguity regarding regulations. However, poor access to finance is continuously touted as the main challenge affecting MSMEs in Nigeria. The exorbitant lending rates (ranging from 21% - 30% for commercial banks to as high as 48% - 60% per annum for microfinance banks) discourage MSMEs from accessing bank loans and these expensive loans only serve to increase default risks while constricting growth of the MSMEs. Even when the borrowers have good credit scores resulting from prompt repayments, their products have to be priced at higher margins to recoup the expensive financing costs thus increasing the uncompetitiveness of the borrower. This is why the bulk of Nigerian MSMEs rely on equity from personal savings and contributions from family and friends as capital which largely proves inadequate.

MSMEs can add greater value to Nigeria’s economic development especially in the areas of job creation and also serving as the nursery for innovations if the supporting systems, effective macro policies and infrastructure are put in place. This includes a banking system that

Nigeria in 2015

	Doing Business Ranking	169th/189
	Population	170m
	Unemployment	25.10%
	Inflation	9.30%
	Exchange Rate	NGN197/\$



can lend to support the growth of small businesses. This has become more glaring to the government as policy makers seem to have drummed up on their rhetoric for creating support policies for MSMEs. However, the key challenge is to move beyond the rhetoric to the substance. The government's support for small businesses becomes imperative in the face of the drop in oil prices. The oil economy has failed to create sufficient jobs and with the drop in oil prices, the government's capacity to create jobs will be constrained. Thus, we expect that support to MSMEs will be largely driven by the government's economic diversification plans and job creation framework.

While it can be argued that many policies initiated by successive governments are detrimental to small businesses or at most, have mixed results, the area where the government has improved over the years is in the area of improving access to finance - initially via banks and subsequently, through indirect intervention through development organisations such as the Bank of Industry (BOI) - as well as training and business advisory through Small & Medium Enterprises Development Agency of Nigeria (SMEDAN).

The Government adopted the intervention funds model to increase the impact of MSMEs especially in recognition of the capacity of small businesses to create jobs. Thus the Federal Government in collaboration with other organisations such as the Central Bank of Nigeria has introduced a number of intervention funds worth over ₦1 trillion aimed at MSMEs. Government ministries and agencies have collaborated with financial institutions to disburse funds encouraging MSME development including:

- Small and Medium Enterprises Credit Guarantee Scheme (SMECGS),
- Micro, Small and Medium Enterprise Development Fund (MSMEDF) and
- Refinancing and Rediscounting Scheme (RRF)

However, these intervention funds have not been able to actualise the revenue potentials of the agricultural sector as the oil sector still accounts for the bulk of Federal Government revenue. Over the past five years, the oil sector has dominated Federal Government earnings, accounting for an average 70% - 75% of revenue²⁵. Despite the high contribution of oil to Federal Government revenue, the oil sector's contribution to GDP has remained low at 14%²⁶ over the same period resulting in high unemployment as the oil sector has a low employment yield. Over the past five years, Nigeria's unemployment rate has risen from 21.1% in 2010 to 25.1% in 2014²⁷ indicating a need for increased job opportunities. Furthermore, while the funds are theoretically available, the conditions for accessing the funds have created hurdles for financial institutions aiming to disburse and ultimately, the MSMEs

Below is a brief profile of select funds and the key issues affecting the funds.

²⁵ *Agusto & Co. Research*

²⁶ *National Bureau of Statistics*

²⁷ *National Bureau of Statistics*



Review of the Performance & Impact of Various Government Intervention Funds

Name	Agricultural Credit Guarantee Scheme Fund (ACGSF)
Fund size	₦3 billion ²⁸
Date of fund inception	1978
Interest rate	Varies per project
Target market	<ul style="list-style-type: none"> ▪ Farmers
Fund objectives	<ul style="list-style-type: none"> ▪ The purpose of the fund is to provide guarantee for loans granted for agricultural purposes.
Description	<ul style="list-style-type: none"> ▪ The ACGSF was established by Decree No. 20 of 1977 and amended in June 1988. ▪ Initially, the fund size was ₦100m, contributed by the Federal Government (60%) and the Central Bank of Nigeria (40%). ▪ However, in March 2001, the fund was increased to ₦3bn.
Maximum tenor	<ul style="list-style-type: none"> ▪ The duration of each loan (including the moratorium period, if given) should be relevant to the gestation period of the project.
Strengths	<ul style="list-style-type: none"> ▪ The fund does not require tangible collateral for loans of ₦20,000 and under. ▪ As farmers are the target market, it encourages financial inclusion in rural parts of the country. ▪ The CBN provides quarterly updates on the disbursements of the ACGSF.
Weaknesses	<ul style="list-style-type: none"> ▪ The fund has been running since 1978 and so far, has been unsuccessful in reviving the agricultural sector. ▪ Two Banks (First Bank of Nigeria Limited and Union Bank of Nigeria Plc.) are the major players participating in the scheme. Therefore, should one decide to withdraw participation, the scheme might suffer.

Source: Guidelines for the Agricultural Credit Guarantee Scheme, Agosto & Co. Research

²⁸ As at March 2001

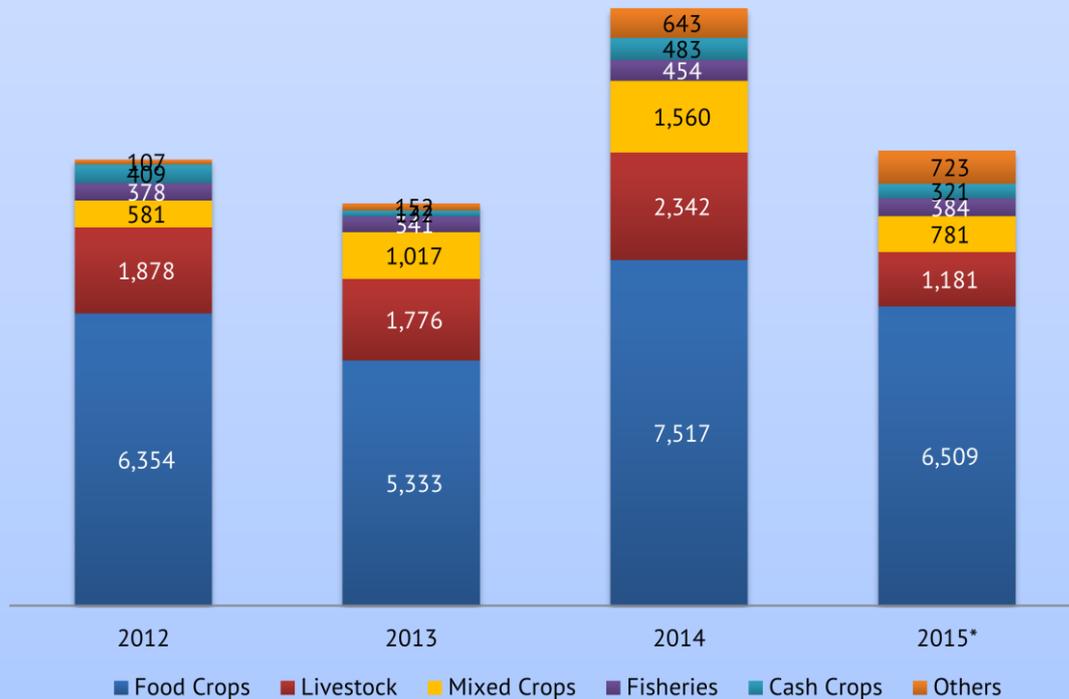


Analyst Comments: ACGSF

According to the CBN, from inception to October 2015, the ACGSF guaranteed loans of **₦94.366 billion** to **990,292** claimants.

Our review of the fund's performance shows that over the past four years, food crops consistently accounted for the bulk of loan guarantees (62%), with livestock ranking as second largest sub sector, accounting for 17% of loan guarantees. Livestock loan guarantees usually peak in the fourth quarter due to high demand over the Christmas period. Over the four years, mixed crop farmers received 10% of the loan guarantees and fisheries (4%), cash crops (3%) and others (4%) make up the remainder. Our review of the ACGS shows that the fund was primarily accessed by food crop farmers' of maize and vegetables. In addition, poultry operators dominated the livestock segment, accessing more funds than other livestock operators. A further analysis of the fund showed that the ACGSF was the most popular fund with **32%** of our survey respondents aware of the ACGSF. This can be attributed to the 37 years of the fund's existence.

Figure 10: Breakdown of ACGSF by Segment (2011- 2015*, ₦ Millions)



Source: Central Bank of Nigeria
*October 2015



Name	Small and Medium Enterprises Equity Investment Scheme (SMEEIS)
Fund size	The scheme requires all banks in Nigeria to set aside 10% of their profit after tax (PAT) for investment and promotion of small and medium enterprises.
Date of fund inception	1999
Interest rate	Maximum of 9%
Target market	All legal businesses are covered with the exception of: <ul style="list-style-type: none"> ▪ Trading/merchandise ▪ Financial services
Fund Objectives	<ul style="list-style-type: none"> ▪ The fund aims to increase the banking sector's contribution to Federal Government efforts to stimulate growth, develop local technology and generate employment.
Description	<ul style="list-style-type: none"> ▪ Funding shall come in the form of loans, equity investments or both. ▪ After the first five years of the scheme, banks contribution may reduce to 5%. ▪ In 2009, the scheme became optional to banks.
Maximum tenor	<ul style="list-style-type: none"> ▪ Where equity contributions are made, banks may remain equity partners for a minimum of three years.
Strengths	<ul style="list-style-type: none"> ▪ Offers large institutional backing therefore increasing the MSME's chances of success. ▪ Funding varies from asset financing to working capital financing. ▪ Equity investments do not require interest repayments.
Weaknesses	<ul style="list-style-type: none"> ▪ The programme became optional in 2009. Therefore, we expect that most banks will opt out of the scheme. ▪ Owing to gaps in the definition of MSMEs, deposit money banks were able to reclassify established large corporates as SMEs to qualify for the SMEEIS loans. This led to the overcrowding of the genuine MSMEs from the SMEEIS scheme thus constricting the impact of the scheme on small businesses. ▪ Interest rates benchmarks like the MPR and yields on FGN debt instruments are quite high. These high benchmarks are the underlying factors behind the high interest rates banks charge borrowers. Several small businesses were not able to benefit from the SMEEIS scheme owing to the high interest rates of bank credit.

Source: *Small and Medium Enterprises Equity Investment Scheme (SMEEIS) Revised Guidelines, Agosto & Co. Research*



Analyst Comments on SMEEIS

While we were unable to get an up-to-date review of the SMEEIS, our survey reveals that SMEEIS is the second most popular intervention fund with **23%** of respondents aware of the fund. Furthermore, a case study on Omatek reveals the value added to the company through the SMEEIS fund. This is further explained below.

In 2003, through SMEEIS, Zenith Bank and Guaranty Trust Bank were able to contribute equity to Omatek. Omatek's capital base grew, and the company was able to purchase raw materials required. In 2008, Omatek exited the SMEEIS programme and listed on the Nigerian stock exchange

However, in 2009, the SMEEIS programme became optional. It was no longer compulsory for Banks to contribute 10% of their profit after tax to aid the development of MSMEs. We expect that most banks will avoid contributing 10% of profit after tax to the SMEEIS programme due to the high risk nature of MSMEs and the low returns (single digit interest rate).

Name	CBN's ₦200 billion Refinancing and Rediscounting Scheme (RRF)
Fund size	₦200 billion
Date of fund inception	2002
Interest rate	Eligible projects have a concessionary rate of 2% below minimum rediscounting rate ²⁹ (MRR).
Target market	<ul style="list-style-type: none"> ▪ Agricultural production ▪ Manufacturing ▪ Semi manufacturing ▪ Exploration and exploitation of solid minerals ▪ Information Technology (IT)
Fund objectives	<ul style="list-style-type: none"> ▪ To encourage medium and long term lending in order to expand and diversify the country's production base. ▪ To change the trend where short-term credits to general commerce and trade dominate domestic lending. ▪ To encourage medium and long term loans to the real sector for growth and development.
Description	<ul style="list-style-type: none"> ▪ In January 2002, the CBN introduced RRF, a ₦200bn scheme to encourage banks to advance medium to long term loans to the agriculture and manufacturing sectors. ▪ The RRF was discontinued in December 2014. We believe this was due to low bank participation.
Maximum tenor	<ul style="list-style-type: none"> ▪ Eligible projects have a tenor of five years and over.
Strengths	<ul style="list-style-type: none"> ▪ The RRF scheme opened a window for MSMEs which were being constricted by high interest rates on existing credit to refinance their

²⁹ MRR was replaced with Monetary Policy Rate (MPR) in December 2006



	<p>borrowings.</p> <ul style="list-style-type: none"> ▪ This refinancing window created new opportunities to use the extra cash flow to fund expansion plans.
Weaknesses	<ul style="list-style-type: none"> ▪ The bank bears all the credit risk, significantly reducing the chances of bank participation. ▪ It was a refinancing scheme and did not accommodate credit requests for green field opportunities and plans.

Source: Central Bank of Nigeria, Agosto & Co. Research

Analyst Comments on RRF

*In 2002, when the RRF was introduced, only four out of the then 89 banks applied for the loans. Two applications were unsuccessful as they failed to meet the guidelines of the CBN therefore, only two were successful. As the conditions of the RRF were considered unattractive to banks the fund was largely inaccessible to MSMEs. Furthermore, the low appeal to banks and the low bank participation was reflected in the Agosto & Co. survey response which showed **1%** awareness of the RRF.*

The requirements to access the RRF are listed below:

- 1. The banks can access up to only 60% of the qualifying credit facilities.*
- 2. The loan portfolio for which the facility is required must have been held for not less than one year and must have an original tenor of not less than five (5) years.*
- 3. Access to the facility is once in 12 calendar months.*
- 4. Once the prescribed conditions for the issuance of the promissory note are met, the note is issued and presented to the Discount Office, Central Bank of Nigeria. Upon discounting, the proceeds of the promissory notes are credited to the current account of the participating bank at the CBN, under advice.*

The RRF scheme was discontinued by the Central Bank of Nigeria in 2014. We believe this was due to low bank participation caused by the stringent CBN requirements. Following the discontinuation of the scheme, all approved projects will be disbursed through the Bank of Industry. Furthermore, all fund repayments are to be utilised in the new Real Sector Support Facility (RSSF) Fund.

*Since inception, a total of **₦378.991bn** has been disbursed by the Bank of Industry, to **604** projects. As at October 2015, the total loan repayments under the RRF stood at **₦122.724bn**. Of the total repayments, **₦133.724bn** was disbursed. Therefore, the balance of the RRF repayment account is **₦3.233**.*



Name	
Agricultural Credit Support Scheme (ACSS)	
Fund size	₦50 billion
Date of fund inception	2006
Interest rate	14% interest rate (6% rebate after pay back of facilities on schedule)
Target market	Farmers and agro-allied entrepreneurs
Fund objectives	<ul style="list-style-type: none"> ▪ Extend credit facilities to the agricultural sector at single digit interest rate. ▪ Reduce the cost of agricultural production and increase output.
Description	<ul style="list-style-type: none"> ▪ The Federal Government and the Central Bank of Nigeria, with support from the Bankers' Committee established the ACSS in April 2006. ▪ The purpose of the fund is to lend to farmers at single digit interest rates. ▪ The fund is managed by a Central Implementation Committee (CIC), which has members of key government ministries including the Federal Ministry of Finance, Federal Ministry of Agriculture and the Federal Ministry of Commerce.
Maximum tenor	N/A
Strengths	<ul style="list-style-type: none"> ▪ The fund encourages timely payback through the interest rate rebate. ▪ The fund allows for substitutes to collateral securities for short-term loans.
Weaknesses	<ul style="list-style-type: none"> ▪ The interest rate at 14% defeats the objective of single digit interest rate as the rebate is only available after the business has shown an ability to make timely repayments. ▪ Established and large agro-allied businesses have crowded out MSMEs from the ACSS as deposit money banks seek to minimise exposures to agriculture. ▪ The high risk ratings and perception of the agricultural sector implies that banks will continue to seek ways of crowding out small hold farmers and other names in the agricultural space perceived as high risk.

Source: Guidelines for the Operation of the Agricultural Credit Support Scheme (ACSS), Agosto & Co. Research

Analyst Comments ACSS

The CBN reports that from inception to October 2015, total rebate paid stood at **₦910.020 million** for **40 projects**.

The ACSS aims to extend credit facilities to farmers and agro-allied entrepreneurs at single digit interest rates. However, the fund offers rates at 14%, with a 6% rebate after timely payback of facilities. In our opinion, the initial interest rate of 14% is high in comparison to other performing funds such as CACS (9%). Furthermore, only 40 projects have accessed the ACSS in comparison to CACS, which 396 projects have accessed. We believe that the interest rate and the rebate could both be reduced to encourage more farmers to access the fund.

Name	Commercial Agricultural Credit Scheme Fund (CACS)
Fund size	₦200 billion
Date of fund inception	2009
Interest rate	Should not exceed 9% (inclusive of all charges)
Target market	<p>The fund is targeted at the various segments of the value chain namely:</p> <ul style="list-style-type: none"> ▪ Production: <ul style="list-style-type: none"> ○ Cash crops: cotton, oil palm, fruit trees, rubber, sugar cane, jatropha carcus, cocoa ○ Food crops: rice, wheat, cassava, maize/soya, beans/millet. tomatoes, vegetables ○ Poultry: broilers and eggs production ○ Livestock: meat, dairy, piggery ○ Aquaculture: fingerlings and catfish ▪ Processing: <ul style="list-style-type: none"> ○ Feed mills development, threshing, pulverisation and other forms of transmutation for value addition ▪ Storage: <ul style="list-style-type: none"> ○ Commodities, agro-chemicals and warehousing ▪ Farm input supplies: <ul style="list-style-type: none"> ○ Fertilizers, seeds/seedlings, breeder stock, feeds, farm equipment and machineries ▪ Marketing: <ul style="list-style-type: none"> ○ Agricultural commodities under the focal investment areas
Objectives	<ul style="list-style-type: none"> ▪ To accelerate the development of the agricultural sector through the provision of credit facilities to commercial agricultural enterprises at a single digit interest rate. ▪ To enhance nationwide food security by increasing food supply and lowering product prices to promote low food inflation.



	<ul style="list-style-type: none"> ▪ To enable farmers to exploit the potentials of the agricultural sector by reducing the cost of credit. ▪ To increase output, generate employment, increase foreign exchange earnings, diversify the revenue base of Nigeria and consistently provide input for Nigeria's industrial sector.
Description	<ul style="list-style-type: none"> ▪ In October 2010, the Central Bank of Nigeria (CBN) and Federal Ministry of Agriculture and Rural Development "FMARD" established the Commercial Agricultural Credit Scheme Fund (CACS) for commercial agricultural enterprises in Nigeria. ▪ The fund is set up to complement existing funds such as the ACGS. CACS is financed from the proceeds of a ₦200 billion 3-year bond raised by the Debt Management Office (DMO) and the fund is available to participating banks to finance commercial agricultural enterprises. ▪ CACS defines a commercial enterprise as "any farm or agro-based enterprise with agricultural assets (excluding land) of not less than ₦100 million for an integrated farm, and prospects of growing the assets to ₦250 million within the next three years and ₦50 million for non-integrated farms/agro-enterprise (except in the case of on-lending to farmers' cooperative societies)". ▪ All Deposit Money Banks in Nigeria are approved by the CBN as participating banks. ▪ Each state government can borrow up to ₦1 billion to lend to farmers' cooperative societies. ▪ The CBN revised the CACS guidelines in May 2015 that the CBN and the deposit money banks should share the 9% interest rate in the ratio of 2:7. ▪ In May 2014, the CBN extended the terminal date of the scheme from 30 September 2016 to 30 September 2025.
Maximum tenor	Maximum tenor is based on the gestation period of the enterprise plus three years cash flow allowance and/or working capital facility of one year with provision for roll over.
Strengths	<ul style="list-style-type: none"> ▪ Loan tenors are adjusted depending on the business type. ▪ In comparison to other funds, CACS is well covered with quarterly information available about the volume and amount of funds disbursed.
Weaknesses	<ul style="list-style-type: none"> ▪ The CBN reports slow implementation by State Governments. This suggests to us that there is a flaw in design policy. ▪ Weak investments by state governments in rural infrastructure increase structural bottlenecks around farming. This implies that the CACS fund alone will not be able to stimulate growth in the agriculture sector.

Source: Guidelines for Commercial Agriculture Credit Scheme (CACS), Agosto & Co. Research



Analyst Comments CACS

Agusto & Co.'s survey revealed that **8%** of respondents are aware of the CACS fund. Nonetheless, according to the CBN, from inception to October 2015, **₦318.145** billion was disbursed under CACS to **399** projects.

In May 2015, the CBN revised the CACS guidelines in a circular titled "Amendment to Pricing of Commercial Agriculture Credit Scheme (CACS) and Guidelines". In the circular, the CBN revised the share of the 9% interest rate to 2% for the CBN and 7% for the deposit money banks (DMBs) although, prior to May 2015, the CBN did not specify the share of interest rate between the CBN and DMBs.

As at October 2015, Zenith Bank Plc accounted for the bulk of CACS distributions, disbursing 18% of the funds disbursed. UBA Plc ranked second, disbursing 17% of the funds as at Q2 2015. First Bank Limited, Unity Bank Plc and Union Bank Plc also made up the top five, distributing 12%, 8% and 6% respectively.

Table 6: Disbursement of CACS as at October 2015

	<i>Participating Banks</i>	<i>Amount Disbursed (₦ bns)</i>	<i>Number of Projects/State Governments</i>
1	Zenith Bank Plc	57.59	39
2	UBA Bank Plc	52.757	39
3	First Bank of Nigeria Limited	37.026	91
4	Unity Bank Plc	24.182	25
5	Union Bank Plc	20.598	25
6	Sterling Bank	20.338	25
7	Stanbic IBTC Bank	17.608	33
8	GT Bank	17.4	16
9	Access Bank	14.626	17
10	Fidelity Bank	12.87	10
11	Skye Bank	11.692	8
12	FCMB	9.474	18
13	Ecobank	6.375	10
14	Diamond Bank	4.41	16
15	Heritage Bank	4.814	13
16	Citibank	3	2
17	Keystone Bank	2.205	4
18	Wema Bank	1.18	8
	Total	318.145	399

Source: Central Bank of Nigeria



Name	CBN's ₦235 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)
Fund size	₦235 billion
Date of fund inception	April 2010
Interest rate	The fund is administered at the prime lending rate of the participating bank.
Target market	<ul style="list-style-type: none"> ▪ Manufacturing ▪ Agricultural value chain ▪ Educational institutions
Fund objectives	<ul style="list-style-type: none"> ▪ Accelerating the development of the SME manufacturing segment by providing credit guarantee from banks to SMEs and manufacturers. ▪ Increasing output, generating employment, diversifying the revenue base increasing forex earnings and providing sustainable inputs for the industrial segment. ▪ Increasing access to credit to SMEs and manufacturers.
Description	<ul style="list-style-type: none"> ▪ In 2010, the Central Bank of Nigeria (CBN) sponsored SMECGS, a ₦235 billion funding scheme with the aim of promoting SME access to credit.
Maximum tenor	<ul style="list-style-type: none"> ▪ Loans have a maximum tenor of seven years (including a two year moratorium) and working capital loans have a tenor of one year.
Strengths	<ul style="list-style-type: none"> ▪ The SMECGS gives small businesses a unique long term funding opportunity given that MSMEs are largely considered as a high risk segment which ordinarily would not qualify for long term lending. ▪ The two-year moratorium gives beneficiaries time to sufficiently invest cash flows ahead of repayment.
Weaknesses	<ul style="list-style-type: none"> ▪ In comparison to other funds, the interest rate on the SMECGS can be considered high because the SMECGS is administered at the prime lending rate of the participating bank. ▪ Despite the altruistic features of the SMECGS, product knowledge is quite weak. Our survey indicates that only 9% of MSME respondents had knowledge of the SMECGS. ▪ The CBN records low stakeholder buy-in to the SMECGS scheme suggesting a nadir by borrowers.

Source: Central Bank of Nigeria, Agosto & Co. Research

Analyst Comments on SMECGS

In the first half of 2009, interest rates were high due to the tight liquidity concerns. The CBN twice reviewed the monetary policy rate downwards and reduced the cash reserve requirement from 2% to 1% to further improve liquidity in the economy. The high interest rates in 2009 depict the difficult operating landscape for MSMEs, and the challenges in accessing loans. As MSMEs are considered to be high risk, such companies are expected to be offered maximum lending rates, presenting the need for an intervention fund to provide more affordable financing. In 2010, SMECGS was introduced, offering loans at the prime interest rates of commercial banks.

*The CBN records that from inception to October 2015, a total of **87** projects have been guaranteed valued at **₦4.219 billion**. According to the CBN, only **40** projects valued at **₦2.439 billion** had been fully repaid as at October 2015. Furthermore, following the Agosto & Co. survey, only **9%** of respondents had prior knowledge of the fund.*

In our opinion, the fund has been largely unsuccessful as over a period of four years, only 1.7% of the total fund available had been disbursed.

Name	The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
Fund size	₦75 billion
Date of fund inception	2011
Interest rate	7%
Target market	All businesses within the Agriculture value chain Borrower risk pool (qualifying terms outlined below): <ul style="list-style-type: none"> ▪ BRP1: Entrepreneurs, farmer groups and agribusiness cooperatives ▪ BRP2: SMEs (growth companies) ▪ BRP3: Large corporations
Fund objectives	<ul style="list-style-type: none"> ▪ To fix agricultural value chains and provide a platform to reduce the risk of agricultural lending. ▪ To increase financing to Nigerian agribusiness by using credit guarantees to address the risk of default. ▪ To provide technical assistance through capacity building across the agriculture value chains. ▪ To reduce the cost of borrowing. ▪ To provide technical advice to agribusinesses.
Description	<ul style="list-style-type: none"> ▪ The Central Bank of Nigeria (CBN), the Bankers Committee and the Federal Ministry of Agriculture and Rural Development (FMARD) set up NIRSAL to emphasise lending to the agricultural value chain by offering banks incentives to lend. ▪ NIRSAL also guarantees up to 75% of banks' loans to the agriculture sector. ▪ Guarantees cover between 30% - 75% of loan exposure for activities related to crop, livestock and aquaculture production, processing and



	<p>distribution.</p> <ul style="list-style-type: none"> ▪ The NIRSAL Fund is administered by NIRSAL Plc, a non-bank financial institution (NBFI) which is an initiative of the Central Bank of Nigeria (CBN), the Bankers Committee (BC) and the Federal Ministry of Agriculture & Rural Development (FMARD). ▪ Excluding the credit guarantee schemes, NIRSAL also encompasses an interest draw back scheme (IDB) however, the IDB will be provided separately by CBN annually. ▪ CBN plans to have NIRSAL as the primary platform for implementing the apex bank's agriculture related intervention schemes. Therefore, schemes such as the ACGSF will eventually be incorporated into NIRSAL.
Maximum tenor	<ul style="list-style-type: none"> ▪ Varies per project.
Strengths	<ul style="list-style-type: none"> ▪ At 7%, the interest rate of applicable under NIRSAL is much lower than other funds. ▪ The scheme offers technical support to operators which are vital to ensuring the operator's company succeeds. ▪ NIRSAL shares the credit risk with the bank administering loans. ▪ NIRSAL seeks to fill the knowledge gap of banks in the agricultural sector by requiring banks to engage experts with degrees in agriculture on the NIRSAL Desks.
Weaknesses	<ul style="list-style-type: none"> ▪ The underlying structural bottlenecks that stymie the agricultural sector such as access to markets, rural infrastructure still remain a daunting challenge that will not be resolved by NIRSAL. ▪ Large agro-allied corporates are crowding out MSMES from the NIRSAL funds like other Agriculture intervention funds

Source: NIRSAL Zonal Sensitization Presentation, CBN, Agosto & Co. Research

Analyst Comments on NIRSAL

NIRSAL was launched to address the key issues facing previous schemes such as the ACGSF, ACSS and CACS. The fund was launched to focus more on guarantees rather than placing funds with banks. Furthermore, NIRSAL aims to offer incentives to help shape financial services behaviour. Such incentives include rating banks based on the number of projects they fund and amount granted to borrowers at the various value chain segments.

*NIRSAL aims to address some of the key conditions preventing banks from accessing funds. Such issues include who bears the credit risk. The NIRSAL scheme incentivises banks to lend by sharing loan losses with the bank. The CBN reports that as at October 2015, a total of **247** credit guarantee covers were issued worth **₦21.673 billion**.*

It appears that NIRSAL is currently falling below expectations. A key metric of NIRSAL is to increase exposure of the formal financial system to agriculture, to 10% by 2016. However as at 2014, loans to the agricultural sector made up only 4% of the Nigerian banking industry's loan book.



Name	CBN's ₦220 billion Micro, Small and Medium Enterprise Development Fund (MSMEDF)
Fund size	₦220 billion
Date of fund inception	2013
Interest rate	9% per annum (all charges inclusive)
Target market	<p>Microenterprises:</p> <ul style="list-style-type: none"> ▪ Agricultural value chain activities ▪ Cottage industries ▪ Artisans ▪ Services to hotels, schools, restaurants, laundry, etc. ▪ Trade and general commerce <p>Small and medium enterprises</p> <ul style="list-style-type: none"> ▪ Manufacturing ▪ Agricultural value chain activities ▪ Educational institutions ▪ Renewable energy/energy efficient product and technologies
Fund objectives	<ul style="list-style-type: none"> ▪ Providing better access to financial services ▪ Increasing productivity and output of microenterprises ▪ Achieving a higher rate of employment in Nigeria ▪ Enhancing female inclusion in MSME growth
Description	<ul style="list-style-type: none"> ▪ In 2013, the Central Bank of Nigeria launched a ₦220 billion fund-MSMEDF –to assist wholesale funding of microfinance institutions. ▪ The fund aims to increase women's access to finance by about 15% annually to address gender disparity in entrepreneurship. Therefore, 60% of the fund is reserved for women. ▪ Two per cent of the fund is also aimed at people with disabilities (excluding mental illness). ▪ In 2014, the Lagos State Chamber of Commerce and Industry (LCCI) applied for the loan and was able to access and disburse ₦70bn within a space of three months.
Maximum tenor	<ul style="list-style-type: none"> ▪ Loans have a tenor of one year for micro businesses and up to five years for SMEs with an option of a moratorium.
Strengths	<ul style="list-style-type: none"> ▪ The fund is not limited to the agricultural sector but extends to companies in trade and services.
Weaknesses	<ul style="list-style-type: none"> ▪ Banks bear as much as 75%* of the risk. ▪ A review of the fund in three states namely: Kogi State, Enugu State and Lagos State revealed the following: <ul style="list-style-type: none"> ○ The repayment schedule was not fully understood by beneficiaries. ○ In some cases, interest was charged upfront. ○ Some beneficiaries were subject to excess COT charges by PFIs.

*Newspaper reports suggest that banks now bear only 50% of the risk

Source: Micro, Small and Medium Enterprises Development Fund (MSMEDF) Guidelines, Development Finance Department, CBN and Agosto & Co. Research



Analyst Comments on MSMEDF

In 2013, the MSMEDF was launched in an effort to improve access to finance at the bottom of the pyramid. The CBN reports that from inception to October 2015, ₦52.330 billion was disbursed under the MSMEDF commercial component. In addition, LCCI claims to have disbursed ₦70 billion in 2014, within a space of three months.

The Agosto & Co. survey revealed a relatively high awareness of the fund in comparison to other funds such as SMECGS and CACS with 16% of respondents aware of the MSMEDF. Although the fund is still fairly new, we expect to better evaluate after a minimum of three years. Nonetheless, over the short life of the fund, we found the following issues concerning the design of the fund:

- *Banks made to bear credit risk*
- *Difficulty in meeting the 75% collateral requirement*

The fund requirements (please see appendix) place the credit risk of loans on the bank. However, banks are unwilling to fund MSMEs due to the high risk attached to such companies. Therefore, requiring that banks bear the risk is likely to make such funds unattractive. Furthermore, the 75% collateral requirement was considered too high. Participating financial institutions (PFIs) were required to cover a minimum of 75% of the funds distributed to MSMEs. As a result, in August 2014, the CBN reviewed the criteria for accessing the fund.

To address the issue, the CBN reduced the collateral required to 50% to encourage more PFIs to participate. In addition, the collateral requirement may be reduced further depending on the credit rating of the PFI. To aid in identifying earnest candidates, CBN also proposed that SMEDAN identify key MSMEs operated by women and recommend business service providers to help their companies adequately package applications. In addition, the CBN started disbursing funds to financial institutions at 2%, 1% lower than it initially disbursed, to incentivise financial institutions to partake in the scheme. Therefore, banks are able to make a wider spread of 7%.

Although the CBN claims to have reduced the requirements, banks also claim not to have received any official communication reducing collateral requirement and dropping the cost at which the banks access the loan. Agosto & Co. believes that similar to the NIRSAL scheme, the CBN should share more of the credit risk with the banks to ensure that this intervention fund is successful. We expect that as it is an initiative of the CBN, and the CBN approves the disbursement of loans, the CBN should also bear some of the risk of the loan.

Name	Fund for Agricultural Finance in Nigeria (FAFIN)
Target fund size	\$100 million
Date of fund inception	2014
Means of investing	<ul style="list-style-type: none"> FAFIN seeks to hold 25%-49% equity in investee companies. The manager of the fund can exit these investments through public listings, a strategic buyout by another investor or a management buyout.
Target market	<ul style="list-style-type: none"> SMEs along any agricultural value chain. Target companies include input providers, producers, processors, logistics and warehouse providers and financial intermediaries that help raise additional capital for agricultural SMEs. FAFIN is not focused on greenfield companies but will only consider start-ups when the management team have recorded prior success in running a similar company successfully.
Fund objectives	<ul style="list-style-type: none"> Generating competitive financial returns by providing additional finance to the sector. Providing innovative investment solutions to agricultural companies to generate growth. Generating social and economic impact through the agricultural sector.
Description	<ul style="list-style-type: none"> FAFIN is an investment fund that provides capital and technical assistance to SMEs in agriculture. The fund aims to assist SMEs that have been operating for over three years. The company should have turnover between \$3 million - \$10 million. The fund sponsors include the Federal Government of Nigeria (through the Federal Ministry of Agriculture and Rural Development (FMARD)), the Nigeria Sovereign Investment Authority and the German Federal Government (through KfW Development Bank). On 27 January 2014, FAFIN closed its first fund, with \$34m capital commitment.
Maximum/minimum investment	<ul style="list-style-type: none"> FAFIN can only invest a minimum of \$500,000 or a maximum of 10% of the fund size in a single company.
Strengths	<ul style="list-style-type: none"> Private equity (PE) investments are usually well monitored with a member of the PE company represented on the Board of the investee company.
Weaknesses	<ul style="list-style-type: none"> None recognised.

Source: FAFIN Nigeria, Agosto & Co. Research



Name	Real Sector Support Facility (RSSF)
Fund size	₦300 billion
Date of fund inception	2014
Interest rate	9%
Target market	<ul style="list-style-type: none"> ▪ Manufacturing <ul style="list-style-type: none"> ○ Producing and processing of tangible goods ○ Fabricating, deploying plants, machinery or equipment to deliver goods or providing infrastructure to facilitate economic activity in the real sector ▪ Agriculture ▪ Services
Fund objectives	<ul style="list-style-type: none"> ▪ To fast-track the development of SMEs in the manufacturing, agricultural value chain and services sub-sectors. ▪ Small and Medium Scale Enterprise (SMEs) are defined as an entities with an asset base (excluding land) of between ₦5 million and ₦500 million and with a labour force between 11 and 300. ▪ Increase production, generate employment, diversify the revenue base, increase foreign exchange income and provide input for the industrial sector on a sustainable basis.
Description	<ul style="list-style-type: none"> ▪ The CBN introduced the RSSF to unlock the potential of the real sector. ▪ The fund is aimed at start-ups and expansion projects in the manufacturing, agriculture and services sectors. ▪ The CBN and the deposit money banks share the 9% interest rate in the ratio of 3:6.
Maximum tenor	<ul style="list-style-type: none"> ▪ 15 years depending on the project.
Strengths	<ul style="list-style-type: none"> ▪ The RSSF provides long term lending to key sectors where MSMEs operate.
Weaknesses	<ul style="list-style-type: none"> ▪ None recognised.

Source: ₦300 Billion Real Sector Support Facility (RSSF), Agosto & Co. Research

Analyst Comments on RSSF

*The RSSF, launched in 2014 is the most recent of the intervention funds launched. Nonetheless, over the year, the CBN reports that a total of **₦3.5 billion** has been disbursed to **one project**. The fund is still new and we expect to better evaluate the performance after it has been running for at least, three years.*

We believe the buy-in of banks is important to the success of the fund. Therefore, the impact of the 3:6 sharing rate - lower than other schemes such as the CACS - is yet to be determined as the fund only launched a year ago.



National Collateral Registry (NCR)

Name	National Collateral Registry (NCR)
Date of inception	N/A
Objectives	<ul style="list-style-type: none"> ▪ To stimulate lending to MSMEs through providing a register of security interests in movable property and realising such interests in the event of a default.
Description	<ul style="list-style-type: none"> ▪ The NCR is a database that stores collateral created by borrowers. ▪ It is a public database of asset ownership which allows borrowers to prove their creditworthiness. ▪ It allows potential lenders to assess their ranking by seniority in potential claims on collateralised assets in cases of credit default by the borrower. ▪ It is provided, maintained and operated by the CBN. ▪ Only securities with adequate descriptions are included. ▪ The NCR is to be launched in partnership with the International Finance Corporation (IFC). ▪ The NCR shall be available at all times except there are maintenance, technical and security constraints. ▪ A security is considered to have “adequate description” if it is described by: <ul style="list-style-type: none"> ○ Item, kind, type or category ○ A statement that a security interest is taken by all of the debtor’s present and after-acquired property ○ A security interest shall continue in the identifiable or traceable proceeds of the collateral, regardless of whether the security agreement contains a description of the proceeds.
Strengths	<ul style="list-style-type: none"> ▪ The NCR provides a platform for all lenders and borrowers to assess the status of a particular collateral. ▪ The introduction of the bank verification number (BVN) has also provided a means for uniquely identifying each collateral and its owner. ▪ For lenders, it reduces the chances of incurring losses from non-payment. ▪ Collaboration with the IFC provides the much needed experience to ensure a smooth take-off of the NCR.
Weaknesses	<ul style="list-style-type: none"> ▪ Public awareness on the NCR is low. ▪ The NCR is yet to launch.

Source: *Collateral Registry Regulations 2014, Agosto & Co. Research*

Movable assets constitute the bulk of capital assets of private enterprises particularly with regards to MSMEs. In developing countries approximately 78% of the capital stock of enterprises is made up of movable assets including machinery, equipment and receivables and only 22% in immovable property³⁰. Although in most developed countries, movable assets can be used as collateral to access funding this is usually impracticable in developing countries. This challenge is usually due to either of the following reasons:

³⁰ *International Finance Corporation*



- The law fails to recognize non-possessory interests in movable assets
- The law does not provide sufficient protection for lenders accepting it as collateral.

A strong legal and regulatory framework is germane for the credit environment as this helps with the facilitation of movable assets as collateral. However, even the legal and regulatory framework will require collateral registers to safeguard the credit environment. In addition to documenting movable assets that have been used as collateral for credit, these credit registries also notify parties about the existence of a security interest in movable property and also establish the priority of creditors' vis-à-vis third parties³¹.

Collateral registries are also instrumental in lowering the risk of loan defaults and reducing the cost of transactions by improving transparency. Thus, in the absence of a law-backed entity that documents security interests in movable properties and determines ownership priority in a debtor's collateral, it would be difficult for creditors to accept such movable property as collateral. The proper institution of secured lending laws which sanction the use of movable collateral can increase MSMEs' access to funding as it allows them capitalize on existing assets to obtain credit.

In countries such as Mexico and Vietnam, the institution of collateral registries increased access to finance by about \$202.5 billion for about 320,000 SMEs which were previously unable to access funding due to the lack of immovable collateral. In China, access to finance increased by about \$4 trillion with more than 100,000 beneficiary SMEs and more than 600,000 registrations³². In addition, the presence of collateral registries also has multiplier effects in other sectors of the economy. For instance, in China it led to a rapid growth in the leasing sector from \$2 billion to \$70 billion in the first year of implementation³³.

In neighbouring Ghana, CAL Bank developed supply chain financing for local SME providers servicing the big mining corporations. Under the supply chain financing scheme, movable assets such as contracts, receivables and equipment were used as collateral from MSMEs with over \$10 million disbursed to more than 100 local SMEs.

In a bid to improve access to finance for small and medium scale enterprises, the Central Bank of Nigeria (CBN) in partnership with the IFC introduced the Central Collateral Registry Regulations. In addition to providing a wider pool of assets for MSMEs, the establishment of a collateral registry will allow for a more efficient risk management system by diversifying the pool of assets available to financial institutions. However, public awareness for the registry remains low and so far the collateral registry is yet to launch. In our opinion, successful implementation of the program will be dependent on the ability of the CBN to effectively engage with MSMEs, financial institutions, the public sector and other relevant

³¹ *Ibid.*

³² *Ibid*

³³ *Ibid*



stakeholders with while providing the right incentive and enforcement conditions in the framework registry.

Analyst Comments on NCR

- *There is need for the CBN to engage with state governments and the Judiciary to create awareness and promote the enforcement of a robust legal framework supporting collateral registries in Nigeria. In addition, the creating awareness across the judiciary and garnering of support from this arm of government will be instrumental towards ensuring that disputes resulting from registered security interests are swiftly addressed.*
- *Another recommendation is on the adoption of an online collateral registry process. This in turn will improve the integrity of the registration process by creating ease of accessibility to data and also alleviating the challenge of data retrieval. By improving access to information on movable collateral across various states in the country, it will help resolve the problem of asymmetric information and propagate awareness of the program.*

Fund Performance Tracker

Name of the Fund	Date of fund inception	Size of the fund (₦)	Interest Rate	Amount Disbursed From Inception to October 2015 (₦)	Number of People/Projects who have accessed the fund From Inception to October 2015	Implementation Status as at October 2015
Agricultural Credit Guarantee Scheme Fund (ACGSF)	1978	3 billion	N/A	94.366 billion	990,292	On-going
Small and Medium Enterprises Equity Investment Scheme (SMEEIS)	1999	10% of Bank's Profit after Tax (PAT)- The scheme became optional in 2009	Maximum of 9%	N/A	N/A	On-going
CBN's ₦200 billion Refinancing and Rediscounting Scheme (RRF)	2002	200 billion	Eligible projects have a concessionary rate of 2% below minimum rediscounting rate (MRR).	378.991 billion	604	Inactive
Agricultural Credit Support Scheme (ACSS)	2006	50 billion	14% interest rate. 6% rebate after pay back of facilities on schedule	910.020 million	40	On-going

Source: Central Bank of Nigeria: Development Finance Department (DFD) - Report of the Activities of the Business Unit October 2015



Name of the Fund	Date of fund inception	Size of the fund (₦)	Interest Rate	Amount Disbursed From Inception to October 2015(₦)	Number of People/Projects who have accessed the fund From Inception to October 2015	Implementation Status as at October 2015
Commercial Agricultural Credit Scheme Fund (CACCS)	2009	200 billion	9%	318.145 billion	399	On-going
CBN's ₦235 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)	2010	235 billion	The fund is administered at the prime lending rate of the participating bank.	4.129 billion	87	On-going
The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	2011	75 billion	7%	21.673 billion*	247*	On-going
CBN's ₦220 billion Micro, Small and Medium Enterprise Development Fund (MSMEDF)	2013	220 billion	9% per annum (all charges inclusive)	51.834 billion- Commercial Component 70 billion- LCCI	N/A	On-going

Source: Central Bank of Nigeria: Development Finance Department (DFD) - Report of the Activities of the Business Unit October 2015

*Credit Risk Guarantees



Name of the Fund	Date of fund inception	Size of the fund (₦)	Interest Rate	Amount Disbursed From Inception to October 2015(₦)	Number of People/Projects who have accessed the fund From Inception to October 2015	Implementation Status as at October 2015
Fund for Agricultural Finance in Nigeria (FAFIN)	2014	On 27 January 2014, FAFIN closed its first fund, with \$34m capital commitment.	<ul style="list-style-type: none"> ▪ FAFIN seeks to hold 25%-49% equity in investee companies. ▪ The manager of the fund can exit these investments through public listings, a strategic buyout by another investor or a management buyout. 	Yet to commence	-	Pre-launch
₦300 Billion Real Sector Support Facility (RSSF)	2014	300 billion	9%	3.5 billion	1	On-going

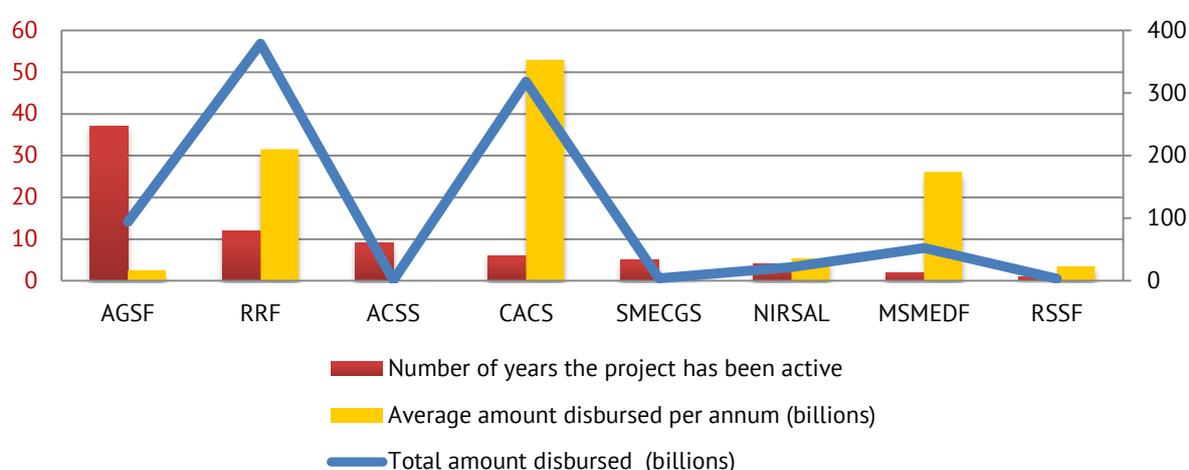
Source: Central Bank of Nigeria: Development Finance Department (DFD) - Report of the Activities of the Business Unit October 2015

Fund Performance Review

Our review of the intervention funds reveals that on average, CACS has disbursed the largest amount of funds per annum (₦53 billion). RRF has the second largest amount of disbursements per annum, distributing on average, ₦31.6 billion every year since inception. However, the volume of CACS can be attributed to its objective - to finance big ticket projects along the agricultural value chain.

Other than the RSSF which launched last year, on average ACSS has disbursed the least amount of funds in its nine years of existence (₦0.1 billion).

Figure 11: Average Amount Disbursed Per Annum (Inception to October 2015)



Source: Central Bank of Nigeria

*MSMEDF commercial component only

**NIRSAL Credit Risk Guarantee

Table 7: Average Amount Disbursed Per Annum (Inception to October 2015)

	AGSF	RRF	ACSS	CACS	SMECGS	NIRSAL	MSMEDF*	RSSF
Total amount disbursed (billions)	94.366	378.991	0.91002	318.145	4.219	21.673	52.33	3.5
Number of years the fund has been active	37	12	9	6	5	4	2	1
Average amount disbursed per annum (billions)	2.6	31.6	0.1	53.0	0.8	5.4	26.2	3.5

Source: Central Bank of Nigeria

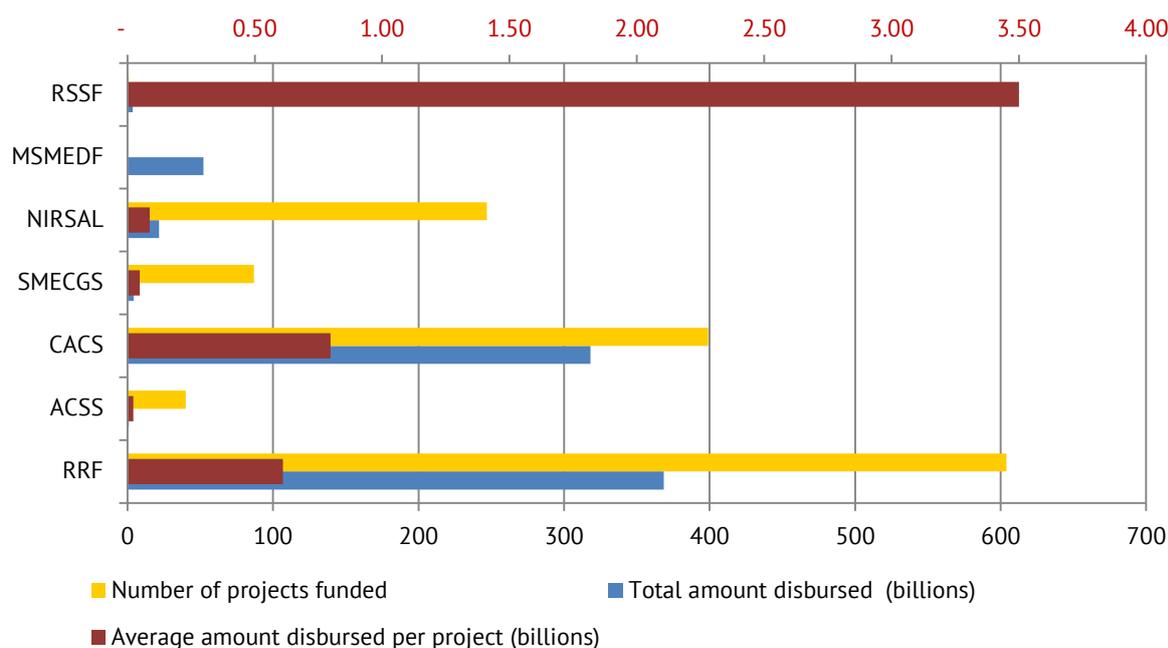
*MSMEDF commercial component only

**NIRSAL Credit Risk Guarantee



Our review of the intervention funds reveals that on average CACS has disbursed the largest amount of funds per project (₦0.8 billion), with RRF in second place, disbursing an average of ₦0.61 billion per project. However, CACS aims to finance large ticket transactions, skewing the results in favour of CACS. ACSS appears to make the least amount of disbursements per project at ₦0.02 billion. However, ACSS targets farmers and agro-allied entrepreneurs who do not require large amounts of funding.

Figure 12: Average Amount of Funds Disbursed per Project (Inception to October 2015)



Source: Central Bank of Nigeria

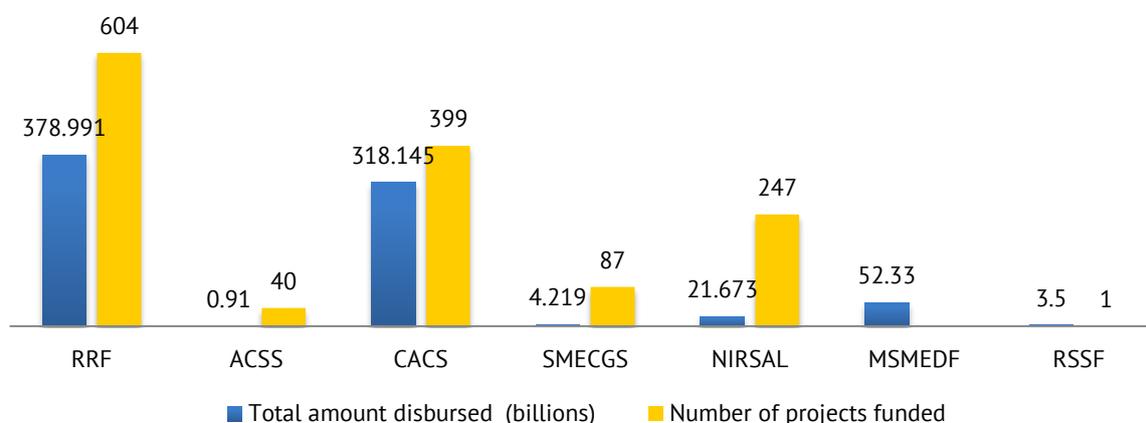
*MSMEDF commercial component only

**NIRSAL Credit Risk Guarantee

Other than the ACGSF which has been running since 1978 and disbursed funds to 990,292 projects, the RRF has funded the highest number of projects (604). Nonetheless, low bank participation led to the discontinuation of the fund. Other than the ACGSF and RRF, CACS has disbursed funds to 399 projects and NIRSAL to 247 projects.



Figure 13: Total Value of Disbursements and Total Number of Projects Funded (Inception to October 2015)



Source: Central Bank of Nigeria

*MSMEDF commercial component only

**NIRSAL Credit Risk Guarantee

*** Number of projects funded by MSMEDF since inception is currently unavailable

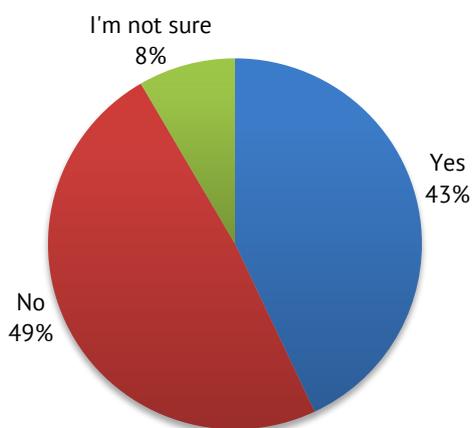
In conclusion, CACS appears to be the best performing fund in terms of distributions, disbursing on average, ₦53 billion per annum in over six years of existence. On average, CACS has also disbursed ₦0.8 billion per project and funded 399 projects in total.

ACSS appears to have disbursed the least amount of funds, distributing an average of ₦0.1 billion per annum and on average, ₦0.02 billion per project. Although the ACSS targets farmers and agro allied entrepreneurs, the scheme has only funded 40 projects over its nine years of existence.

Results of Augusto & Co. Survey: Intervention Funds

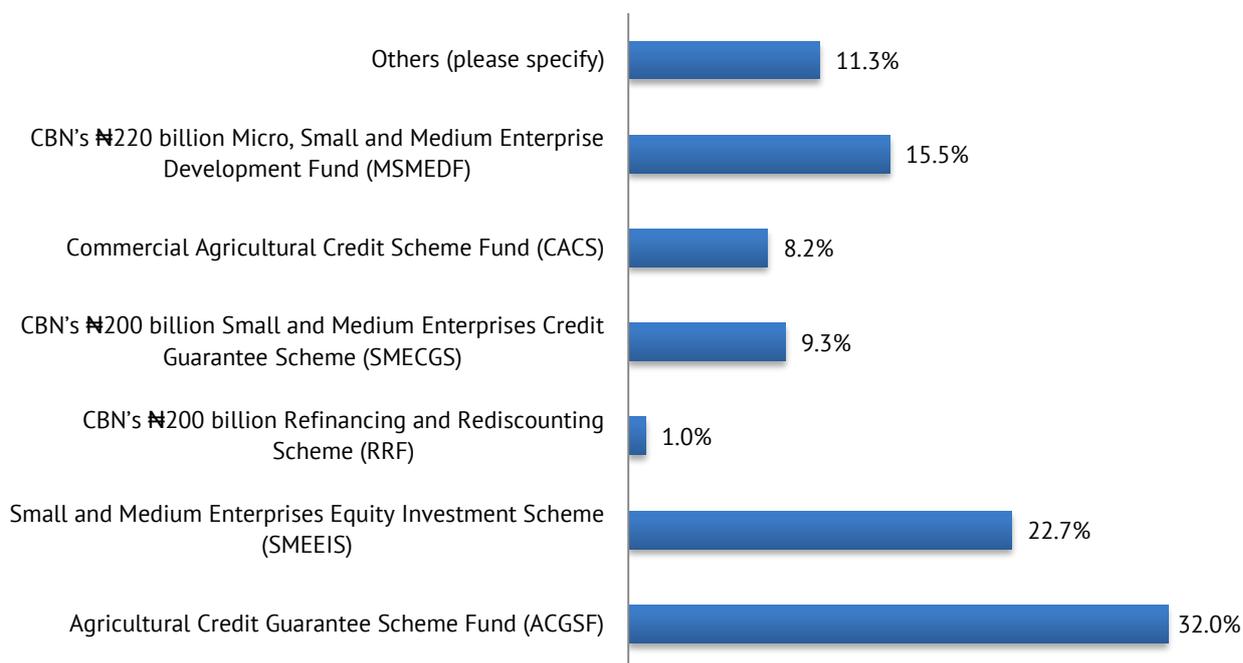
Our MSME survey revealed that 43% of respondents are aware that the CBN has funds aimed at MSMEs. The ACGSF proved the most popular fund as 32% of respondents were aware of its existence. This can be attributed to the long period of time in which the ACGSF has been running. The ACGSF was established in 1978 and is the longest running of the funds analysed. The SMEEIS ranks second as 23% of respondents are aware of the fund. Our survey revealed that there is low awareness of the RRF. However, the fund was discontinued in 2014.

Figure 14: MSME Survey Results- Do You Know That The Central Bank Of Nigeria Has Funds For Micro, Small And Medium Sized Businesses?



Source: Agosto & Co. MSME Survey 2015

Figure 15: MSME Survey Results- Which Central Bank of Nigeria Funds Do You Know About?



Source: Agosto & Co. MSME Survey 2015



Agusto & Co Recommendations: Measuring the Success of Intervention Funds

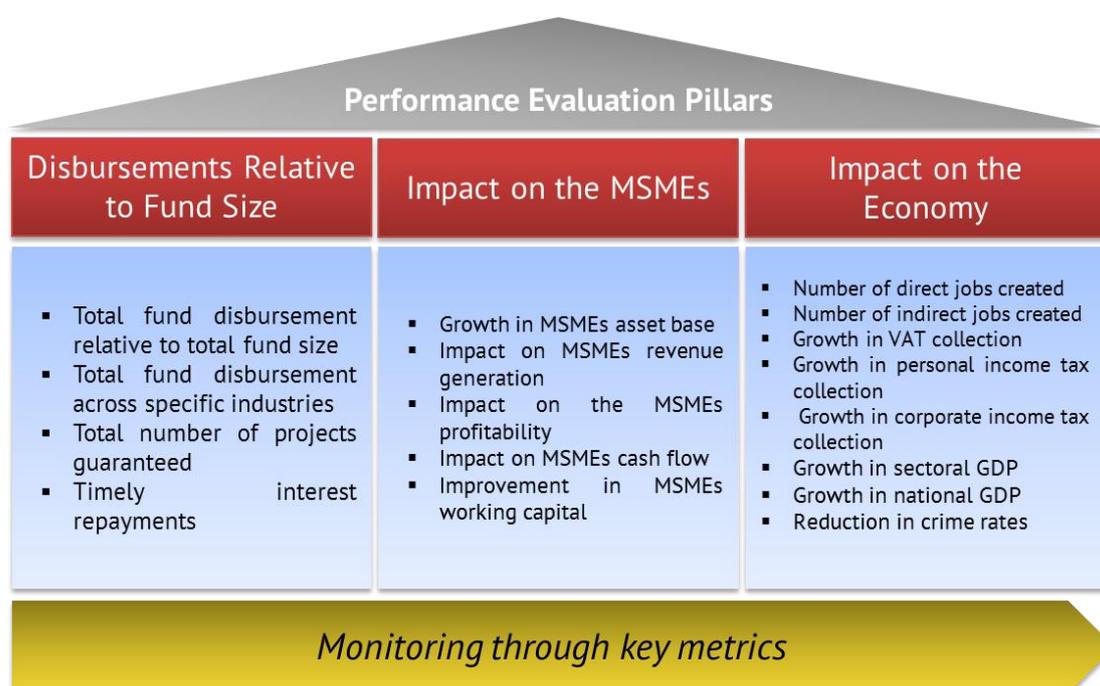
Over the last 10-years, the Nigerian Government has splurged heavily on MSME intervention funds, doling out over a trillion Naira to financial intermediaries for onward transmission to small business owners. Sadly, these intervention funds have failed to stimulate the anticipated growth of small businesses further leading to inertia of other government initiatives.

While the volume of the funds is really a little drop in the ocean as regards the amount needed to see moderate to significant positive impact, one of the biggest drawbacks of the government's approach to these MSME intervention funds and other initiatives is the dearth of parameters for measuring the success of these funds. We believe that by adopting a framework for measuring the success of these intervention funds, there can be a quantification of the overall impact of these intervention funds on the MSMEs and the economy at large.

Agusto & Co. recommends an evaluation model for the performance of MSME intervention funds: The Agusto MSME Intervention Funds Performance Evaluation Model (Agusto MIFPEM). The MIFPEM will measure the intervention funds across three main metrics namely: disbursements relative to fund size, impact on MSMEs and impact on the economy.

- **Disbursements relative to fund size:** Agusto & Co. recommend that stakeholders set benchmarks outlining disbursements of the funds to the target market. Through the use of monthly, quarterly and annual disbursement targets, fund disbursement can be measured. Our studies show that many small business holders whom are the target beneficiaries of these funds are relatively ignorant of the existence of these funds and other modalities for disbursement. This also results in inertia by the financial intermediaries to disburse the funds to the MSMEs.
- **Impact on the MSMEs:** MIFPEM will use benchmarks like revenue and output (volume) to measure the impact of these intervention funds on the MSMEs. This will determine if the businesses have been able to grow their top line and output on the back of the government's financing initiative. We also recommend the adoption of other metrics such as profitability and cash flow metrics, to measure the impact on the MSMEs. Overall, the well managed businesses that access these intervention funds will have created greater value for stakeholders and the economy and the rate of business failure reduced.
- **Impact on the economy:** The impact on the economy can be measured using primary metrics like jobs created and tax revenue generated from these MSMEs that have accessed the intervention funds. The contribution to the GDP of the benefitting sector (as these funds are usually sector based) and overall GDP of the country are also secondary and tertiary metrics that should be adopted in the MIFPEM model. The multipliers from these intervention funds should also reflect in the gradual diversification of the nation's revenue and other macroeconomic indicators like job creation.

Figure 16: Agosto MIFPEM Model



Source: Agosto & Co. Research

These performance parameters will have to be adopted through the tenor of the intervention funds which are usually long tenored. Overall, we expect that through the implementation of the three pillars, success of intervention funds can effectively be measured and monitored to ensure that the funds are adding value to the MSMEs and the economy.

Timeline of BOI Funds**2001****Bank of Industry was established****2003****National Automotive Council****2009****Sugar Development Council Fund****2010****CBN Intervention Fund****2011****Dangote Fund****2014****FGN Special Intervention Fund for MSMEs****Cottage Agro Processing (CAP) Fund****Rice & Cassava Intervention Fund****2015****Cassava Bread Fund****Fashion Fund****Bank of Industry (BOI) Funds**

BOI was established in 2001 and has the primary mandate of providing long term financing to Nigeria's Industrial sector and financial & technical assistance to MSMEs. BOI operates an office in each of Nigeria's geo-political zones and the FCT Abuja and provides support to:

- Companies seeking to expand, modernise or diversify their businesses.
- Credit worthy businesses seeking project financing (a minimum of 25% equity contribution is required).
- Borrowers with good credit history.

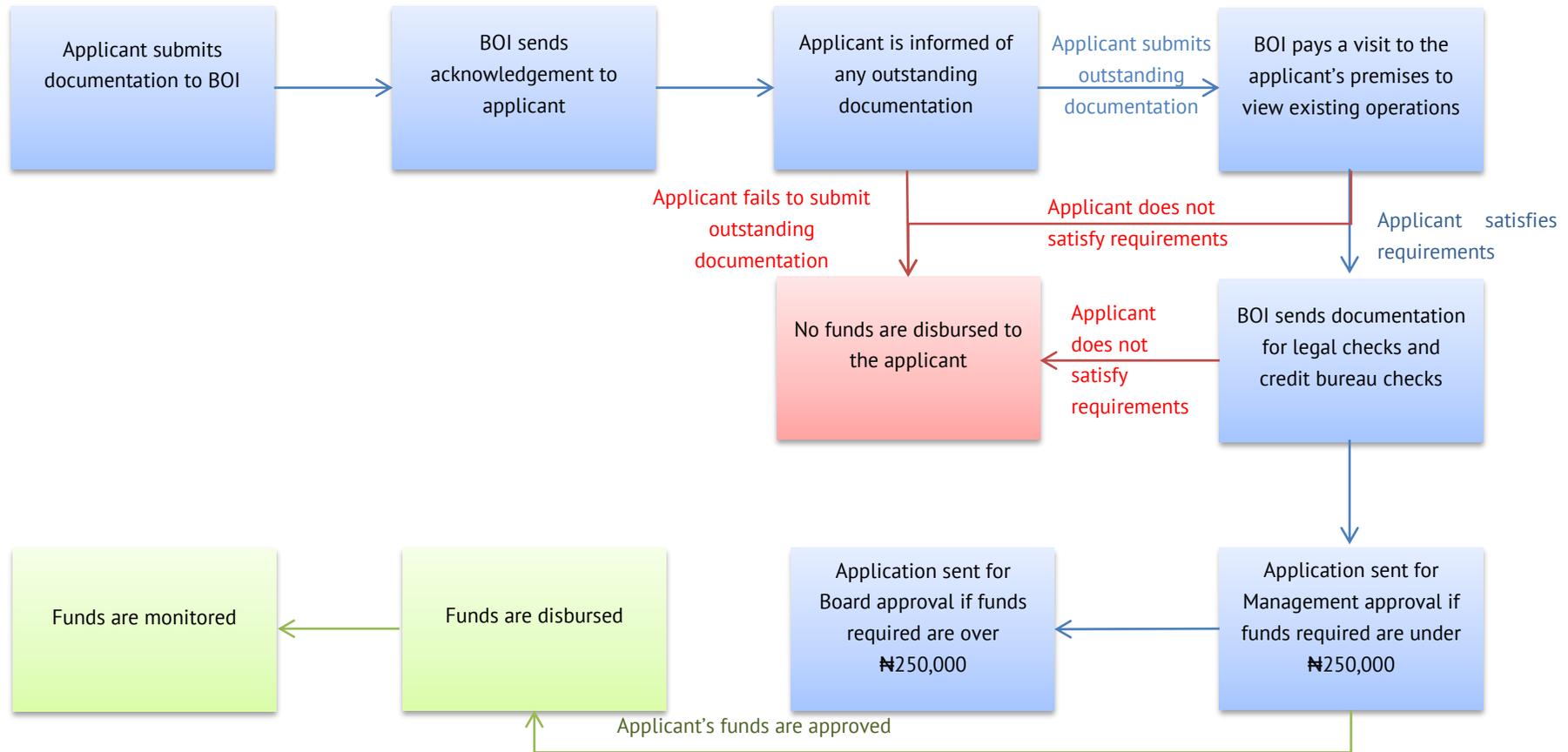
BOI has segmented the Nigerian market into 35 clusters³⁴ to aid with product specific lending and assists MSMEs through two channels:

- Products- These are available to enterprises across all sectors and run all year round.
- Funds- These are aimed at specific sectors and have a predefined size (amount). Once the fund is exhausted, it is closed to new applicants. In certain cases, the fund may be extended for a period of time. However, the fund will ultimately close. There are two types of BOI funds namely:
 - Matching Funds- These are collaborative funding schemes with partner institutions such as State Governments, agencies and high net worth individuals.
 - Managed Funds- These are also known as intervention funds. Managed funds are funds set aside by the government or individuals for a particular sector or interest. They are usually accompanied by concessionary benefits such as low or no interest rates, long tenors and/or moratoriums.

³⁴ Cluster financing is a way of grouping similar industries and lending to these companies



Figure 17: Approval Process for BOI Funds/Products



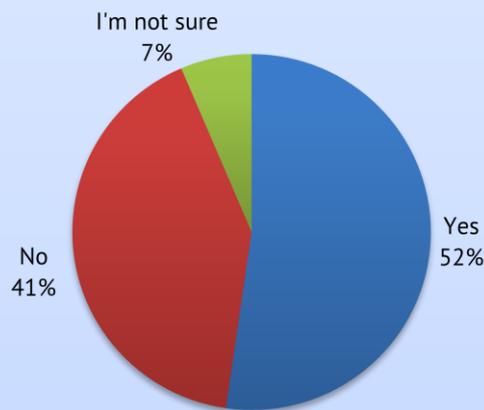
Source: Bottom of the Pyramid, Bank of Industry



Analyst Comments: BOI Funds/Products

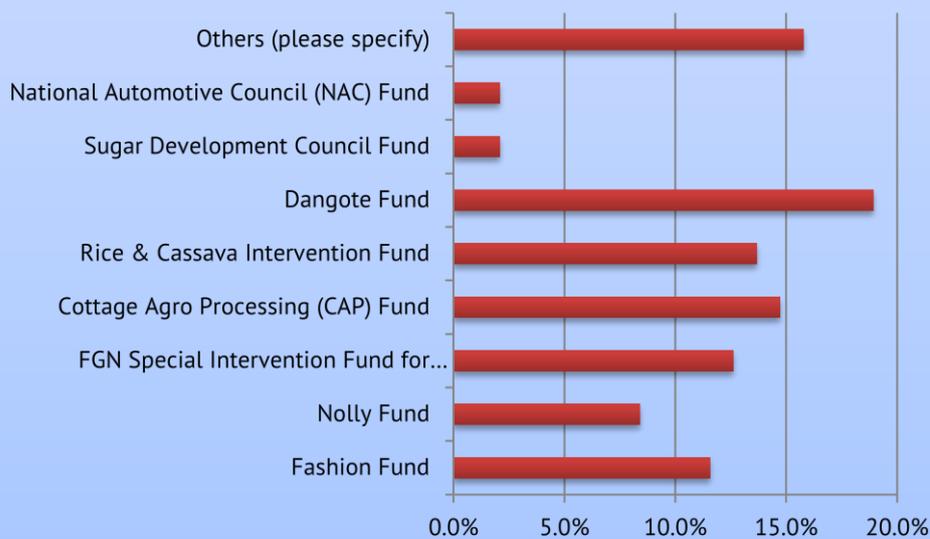
BOI has established a wide variety of funds for MSMEs in the Nigerian market (see appendix). Our survey reveals that **52%** of respondents are aware of BOI funds. Furthermore, our survey reveals that the Dangote Fund was the most popular fund recording **19%** awareness of each fund. However, after interacting with a number of MSMEs we discovered that most of the entrepreneurs we interviewed (**16**) were unable to access BOI funds and products.

Figure 18: Do You Know That Bank Of Industry Has Loans For Micro, Small And Medium Companies?



Source: Agosto & Co. MSME Survey

Figure 19: Which Bank Of Industry (BOI) Funds Do You Know About?



Source: Agosto & Co. MSME Survey

Following our discussions with BOI, we discovered that key issues accessing the fund include:

- Absence of relevant documents when submitting applications
- Applicants approach BOI for working capital funding as opposed to asset financing

MSMEs submit incomplete applications to BOI. (Typically, requirements such as a business plan, financial statements and a personal guarantor are outstanding.) Therefore, the application requirements are not fulfilled and the application is unsuccessful (see figure 17). To address this issue, BOI has employed 122 business service development providers (BDSPs) to aid MSMEs in packaging their applications across the different zonal areas in Nigeria. BDSPs are consultants that assist MSMEs in creating bankable business plans and proposals. BDSPs provide mentoring, financial advice and help develop synergies with enterprises along the value chain. BDSPs also collaborate with BOI to provide monitoring after the funds have been disbursed.

List of BOI Requirements

1. Formal Application to be filled and submitted
2. Photocopy of Certificate of Registration or Incorporation (2 copies)
3. Certified true copy of Memorandum and Articles of Association (2 copies) and Form CO2 now C.A.C 2.5 (Allotment of Shares) and Form CO7 now C.A.C 2.3 (Particulars of Directors)
4. A photocopy of the filed Annual Returns (up to date) of the Company at Corporate Affairs Commission (CAC)
5. Business Plan
6. Quotations for the supply of items of Machinery and Equipment
7. Sources and quotations for Raw Materials expressed in units
8. Eight passport photographs of the chief promoter and one or two directors of the company
9. A photocopy of the current Tax Clearance Certificate of the company and two of its directors.
10. Photocopy of international passport or driver's license or (other forms of Identification such as voters card, national identity of two (2) directors of the company
11. Two years' Audited Statement of Accounts and most current Management Accounts for one year or six months for existing business (where applicable).
12. Company's bank statement for a period of one year for existing business.
13. Two years' financial statement of accounts for institutional investors in the project (where applicable)
14. Declaration of outstanding liabilities to other banks and individuals.
15. Provision of personal guarantee and/ or guarantors with notarized statement of net worth.

Agusto & Co. is of the opinion that the general requirements of BOI are reasonable and genuine fund seekers should be able to satisfy requirements. The request for a business plan, quotations from suppliers for asset purchase and declaration of outstanding liabilities we believe, are reasonable requirements by any lending organisation. In addition, the support from the BDSPs to aid MSMEs in packaging their loans provides a suitable channel through which sincere MSMEs can apply for BOI funding.

The Graduate Entrepreneurship Fund (GEF) which is aimed at youth corpsers and requires the youth corpsers' NYSC certificate as collateral has met mixed reviews. While some organisations are of the view that the request for NYSC Certificates is unwarranted, BOI believes the collateral requirement will weed out "unserious" entrepreneurs. Agusto & Co. is of the opinion that the high unemployment level in Nigeria (25.1%) depicts a gloomy picture for fresh graduates. As a result, some youth corpsers are not willing to risk unemployment, preferring to venture into entrepreneurship.

The second issue affecting BOI funds/products is MSMEs approaching BOI for working capital financing. BOI primarily aids asset financing. However in recent times, BOI started assisting with working capital funding, but only after providing asset funding. Furthermore, BOI does not directly provide working capital financing, but does so through the BOI Microfinance Bank. However, most fund seekers approach BOI for working capital after exhausting their capital on asset financing. This leads to a high rate of attrition amongst entrepreneurs with BOI. Agusto & Co. believes that BOI should work together with other MSME organisations and associations (e.g. SMEDAN, FATE Foundation and LCCI) to promote BOI as an asset financing organisation to prevent MSMEs approaching the organisation for working capital financing. Overall, we believe that BOI can correct this misconception amongst entrepreneurs through better public awareness.

Finally, there is a need for improved relationships between BOI and other MSME advisory organisations such as SMEDAN and FATE Foundation. Therefore, it would be of great benefit to BOI, MSME friendly organisations and MSMEs in Nigeria, if strong communication links exist between key organisations. We believe that collaborative efforts between such organisations will spur the growth and development of MSMEs in Nigeria.

YouWiN! Programme

YouWiN! was established in April 2012 and represents youth enterprise with innovation in Nigeria. The programme is a collaboration of the Ministry of Finance, the Ministry of Communication Technology (CT), the Ministry of Youth Development and the Ministry of Women Affairs and Social Development. It is a business plan competition with the main aim of creating jobs and supporting entrepreneurial youths.

YouWiN! was divided into four phases. The first, third and fourth phase were open to both male and female applicants. However, the second phase had an emphasis on female entrepreneurs. All applicants are required to be between 18 and 45 years and to date, the fund has supported over 3,600 Nigerian youths³⁵. Some of the objectives of YouWiN fund include:

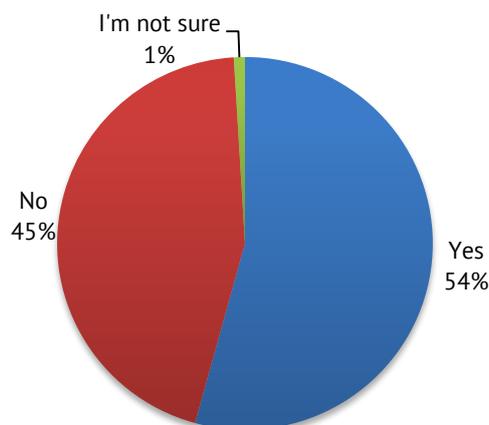
- Attract ideas and innovations from young entrepreneurs.
- Provide a one-off grant for aspiring entrepreneurs to start or expand businesses.
- Generate 80,000 to 110,000 new jobs for currently unemployed youths in Nigeria.

The YouWiN! programme was an initiative of the former President, Goodluck Jonathan. Due to the change in Nigeria's political scene in May 2015, the future of the programme is uncertain. Agosto & Co. expects that the programme will come to an end as the Buhari administration aims to make its own mark on the SME space in Nigeria.

Key Successes of YouWiN! Programme

The Agosto & Co. MSME Survey revealed that there was a high awareness of the YouWiN! Programme as **54%** of respondents had heard about the fund. The YouWiN! Programme was an initiative of the presidency and therefore, received a considerable amount of coverage and participation.

Figure 20: Do you know about the Federal Government YouWiN! Grant?



³⁵ YouWiN!

Source: Agosto & Co. MSME Survey

Key success factors of the YouWiN! programme include:

- Simple application process
- Instalment disbursements
- Post disbursement training

The YouWiN! application required that eligible applicants submit a business plan. To be considered eligible, applicants have to meet the following requirements:

- *45 years and under*
- *Have a post-secondary school qualification*
- *The proposed business must be within Nigeria and with the intention of employing Nigerians*
- *The proposed business must not entail the sale of weapons, alcoholic beverages, tobacco, gambling or any activities in contradiction with the Nigerian constitution*
- *The business concept must be innovative*

As the programme is a grant, applicants were not required to provide collateral or pay interest, opening up the programme to a large number of applicants. In addition, the disbursement of funds to winners was made in instalments, to provide time for monitoring/ site visits to ensure the money was being used appropriately. Disbursing in instalments ensures that the funds received were put to good use; otherwise, the remaining funds would be withheld. Furthermore, the YouWiN! programme provided training to applicants. Awardees were also provided with training post disbursement.

Analyst Comments on YouWiN! Programme

Our research revealed that as YouWiN! was aimed at the youths and other budding entrepreneurs. The fund seemed to have a strong positive impact for these budding and existing entrepreneurs. The fund seemed to fill real funding gaps in the operations of these entrepreneurs and helped with working capital and asset acquisition.

However, there were some, awardees who were able to win the grant on the back of their business plans without any entrepreneurial plans for the funds. This led to some incidents of fund diversion. We believe these applicants that diverted funds have reduced the pool of funds available to other genuine entrepreneurs whom would have created greater value for the economy with these funds. We believe that a mechanism must be instituted to check such intentions.

Other applicants also pursued bullish expansion plans of their existing businesses that could not be fully funded with the YouWiN! grants. This led to over trading in some instances or capital acquisitions that had to be partly funded with bank credit. We believe the mentorship and capacity building programs currently adopted by the YouWiN! programme should focus on fund management to prevent premature business expansions and fund wastage. Furthermore, we believe that such mentorship and capacity building programs could be expanded to similar programmes going forward.

Review of Business Registration in Nigeria

Business registration elevates small businesses to become legal companies, pushing these MSMEs into the formal sector. Nigeria's Corporate Affairs Commission (CAC) which was established by the Companies and Allied Matters Act is the body charged with business registrations in Nigeria. CAC was inaugurated on the 11th February 1991 and commenced operation on 18th February 1991.

The establishment of the CAC was as a result of the perceived inefficiency of the erstwhile Company Registry, a department within the Federal Ministry of Commerce and Tourism which was responsible for the regulation and management of companies. From 1991 till 2004, the activities of the CAC were manually done. Companies' records were kept manually in registration books (which were running into hundreds of thousands in volume). Name searches were manually requested, checked manually and reserved manually. This led to duplication of business names. In addition, it was common place to tamper with the records by way of erasures, pilferage, mutilation or outright destruction³⁶. However, post 2004, the CAC started to convert manual records to electronic formats. The use of electronic workflows was also introduced for company registration from name reservation to certificate generation. A record archival and management system was implemented for all newly registered companies aimed at reducing time within which companies were registered. However, this period had some limitations which include that:

³⁶ Corporate Affairs Commission (CAC)



- i. The business registration processes were semi-automated hence, the applicant would still have to make manual submission of applications while the commission's staff do the data entry and scanning of the documents.
- ii. Inability to make online real-time payment.
- iii. The software that was developed and used (Content Pinnacle) was just able to handle about 12% of the Commission's activities.
- iv. The system was unable to accept all applications electronically. This created delay in the process of converting the manual filings to electronic formats and increased the rate of misplaced documents, thus affecting the integrity of the records kept by the commission. Nonetheless from 2012 till date, the operations of the CAC have improved significantly in various areas such as:
 - Easy downloads of CAC forms from the commission's website.
 - The new CAC forms enables the commission to locate companies and their directors unlike in prior years when details on the CAC forms were scanty and businesses could change their company's address and directors' addresses without notifying CAC.
 - With amendment to the Companies Regulation 2012, the filing fees payable for registration of small sized companies have reduced by 50% to ₦2000 to encourage small enterprises formalize their registration.
 - In respect of company searches conducted by customers, the commission had over 600,000 company records, 1,000,000 Business names records and 40,000 Incorporated Trustees records dated back to 1912 which were manually kept. However, CAC has begun a document imaging with a view to converting the manual records into suitable electronic formats for easy storage and retrieval. This is necessary to ensure the security of the documents and an update of legacy records.
 - CAC believes that the conversion of records for easy retrieval and storage will also improve the integrity of the information, enable electronic searches and other electronic transactions by its customers. The scanning and update of records of all active companies is expected to be completed by December 2015. So far, 363,013 company records and 162,823 business name records have been digitalized³⁷.

As at September 2015, the CAC's pre-incorporation report reveals that about 96,170 new businesses are in the pre-incorporation process, emphasizing the growing importance of business registrations in

³⁷ Corporate Affairs Commission (CAC)



Nigeria (see breakdown of CAC's pre-incorporation activities from January to September 2015 in Figure 21).



Recent Developments in Nigeria's Corporate Affairs Commission (CAC)

Until July 2012, registration and generation of certificates of limited liability companies could only be carried out in the Head Office of the CAC in Abuja and applications filed in all state offices were referred to the Head Office for processing. However, with the commencement of the start-to-finish registration services in six state offices (Alausa and Yaba offices in Lagos, Kaduna, Kano, Enugu and Port Harcourt), certificate registration and generation processes have been decentralized and incorporation applications can now be processed in states, with certificates of incorporation issued to customers without recourse to the Head Office. CAC opines that this start-to-finish registration service has enabled a 24hrs registration service in the aforementioned state offices and the Commission plans to extend this service to other state offices in the medium term.

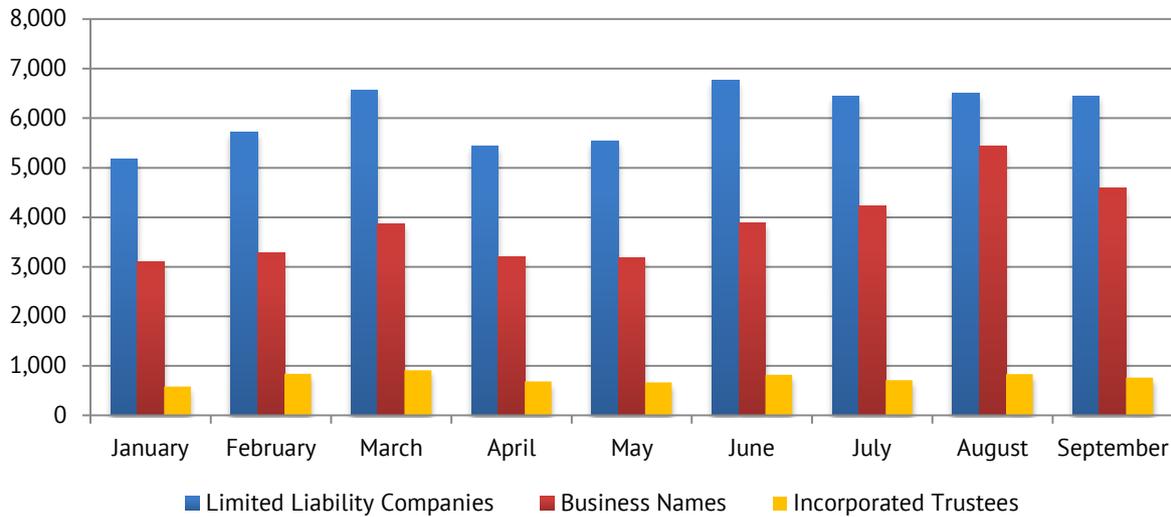
In addition, in September 2014, the Commission in partnership with the Federal Ministry of Communication Technology deployed new registration software (Company Registration Portal) which replaced the Pinnacle software that was in use since June 2004. The change in software was due to Pinnacle's functional limitation in features and user ability.

The new Company Registration Portal (CRP) enables customers to process and pay for name reservations and new incorporation services electronically via the web. The new system also has an electronic payment interface supported by the Nigerian Interbank Settlement System Plc (NIBSS). The Commission also plans to collaborate with the Federal Inland Revenue Service (FIRS) to automate the payment of stamp duties and the stamping of the incorporation documents electronically on the CRP. Operators believe that this will eliminate the need for physical submission of incorporation documents to the FIRS for stamping, reducing the business registration period significantly.

In the medium term, CAC plans to make it possible for customers to process all post incorporation filings via the CRP. As at June 2015, the CAC has received and processed a total of 95,216 on-line applications since the launch of the CRP (see breakdown in the chart below). In our opinion, business name registration was prominent because it has lesser requirements compared to the registration of a limited liability company.



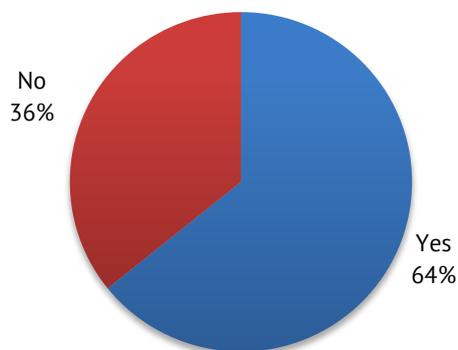
Figure 21: CAC's Monthly Pre-Incorporation Activity from January – September 2015



Source: Corporate Affairs Commission (CAC)

In addition, 64% of our sample population have registered businesses (see Figure 22). Nonetheless, while some unregistered MSMEs do not see the need for business registrations; other unregistered MSMEs are not willing to register their businesses due to perceived high registration fees, long business registration processes and lack of knowledge of the registration process. In our opinion, registered MSMEs are often more highly regarded as “stable companies” in Nigeria compared to unregistered MSMEs who may be tagged fraudulent, hence the need for small businesses to become registered. However, the CAC may need to undertake enlightenment campaigns to encourage unregistered MSMEs to become registered.

Figure 22: Agosto & Co.'s Survey Response Regarding Business Registration



Source: Agosto & Co. Research



Table 8: Agosto & Co.'s Survey Response Regarding Why MSMEs Do Not Register Their Businesses

If you have not registered your business yet, what are the major reasons?	
Answer Options	Response (in %)
High fees	22.5%
Long process of business registration	20.0%
Lack of knowledge on the registration process	20.0%
I do not see the need for the registration	30%

Source: Agosto & Co. Research

New Developments in the CAC that Could Affect MSMEs

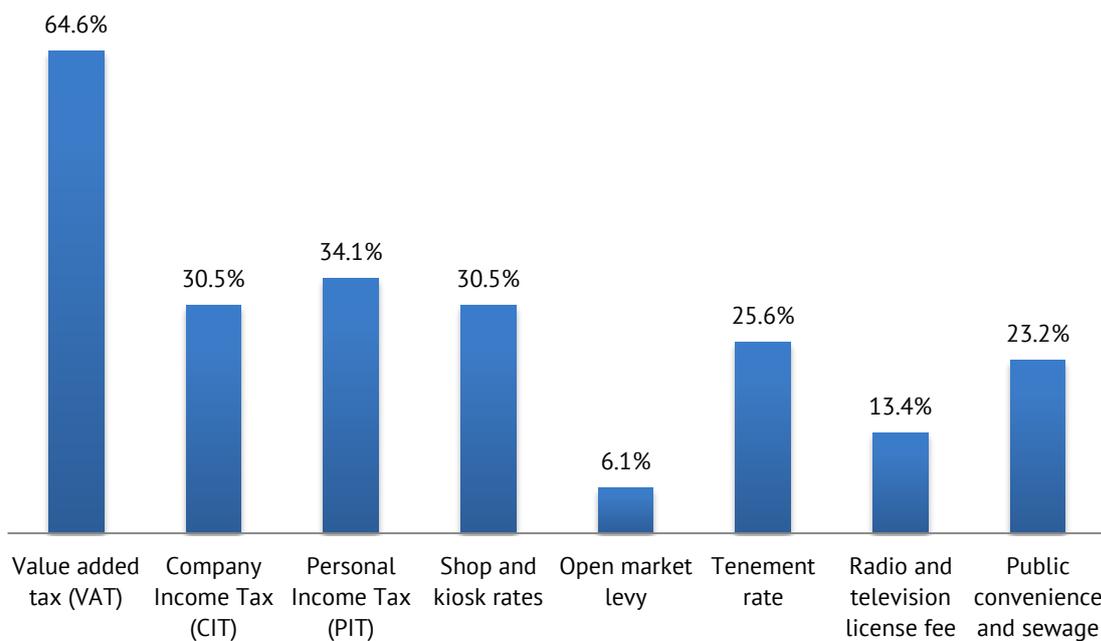
Since its coming on stream in 1990, the Companies and Allied Matters Act (CAMA) has not witnessed any major amendment. However, the changing developments in Nigeria and the global economies have made some of the provisions of the Act impracticable and inadequate to meet current challenges in companies' administration and regulation. Accordingly, the CAC is currently reviewing the provisions of the Act (CAMA) with a view to securing its amendment. In the amended CAMA Act, the CAC wants a provision for on-line registration of companies, a redefinition of the role of the CAC in the implementation of code of best practices and an empowerment for CAC to be able to remove erring directors and officers of companies in line with the practice in most companies' registry globally. Overall, the main objective of the review is to strengthen the regulatory and enforcement capacities of the commission to effectively discharge its functions and thus promote global best practices and good corporate governance in the management and operations of companies, business names and incorporated trustees.

In our opinion, a more empowered CAC will significantly affect businesses (particularly businesses that refuse to file annual returns). Already, the CAC has stepped up its enforcement visits to companies to raise awareness of its statutory obligations to them and observe amongst others, whether the companies display their names and registration numbers outside their places of business; file annual returns and notices of change of registered office address; publish names of directors in trade circulars, and maintain statutory books. According to the CAC, over 1,539 companies were inspected in 2014 and the infractions of these companies were addressed with various penalties to deter recurrence. Although we could not obtain adequate information as to which type of companies were penalized, in our opinion, it is likely that small businesses will fall victim given that they are largely unstructured having no offices or using offices without visible display of registration numbers at the front gate.

Review of Taxation in Nigeria

Nigeria’s ranking declined by two points from 177 in 2014 to 179 in 2015’s doing business index and remained at par with 2015’s figure in 2016, connoting a high level of tax evasion and avoidance in Nigeria. In our opinion, tax evasion thrives in Nigeria because many MSMEs are unregistered. We also gather that the top five taxes paid by MSMEs in Nigeria include the VAT, company income tax (largely for limited liability companies), personal income tax, tenement rate and radio/television license rates. Our survey also reveals that many registered MSMEs in Nigeria largely pay only the value added tax (VAT) - see Figure 23. We believe that VAT payment is more popular because most MSMEs see VAT collected from their clients as a form of spontaneous financing for their businesses before remitting to the Inland Revenue services.

Figure 23: Agosto & Co.’s Survey Responses Relating to What Type of Taxes MSMEs Pay



Source: Agosto & Co. Research

Given the dwindling crude oil prices which grossly affect the Nigerian Government’s revenues, we expect a renewed drive by the Federal Government to ensure compliance with the payment of taxes in the short term. Should this more aggressive drive for tax payments be implemented amidst MSMEs’ complaints of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues, the business climate could become more harsh and detrimental to the MSMEs’ ability to sustain itself and expand in the near term.



Therefore, we believe that as a new administration takes charge, the tax policies introduced should not impede the growth of MSMEs. Furthermore, we expect that through the use of tax incentives as well as channelling current tax revenue into infrastructural projects including power and road projects, more MSMEs will see the value of complying with taxes.

Any Tax Incentive for Small Businesses in Nigeria?

While most of the tax incentives such as tax relief for pioneer industries, tax incentives for local fabricators, etc. are mostly enjoyed by large scale investors, MSMEs enjoy some tax incentives such as:

- Companies with turnover of less than ₦1 million are taxed at a low rate of 20% for the first five years of operation if they are in the manufacturing business³⁸.
- In addition, a tax credit of 20% is granted for five years to industries that attain the minimum level of local raw material sourcing and utilization. The minimum levels of local raw materials sourcing and utilization by sectors are: Agro-allied (70%), Engineering (60%), Chemicals (60%) and Petrochemicals (70%)³⁹.

Nonetheless, small business operators want more tax incentives such as exemptions from import duties for SMEs importing ICT equipment solely to build their capacity and capability (i.e., not for onward sale). Some operators have also suggested entrepreneurial incentive programs across different sectors which should be provided at the local, state, and federal levels. In addition, a dedicated personnel or agency should be established to identify the necessary tax incentives and help entrepreneurs navigate through the process of applying⁴⁰. While we agree that the proposed incentives are laudable, in our opinion, these tax incentives may not be stable, as they will be prone to changes in government administrations. In addition, we believe that the effective implementation of these policies may be fraught with administrative bottlenecks especially bottlenecks due to ignorance from officials of regulatory agencies.

A good example is a public appeal from Okomu Oil Palm Company in Edo State⁴¹ to the erstwhile Finance Minister, Dr. Ngozi Okonjo-Iweala in February 2014, to direct authorities of the Nigerian Customs Service to honour the government's circular on importation of agricultural equipment. The circular which stipulates that importation of agricultural machinery and equipment into the country shall attract a zero per cent duty was disregarded by the customs official. In the company's letter dated February 2014 to the erstwhile Finance Minister, the firm revealed that despite the government circular coupled with assurances from the Ministries of Agriculture, Trade and Investment that the palm oil mill would attract zero per cent import duty, customs officials at the Apapa Port, Lagos, refused to grant the requisite zero per cent import duty on the palm oil mill and have detained containers belonging to the firm for refusal to pay about ₦25 million importation duties⁴². If this could happen to a quoted company such as Okomu Oil Palm, how much more would small businesses be treated? We believe that excluding approving tax credits and investment incentives, effective implementation of these tax credits is important.

³⁸ Nigerian Investment Promotion Council (NIPC)

³⁹ Nigerian Investment Promotion Council (NIPC)

⁴⁰ <http://www.dailytrust.com.ng/news/women-entrepreneurs/how-multiple-taxation-hinders-women-in-business/108375.html>

⁴¹ <http://www.vanguardngr.com/2014/02/oil-firm-alleges-high-handedness-customs/>

⁴² <http://www.vanguardngr.com/2014/02/oil-firm-alleges-high-handedness-customs/>



Nonetheless, we believe that Federal Government's drive to increase compliance in tax payments can only be carried out effectively if the Nigerian Government can create a database for the over 34 million micro small and medium scale enterprises in Nigeria. In addition, there is also a need to simplify tax filing procedures as these MSMEs become registered in the database⁴³. According to the World Bank Enterprise Survey research, firms in economies that rank better on the ease of paying taxes tend to perceive both tax rates and tax administration as less of an obstacle to their businesses. This is because tax filing processes are simpler, tax evasion laws are more effective and the populace enjoys the infrastructure that the government provides with the taxes they pay.

The Challenge of Multiple Taxes

Multiple taxation system can be described as by two or more authorities levying tax on a company's same declared income, asset, or financial transaction. The story below narrated by the National President of Association of Small Business Owners of Nigeria (ASBON) in "This Day Newspaper", 11 April 2015 portrays how multiple taxes affect MSMEs.

"Mr. Ferdinand (not his real name), upon retiring, collected his pension and gratuity amounting to about ₦7 million and started a small scale alcoholic drink business. While he read in the website of the National Agency for Food and Drug Administration and Control (NAFDAC) that it costs less than ₦50,000 to register a product with them, he started the registration process only to discover that it actually cost more than ₦1 million to register his five products. He struggled to register these products and started with the meagre amount left after spending a lot to build a modest factory with the requisite equipment. He thought he could manage to produce with what was left and grow from there, only for the Nigerian Customs to swoop in on him the second month of production and seal off his factory. He was told he needed to register with the Nigeria Customs Service and was to be paying certain monthly taxes aside from the normal taxes demanded by the Federal Inland Revenue Service, Ogun State Revenue Service, local government permits and documents, Value Added Tax (VAT), Premises permit, Health permit, Fire Permit etc. He later found out that it costs as much as ₦1.5million to register with the Nigeria Customs. As he could no longer afford it, he decided to shut down the mini factory thereby losing his hard-earned life savings¹."

While we believe that multiple taxes constrain small business cash flows, reducing their ability to compete locally with cheaper imported substitutes, many MSMEs also fail to take the possibility of excise duty payment into account when planning their local manufacturing businesses. The table below shows excisable items in Nigeria and the excise duty placed on them. Nonetheless, some small business owners are of the view that while the multiple taxes exist, some fraudulent officials of supervisory government agencies also hike the prices of legal taxes and levies.

⁴³ <http://businessdayonline.com/2015/03/83940/>



Table 9: Goods Liable to Excise Duty in Nigeria

S/N	H.S CODE	TARIFF DESCRIPTIONS	DUTY
1.	3303.0000.00, 3304.3000.00 and 3307	Perfumes and Other toilet Water, Cosmetics	5%
2.	2202.1000.00 - 2202.9000.91 - 2202.9000.99; 2009.1100.12 to 2009.9000.99	Non Alcoholic Beverages, Fruit Juice	5%
3.	3401 or 3402	Soap and Detergent	5%
4.	2203.0010.00 and 2203.0090.00	Beer and Stout	20%
5.	2204.1000.00 - 2205.9000	Wines	20%
6.	1902.1100 - 1902.3000	Spaghetti/Noodles	5%
7.	2206.0000.00 - 2209.0000.00	Spirits and other alcoholic beverages	20%
8.	2402.1000 - 2402.9000 2403.1000 - 2403.9900.00	Cigarettes and tobacco	20%
9.	4911.9990.91	Telephone recharge cards/vouchers	5%
10.	4808.1000, 4819.1000 - 4819.2000	Corrugated paper or paper board and cartons, boxes and cases made from corrugated paper and paper board.	5%
11.	4818.1000 - 4818.9000	Toilet papers, cleansing or facial tissue.	5%

Note: Other goods that will be liable to excise duty and the rates applicable will be determined by the Government policies.

Source: Nigerian Customs Service

Other forms of multiple taxes we encountered during our research were in the payment of levies particularly local government levies. 90% of the Lagos State based MSMEs we interviewed believe that the kind of taxes they are forced to pay do not relate to their kind of businesses. For instance, some food vendors in kiosks are forced to pay the local government Radio/TV licence levies when the payer has no radio or television within the premises.

Agusto & Co. believes that many of these “taxes” are simply “illegal local government levies” with no supporting legislations as they are imposed by fake local government officials. Since most MSMEs are not adequately informed, they simply bribe these fake tax officials with some thousands of naira and “move on”. Further research from the Lagos State Internal Revenue Service (LIRS) reveals that on April 10, 2010, the former Governor of Lagos State, Governor Babatunde Raji Fashola signed the Local Government Levies (Approved List for Collection) Bill into law. This Law gives vital information to the public by prescribing the levies that may be collected by Local Government Authorities in Lagos State, and making explicit provisions for the publication and administration of such levies.

In the Schedule to this legislation is a list of levies that could be legally charged and collected by local government authorities in the State. By virtue of section 1(3) of the Law, “No levy shall be collected by or on behalf of any Local Government Authorities in Lagos State unless it is specified in the Schedule to this Law.” Other salient provisions of the Law include the regulation of the appointment of revenue agents,



prohibition of roadblocks or other obstruction for purpose of tax collection, and required use of identification badges by revenue officials of local governments. Furthermore, section 4 of the Law provides that: “Each Local Government Revenue Committee shall ensure that a chart showing the approved list of levies, the applicable rates and the expected time of payment is pasted at a conspicuous place in all revenue offices of the Local Government Authority.” This is to ensure that adequate publicity is given to the approved levies in the State. We believe that educating MSMEs and encouraging them to seek information is key in order to reduce the incidence of illegal multiple levies.

Review of Custom Services in Nigeria

Globally, Nigeria stands at 182 (at par with prior year’s position) in the ranking of 189 economies on the ease of trading across borders index. The trading across borders indicator measures the time and cost (excluding tariffs) associated with exporting and importing a standardized cargo of goods by sea transport. When compared with the OECD average ranking, table 10 implies that it is challenging for businesses in Nigeria to export and import goods given the length of time to export and import which is more than double the OECD average. According to data collected by the Doing Business in Nigeria 2015 report, exporting a standard container of goods in Nigeria requires nine documents, takes 22.9 days and costs \$1,564. Importing the same container of goods requires 13 documents, takes 33.9 days and costs \$1,960 (see table 10).

Table 10: Indices for Measuring Ease of “Trade across Borders” for Nigerian Businesses

Indicator	Lagos	Kano	Sub-Saharan Africa	OECD
Documents to export (number)	9	9	8	4
Time to export (days)	22	26	31	11
Cost to export (US\$ per container)	1,380	2,180	2,201	1,080
Cost to export (deflated US\$ per container)	1,380	2,180	2,201	1,080
Documents to import (number)	13	13	9	4
Time to import (days)	33	37	38	10
Cost to import (US\$ per container)	1,695	2,845	2,931	1,100
Cost to import (deflated US\$ per container)	1,695	2,845	2,931	1,100

Source: World Bank

Agusto & Co. believes that the bureaucracy at the ports contributes to the delay in clearing imported goods. In addition, the prevalence of bribery at the Nigerian seaports, land borders and air cargo terminals has increased inefficiency, contributing to Nigeria’s negative positioning on the trading across borders index. A Corruption Risk Assessment (CRA) in the Ports jointly carried out by the Independent Corrupt Practices and Other Related Offences Commission (ICPC); the Technical Unit on Governance and Anti-Corruption Reform (TUGAR); and Bureau of Public Procurement (BPP) in 2013 identified huge discretionary powers enjoyed and exercised by officials of government agencies as the major source of

corruption at Nigeria's seaports⁴⁴. We believe that these excessive powers should be curbed particularly with the coming on stream of a new Comptroller General of the Nigeria Customs Service in H2'2015.

Nonetheless, some industry operators have attributed the inefficiencies at the Nigerian ports to lack of automation which increases the cargo dwell time (CDT). The CDT is the average time a vessel spends in a port in the discharge of its cargo from the time of arrival to the point of departure⁴⁵. Industry operators believe that automation at the ports which has begun and is planned to be completed by 2016 should reduce corruption, as human contact will be limited in the cargo clearance chain. Some other operators have alluded the inefficiencies at the ports to the increasing rate of importation of substandard goods into Nigeria by unscrupulous importers. They believe that the Nigerian Customs Service is not sophisticated enough to manage this threat. In our opinion, collaborations between the Standard Organization of Nigeria (SON) and the Nigerian Customs Service is essential and, threatening to apply stiffer penalty against countries exporting substandard products to Nigeria might be necessary.

To curb inefficiencies at the ports also, some stakeholder groups such as the Save Nigeria Freight Forwarders Importers and Exporters Coalition (SNFFIE) has advocated that the Federal Government set up a committee to consider the possibility of creating a Ministry of Ports and Land Borders solely to reduce corrupt practices within Nigerian ports system⁴⁶. Efficiency in Nigeria's ports is imperative as research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets⁴⁷.

Nigerian Regulatory Agencies & their Impact on MSMEs

This section evaluates how Nigeria's regulatory environment affects MSMEs. Specifically, we will discuss how MSMEs view and relate with key regulatory agencies in Nigeria. Our discourse reflects the results from our survey and research from related publications.

1. MSMEs' Negative Perception of Regulatory Bodies

Our survey reveals that MSMEs who are importers rank the Nigerian Customs Service (NCS) as the key impediment to their businesses. While, MSMEs who are local manufacturers believe that the Standards Organisation of Nigeria (SON) and the National Agency for Food and Drug Administration Control (NAFDAC) are amongst the top ranking obstacles to their businesses (see Table 19). For importers, the challenges with the Nigerian Customs Service include exorbitant clearing charges and confiscation of goods for fraudulent reasons. While, local manufacturers⁴⁸ believe that SON and NAFDAC collect excessive products as test samples, deliberately delay document processing in order to obtain the late registration fee penalty and issue negative reports on companies that refuse to "settle the officers".

⁴⁴ <http://shipsandports.com.ng/icpc-study-unravels-cause-of-corruption-at-nigerian-ports/>

⁴⁵ <http://www.thisdaylive.com/articles/fg-moves-to-start-full-automation-in-nigerian-ports/195810/>

⁴⁶ <http://www.worldstagegroup.com/worldstagenews/>

⁴⁷ 2015 Doing Business Report

⁴⁸ Respondents of the March 2014 Lagos Chamber of Commerce & Industry Survey titled "Impact Evaluation of SON Regulatory Activities on Business Operations and some respondents from Agosto & Co.'s Survey



Other complaints include that the regulatory bodies levy prohibitive charges for SONCAP, MANCAP, product registration and import permits. For instance, SON charges on import permits could be as high as ~~₦300,000-₦600,000~~ per container⁴⁹. Table 11 shows the level of impact of select regulatory agencies on small businesses. “H” in the table refers to high negative impact, “M” medium negative impact and L, low negative impact. However, we expect an improvement in the activities of these agencies, particularly with the “Zero tolerance to corruption” stance of the new administration. We would therefore advocate that a survey be conducted to garner the views of MSMEs by 2019 (post President Buhari regime).

Table 11: Regulatory Agencies and their Impact on Small Businesses

Operators	Customs	NAFDAC	SON	Police	State Tax Authority	Local Government Tax Authority
Importers (particularly drug importers)	H	H	H	L	M	L
Importers (of other items except drugs)	H	M	H	L	M	L
Local manufacturers (of all items)	L	H	H	L	M	H
Wholesale & retail traders of drugs in open market places	L	H	H	H	L	H
Wholesale & retail traders (of other goods) in open market places	L	L	M	H	L	H
Distributors	L	L	L	H	L	M

Keys: *H= High Negative Impact*
M= Medium Negative Impact
L= Low Negative Impact

Source: Agosto & Co. Research

2. SON & NAFDAC - Duplication of Roles?

Many MSMEs believe that SON and NAFDAC’s regulations are often duplicated and should be harmonized especially the Good Manufacturing Practice (GMP) used by NAFDAC to regulate manufacturers in Nigeria and the mandatory conformity assessment programme (MANCAP) advocated by the Standards Organization of Nigeria (SON)⁵⁰. In addition, a 2014 survey⁵¹ conducted by the Lagos Chamber of Commerce & Industry revealed that the overlapping activities of SON and NAFDAC are prominent in product registration and inspections in industries such as cosmetics, food, drinks, beverages, health and confectionary. Hence for instance, a product inspection report produced by SON could be rejected by NAFDAC and vice-versa as, each regulatory body prefer to carry out an independent analysis for the same product. We believe that there is need for all standard regulatory bodies in Nigeria to co-operate and harmonise their laws particularly in the aforementioned industries, in order to avoid duplication of

⁴⁹ Lagos Chamber of Commerce & Industry (LCCI)

⁵⁰ <http://www.vanguardngr.com/2015/06/manufacturers-sos-to-buhari-over-regulating-smes-will-have-consequence/>

⁵¹ March 2014 Lagos Chamber of Commerce & Industry Survey titled “Impact Evaluation of SON Regulatory Activities on Business Operations.”



services which often creates a system of multiple levies. However, this would involve effective collaboration amongst these regulatory agencies.

3. Possibility of Licensing in Some “Sensitive” Industries?

Given the adverse effect of the use of harmful beauty products on the skin, some Nigerian operators in the beauty and spa industry believe that players in this space should be licensed. We support the view of these operators particularly because licensure for beauty and spa is in line with international standards. More so, licensed beauty and spa professionals study skin and scalp care, anatomy, biology, chemistry and science-based infection control. In addition, these operators are trained to utilize chemicals and tools safely⁵². For instance, to become a hairstylist in the United States of America, one must complete training and pass a State Board examination for licensure. We believe that licensing in Nigeria would aid public health by preventing the spread of scalp diseases as well as promote safety standards in beauty shops.

4. A Stronger SMEDAN Required?

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established by the SMEDAN Act of 2003 to provide and facilitate the development of MSMEs in Nigeria. The Agency aims to be a ‘one stop shop’ for starting, resuscitating and growing MSMEs in the country. Since 2005 till date, SMEDAN has been supporting MSMEs with business advisory services. Specifically, the Agency provides information on raw materials, machinery, equipment, market and the activities of agencies of governments such as Standard Organization of Nigeria (SON), National Agency for Food Drugs Administration and Control (NAFDAC), Corporate Affairs Commission (CAC), Federal Inland Revenue Service (FIRS), etc.

Other roles of SMEDAN include aiding networking amongst businesses, capacity building through counselling, training and mentoring as well as driving advocacy for challenges relating to MSMEs. SMEDAN also provides training and capacity building in areas such as book keeping and accounts management, preparation of business plans, quality control, computer (or IT) appreciation, etc. However, challenges faced by SMEDAN include limited budgetary allocation which restricts the ability of the agency to create awareness among MSMEs and financially empower small businesses⁵³. Hence, the agency believes that with higher allocation from the Federal Government, it can create more awareness about its programmes via jingles, bill board advertisements, television programmes, etc

In our opinion, SMEDAN should serve as the voice of the MSMEs, but many small businesses in Nigeria are not compelled to join the agency due to perceived one-sidedness of joining the agency. According to the MSMEs surveyed in this report, SMEDAN reap financial benefits from the MSMEs in form of membership fees without adding any real value. In addition, SMEDAN also criticised as lacking benefits to firms operating in specialist industries such as IT. Given that the agency is the custodian of the revised

⁵² Professional Beauty Association, United States of America

⁵³ <http://successdigestonline.com/articles/view/how-small-medium-enterprises-development-agency-of-nigeria-smedan-can-help-your-business-grow>



Policy on MSMEs, it is necessary that it engages in more sensitisation programs to encourage more MSMEs to register with it.



Section 3: Cross-Country Comparison



Insights from Other Emerging Markets That Have Successfully Implemented SME Policies to Boost Growth and Development

This section seeks to highlight SME development policies that have been implemented in three countries namely India, Indonesia and South Africa. Some of the policies we have highlighted below focus more on SMEs than MSMEs. However, this section will also draw out recommendations that can be implemented by the Nigerian Government to accelerate the growth of medium sized companies.

The Indonesian and Indian economies are similar to Nigeria in terms of huge population, GDP per capita, ethnic diversity and oil producing status. Furthermore, these countries are fraught with similar challenges confronting the Nigerian economy. These challenges include corruption, an inefficient public sector, significant poverty levels and low spending on education. Regardless of the low level of spending on education in the sample countries compared to Nigeria, it is worthwhile to note that these economies have higher literacy levels. South Africa, on the other hand, was highlighted in this section as an example of an African country that has recorded success in implementing SME policies.

Table 12: Key Indicators for Nigeria, Indonesia, India and South Africa

Indicators ⁵⁴	Nigeria	Indonesia	South Africa	India
Population	173.6 million	249.9 million	53 million	1.3 billion
GDP per Capita	\$3,203.3	\$3,491.9	\$6477.9	\$1,595.7
Regional Economic Power	Yes	Yes	Yes	Yes
Oil Producing Status	Yes	Yes	Yes (marginal)	Yes (marginal)
Ethnic Groups	250	360	Approximately 50	>2000
Life Expectancy	55	71	61	66
Government expenditure on education, total (% of GDP)	11.2%	3.6%	6.0%	3.9%
Literacy Levels	59.5%	93.9%	94.3%	71.2%
Corruption Perception Index (CPI)	136	107	67	85
Unemployment Rate	25.1%	13.2%	24.9%	6.3%

Source: Nigerian Budget Office, NBS, World Factbook, World Bank, WHO, CPI

⁵⁴ 2014 figures.



Indonesia

In Indonesia, MSMEs are defined as businesses owned by Indonesian citizens, independent and without affiliation to large companies; and individual businesses, with or without legal licensing, including cooperatives⁵⁵. In Indonesia, MSMEs account for over 99% of businesses in all economic sectors and employ over 95% of the Country's population but contribute 57% of value-added⁵⁶.

SMEs have been further classified by asset size and sales volumes as follows:

Table 13: Classification of MSMEs

Type	Asset size	Sales Volume
Micro Industry	Net assets up to IDR 50 million	Annual revenue from sales up to IDR 300 million
Small Enterprise	Net assets over IDR 50 million to IDR 500 million rupiah	Annual revenue from sales over IDR 300 million to IDR 2.5 billion rupiah
Medium Enterprise	Net assets over IDR 500 million to IDR 10 billion rupiah	Annual revenue from sales more than IDR 2.5 billion rupiah to IDR 50 billion rupiah

Source: USAID, Government of Indonesia.

In Indonesia, micro enterprises are largely prevalent in the agriculture sector while small firms are widespread in the trade and agriculture sector. Manufacturing companies account for a significant share of medium enterprises. The Ministry of Cooperatives & SMEs is empowered with the responsibility of formulating policies and ensuring coordination among SMEs and Cooperatives. The Ministry is also responsible for the implementation of MSME policies, along with monitoring and evaluating the performance of MSMEs.

Cluster-Funding in Indonesia

To accelerate the development of local SMEs, the Government (through the Ministry of Cooperatives and SMEs) in conjunction with SME- focused NGOs has actively advanced the adoption of cluster-funding. Research has revealed that companies situated in clusters have easier access to suppliers and buyers, greater ability to access larger local markets and are more innovative due to stiff rivalry within clusters. The clustering approach was adopted in the 1970s with the major objective of promoting technological development in the Indonesia.

The Government of Indonesia initially managed SME-development directly through the provision of business incubators, consulting clinics and technology centres. However, these models attained limited success as government-backed SME development programs were usually hampered by frequent changes in policy formulation. Consequently, the Ministry transferred the support of local SMEs to the control of Business Development Service Providers (BDSPs). These privately-run BDSPs offer consulting services, business, financing and regulatory information to clusters located in different areas.

⁵⁵ The Law No. 9 of 1995

⁵⁶ USAID



The Ministry of Cooperative and SMEs assists BDSPs in supporting clusters. Each BDSB enters into an initial three year contractual partnership with the Ministry in exchange for start-up capital which is repaid by servicing nearby clusters over a three year period. Contracted BDSBs are required to attend consultation meetings with government officials at field level, submit regular reports on undertaken activities and the progress of MSMEs under purview. For non-governmental BDS providers, the major sources of funding are universities, international organizations, and technology and incubation centres.

Incubator Programs

The Ministry of Cooperatives and SMEs also implemented measures to regulate incubator programs for startups. The Startup Incubator Program was conceived as a means of promoting local entrepreneurship and providing aspiring entrepreneurs with adequate opportunities for setting up businesses. The Program is most prominent in technology and telecommunications due to the dearth of local entrepreneurs in these sectors. The program is expected to assist in closing the gap between entrepreneurship and business mentorship in the communication sector. The Government (through the ministry of Cooperatives and SMEs) has also provided opportunities for students in tertiary institutions to acquire knowledge on practical commercial and market trends in different industries. Consequently, the ministry has implemented specialist incubator programs in the following tertiary institutions:

Table 14: Tertiary Institutions and Specialist Incubator Programs

Sector	Industry
Manufacturing	Bandung Institute Of Technology
Agro-business	Brawijaya University
Creative Technology	Surabaya Institute Of Technology

Source: Ministry of Cooperatives and SMEs

Access to Funding

In recent years, the Government (through the Bank Indonesia) has focused on implementing legislation aimed at improving SMEs accessibility to funding. In 2001, Indonesian banks were allowed to set self-determined targets for SME financing and report it to the apex bank. However, this was amended in 2012 when the Bank of Indonesia issued Regulation No.14/22/PBI requiring banks to increase the proportion of loans advanced to SMEs to 20% by 2018. This would be done gradually in stages over the years with 5% in 2015, 10% in 2016; 15% in 2017 and 20% in 2018.

The new regulation has encouraged banks to direct an increasing share of funds to SMEs and increase the amount of training advanced to SMEs. Under this scheme banks can either disburse loans directly or through clusters. Failure to meet stipulated target will imply that that the banks will have to allocate funds in providing relevant training for SMEs. Bank Indonesia also provides technical assistance to SMEs to increase capacity such as training, research and provision of information. Bank Indonesia segregated SMEs into four major categories to properly determine the appropriate type of financial assistance to provide.



Table 15: Classification of SMEs and the Type of Financing Provided

Category	Type of Financing Provided
MSMEs that are not feasible and not bankable	Soft loans as part of corporate social responsibility
MSMEs that are not feasible but bankable	Subsidised interest rate credit program
MSMEs that are feasible but not bankable	The Indonesian Government offers guaranteed credit program of 80% while the remaining 20% will be borne by the banks ⁵⁷ .
MSMEs that are bankable and feasible	Commercial loans

Source: Bank Indonesia

The Indonesian Government has recently advanced the adoption of SME rating in order to improve the ability of SMEs to secure funding from commercial banks. The product is a pilot project undertaken by Bank Indonesia, local rating agencies, banks and Otoritas Jasa Keuangan (Financial Services Authority of Indonesia)⁵⁸ with the objective of overcoming the challenge of asymmetric information between SMEs and banks which hinders lending.

Recommendations for Nigeria

- **MSME Definition:** Indonesia defines SMEs in qualitative and quantitative terms. The qualitative term excludes subsidiaries of large corporations from being defined as MSMEs even if they operate as small businesses. This qualitative definition of MSMEs which provides a clause on non-affiliation to large companies helps ring-fence the MSME space by excluding subsidiaries of large corporates that seek to be classified as small businesses. This also protects genuine MSMEs from crowding out.

Our studies indicate that large businesses being masked as MSMEs crowd out the genuine small businesses from policy initiatives especially intervention funds aimed at MSMEs. Another weakness of the MSME definition adopted by the National MSME Policy is the absence of revenue benchmarks. This implies that companies with large revenues but minute staff size can be adjudged to be MSMEs based on this definition and eventually crowd out the genuine small businesses. However, we do note that BOI provides revenue benchmarks in its definition of MSMEs. However, these BOI revenue benchmarks are not incorporated in the National MSME Policy.

Table 16: Bank of Industry MSME Classification

Enterprise Category	Number of Employees	Total Asset (₹ Million)	Annual Turnover (₹ Million)	Loan Amounts (₹ Million)
Micro	≤ 10	≤ 5	≤ 20	≤ 10
Small	>11 ≤ 50	> 5 ≤ 100	≤ 100	>10 ≤ 100
Medium	> 51 ≤ 200	> 100 ≤ 500	≤ 500	>100 ≤ 500

Source: Bank of Industry (BOI)

⁵⁷ An example of such program is Business Credit for People (Kredit Usaha Rakyat).

⁵⁸ This is the Government Agency responsible for regulating and supervising the financial services sector in Indonesia.



- **Cluster Financing:** Cluster financing and cluster based development has been linked to the increased productivity and innovation among SMEs. Our study shows that this has worked in Indonesia and India. Cluster funding has also been introduced to the Nigerian market through the new MSME policy. In line with the policy, the Bank of Industry (BOI) has developed a list of 35 clusters in the Nigerian market. Clusters include adire (tie & dye), animal feeds, agriculture, water transportation and special health care. The BOI can be commended for seeking to replicate this success story in Nigeria through the empowerment of BDSPs to provide technical assistance to MSMEs in existing clusters. However, there is need for BOI to actively promote awareness of these clusters and the benefit of cluster financing amongst relevant stakeholders. In addition, there is need to stimulate awareness among MSMEs on the existence and benefit of cluster financing. This will mobilise existing clusters to actively seek out technical assistance from BDSPs. Furthermore, it could also encourage the formation of clusters among MSMEs.
- **BDSPs:** The Government (through the BOI) has also set up BDSPs to provide technical assistance to SMEs. However, the impact of the BDSPs remains limited due to the lack of information among MSMEs and the inability of MSMEs to afford the services of BDSPs. The Indonesian model wherein the Government provides paid-up capital to BDSPs which is repaid by servicing nearby clusters provides a noteworthy example to Nigeria. This approach can be targeted at micro enterprises (which have high financial constraints) in order to improve their willingness to seek out technical assistance that will be beneficial to business operations and have a potential multiplier effect on their contribution to the Nigerian economy.

South Africa

MSMEs account for 91% of businesses in South Africa and provide 61% to the Country's total employment. In the Case of South Africa, we shall highlight the impact of the Supplier Development program, a policy which has been actively promoted by the Government and actively adopted by large enterprises and multilateral organisations alike. In our opinion, variants of the policy can be introduced in Nigeria and with active Government support, yield significant benefits to MSMEs especially in the manufacturing sector where large enterprises are reliant on imports for key inputs.

The Supplier Development Program was borne out of the need to improve the capacity, capability and competitiveness of local manufacturers to meet the import requirements of large enterprises. Prior to the commencement of the program, it was estimated that import requirements for companies in the automotive and infrastructure investment space stood as high as 40%.

Another triggering factor was the rapid growth in demand for infrastructure-related capital goods in South and East Asia which created global shortages of needed inputs. This had a negative impact on the South African economy as the country's demands were usually crowded out by bigger customers. In addition, the scarcity of import supplies on the global scene supported higher prices which led to higher production costs for large enterprises. Thus, it became critical for the government to support self-production to ensure the security of import supplies. On the other hand, the Government observed that the higher global demand for infrastructure provided the scope for local suppliers to increase capacity,



capability and competitiveness to serve domestic and potentially foreign markets. These observations informed the decision of the government and players in the private sector to develop the capacity of local suppliers.

Consequently, the Government of South Africa (through the Department of Public Enterprises and State Owned Enterprises) set up the Competitive Supplier Development Programme (CSDP) to achieve the following objectives:

- Improve the competitiveness of the services being proffered by State Owned Enterprises (SOE) through savings obtained from using more competitive suppliers.
- Increasing the security of supply for SOE.
- Providing the economy with potential benefits such as:
 - Removal of exposure to foreign currency fluctuations
 - Lower stocking requirements
 - Greater responsiveness
 - Ease of communication
 - Shorter delivery times
 - Creation of industrial clusters.
 - Increased potential for collaborative partnerships and innovation for local conditions.

The CSDP consists of demand-side and supply-side measures in order to increase the competitiveness, capacity and capability of local suppliers. State Owned Enterprises (SOEs) are principally responsible for the demand side measures. On the other hand, Industry stakeholders and the Government are mainly responsible for implementing supply-side measures.

The emphasis of the programme on the demand side consists of SOEs developing long term supply networks and win-win partnerships that will attain best value for money over the product life cycle rather than the lowest initial cost. The primary demand-side measures are:

- The development by State Owned Enterprises of supplier development plans which identify plans for which local supply could be expanded or developed or improved for setting targets in this regard;
- The use of planning, specification, procurement and strategic sourcing by SOE as instruments for achieving targets in supplier development plans and in creating a conducive environment for the development of local supply networks.

The supply-side measures comprise mobilising and providing support to targeted supplier industries to assist them in developing capacity to respond to SOE demand. The following measures were instituted to drive this objective:

- Supplier benchmarking systems
- Skills development initiatives
- Access to finance and funding
- Technology development
- Process and competitiveness improvement programmes

The overall long-term national target that the Department of Public Enterprises (DPEs) has set for the programme is to increase the contribution of the South African national industry to 70% of the SOE capital expenditure and operating expenditure commencing in 2012.

Each SOE will produce a Supplier Development Programme which is annually updated and submitted to the Department of Public Enterprises (DPE) for approval. The program will contain an expenditure and supplier industry analysis, as well as targets for increasing the competitiveness, capacity and capability of local suppliers. The SDP does not focus on individual suppliers or purchases but on supply industries and markets related to the expenditure programmes of the SOE. The SOE set these targets based on analysis of the projected expenditure and the strengths and weaknesses of supply industries and markets.

Following the implementation of the Government funded SDP, private- sector led initiatives have sprung up particularly in the areas of infrastructure investments and manufacturing.

A classic example is the case of General Electric (GE) and Transnet Engineering (TE). GE is a leading contributor in increasing efficiency of operations at Transnet as well as a key investor in locomotive assembly through its joint venture relationship with Transnet Engineering. Under the programme, GE has invested over \$50 million including more than 150,000 hours of skill training and management development for its 400-plus employees. TE also works closely with GE Transportation Manufacturing facilities which has improved the Company's productivity by halving the amount of time spent in assembling locomotives. In addition, the demand from GE has generated higher employment within TE and across its value chain.

GE is also investing in a supplier development vehicle to develop black-owned and operated SMEs with the objective of creating sustainable local suppliers that create jobs through the production of cost-competitive products. Under this programme, GE will work with suppliers to identify sourcing



opportunities across GE technology. In addition GE will provide technical support to targeted suppliers to enable them grow to become a qualified supplier for the group.

The United Nations Development Programme (UNDP) has also created a supplier development programme (SDP) to assist the Government in realising its objective of SME development in South Africa. The Supplier Development Programme (SDP) provides SMEs with technical assistance over a period of 9-10 months. The objective of the SDP was to mentor selected SMEs or agribusiness cooperatives which will in turn become suppliers of larger corporates.

To achieve this mandate, UNDP provided technical assistance to help selected SMEs enlarge the volume, quality and punctuality of sales. In addition, UNDP specialists provided technical assistance and collaboration structures for the smooth integration of SME suppliers with the large firms as off-takers. Furthermore, UNDP engaged in an in-depth diagnosis of management processes of the selected SMEs as the programme involved a long period of interaction between the procurement department of large enterprises and the target SMEs.

These measures enabled the Supplier Development Programme record success among SMEs and large enterprises alike. SMEs had to significantly improve management processes and run more efficient businesses to meet standards and delivery deadlines set by large enterprises. UNDP has recorded a 6% growth in employment and 12% growth in sales by SMEs enrolled in the Supplier Development Programme.

Recommendations for Nigeria

Most large enterprises operating in manufacturing and general commerce depend on imported agricultural inputs for raw materials or finished goods for sale. However, many of these products can be locally produced. Backward integration will help large manufacturing firms source some of these imported raw materials locally. The need for sourcing these raw materials locally becomes more compelling in light of the current macroeconomic headwinds especially the restrictive exchange rate policy of the Central Bank. This makes it imperative for large corporations to invest in backward linkages and help MSMEs in their supply chains. These investments by large businesses in MSMEs especially in the supply chain and backward linkages could create a synergy that is mutually beneficial to both stakeholders and the larger economy. By providing MSMEs with technical and financial support, production processes and product quality can be significantly improved. Successful implementation of supplier development programs would also have positive multiplier effects by increasing the contribution of MSMEs to Nigeria in terms of employment, higher GDP and GDP per capita.

India

The Indian Government has sought to drive the development of MSMEs through infrastructure development, relevant training programs, etc. MSME development policies have been driven by both municipals and federal governments. For instance, in the state of Andra Pradesh, the state government implemented a new policy stipulating that new MSMEs would be given a 100% exemption on VAT, Central Sales Tax(CST) , Goods and Services Tax (SGST) for five years from the date of commercial production. This policy is also inclusive of uninterrupted power supply. However, in the event that MSMEs incur power generating expenses, the charge is reimbursable at Rs 1 per unit for 5 years from commencement of commercial production. In addition, the new policy also allows for a 15% investment subsidy on fixed capital investment up to Rs. 20 lakhs for MSMEs and interest subsidy for fixed capital investment by new MSMEs on term loans.

Furthermore, the Government of India has taken active policy steps to develop selected sectors. This includes the removal of production quota in the textile sector and the deregulation of the financial sector. Indian banks have been allowed to set the targets for funding MSMEs and are required to achieve a 20% y-o-y growth in credit to micro and small enterprises and a 10% annual growth in the number of micro enterprise accounts which has improved the ability of SMEs to access much needed funds.

In the case of India, we would like to highlight two major policies that the Government has adopted to support the development of SMEs in the Country. These policies include cluster funding and credit ratings

Cluster Funding in India

Similar to other countries in the Asian region, the Government of India has supported the adoption of cluster based financing with SMEs in order to meet the diverse needs of SMEs and extend banking services to recognized SME clusters. The crucial characteristics of SMEs in a cluster are as follows⁵⁹.

- Similarity or complementarity in production methods, quality control and testing, energy consumption etc.
- Similar level of technology and marketing strategies/practices
- Similar channels for communication among the members of the cluster
- Common opportunities and challenges

⁵⁹ Source: Ministry Of Micro, Small & Medium Enterprises, India



The cluster approach to financing may be more advantageous in the following situations⁶⁰:

- In dealing with well-defined and recognized groups
- Availability of appropriate information for risk assessment
- Monitoring by lending institutions
- Reduction in costs

The Indian Government (through the Small Industries Development Bank of India (SIDBI)) has advised banks to treat cluster based approach to financing as a key policy and increasingly adopt its use for funding SMEs. UNIDO has worked with the Indian Government to identify 388 clusters spread over 21 states in the country. Furthermore, the Ministry of Micro, Small and Medium Enterprises has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP). These clusters are located in 121 Minority Concentration Districts. Banks have also been given flexibility to identify new clusters.

The MSME-CDP scheme addresses clusters based on geographical location and sectoral composition. The aim of the Government is to achieve economies of scale in terms of deploying resources, as well as on meeting the specific needs of similar industries.

Under the MSME-CDP Scheme, Clusters can be financed under the following activities:

- i) Diagnostic Study Reports: funding assists SMEs in the cluster with an in-depth understanding of businesses processes, proposes remedial measures and provides a validated action plan.
- ii) Soft Interventions: provision of technical assistance, capacity building, market development, trust building etc. for the cluster units.
- iii) Detailed Project Report: preparation of a technically feasible and financially viable project report for establishing a common facility centre for cluster of MSE units and/or infrastructure development projects for new industrial estates or for the upgrade of infrastructure in existing industrial estates.
- iv) Hard Intervention/Common Facility Centres (CFCs): construction of tangible assets such as Testing Facility, Design Centre, Production Centre, Effluent Treatment Plant, Training Centre, R&D Centre, Raw Material Bank/Sales Depot, Product Display Centre, Information Centre, any other relevant facility.

⁶⁰ Small Industries Development Bank of India (SIDBI)



- v) Infrastructure Development: this encompasses the development of land, provision of water supply, drainage, Power distribution, non-conventional sources of energy for common captive use, construction of roads, common facilities such as First Aid Centre, Canteen, other relevant infrastructural facilities in new industrial clusters.

Costs Of Projects Under Cluster Based Financing And Allocation Of Government Funding To Each Project Category

Diagnostic Study - Maximum cost Rs. 2.50 lakhs.

Soft interventions - Maximum cost of project Rs. 25.00 lakh, with Government of India contributing 75% (90% for Special Category States and for clusters with more than 50% women/micro/village).

Hard interventions i.e. Common Facility Centres – maximum eligible project cost of Rs. 15.00 crore with Government of India contributing 70% (90% for Special Category States and for clusters with more than 50% women/micro/village).

Infrastructure Development in the new/ existing industrial estates/areas- Maximum eligible project cost Rs.10.00 crore, with Gol contribution of 60% (80% for Special Category States and for clusters with more than 50% women/micro units).

Source: Development Commissioner, Ministry Of Micro, Small & Medium Enterprises

Implementation of Credit Ratings for SMEs in India

In addition to driving the adoption of cluster-based approach to financing, the Government of India has also supported the implementation of credit ratings for SMEs. Credit rating for SMEs was adopted in India as a means of addressing several challenges confronting SMEs and financial Institutions with regards to access to funding. These challenges include the absence of effective management tools in most SMEs, lack of knowledge of banking guidelines for accessing commercial loans, ineffective mechanisms to measure credit worthiness of SMEs etc.

Prior to the adoption of credit ratings for SMEs in 2004, Small and Medium Enterprises could rarely access funds from formal sources. Access to funding from formal sources stood as low as 11%, but has increased to about 34%⁶¹. Credit rating simplifies decision making for lenders by providing information on the creditworthiness of SMEs. The Government has also incentivised SMEs by restricting certain contracts for firms that have undertaken credit ratings. In addition, the Government would require SMEs to undertake credit ratings before the loan is disbursed to them as it serves as a credible measure for evaluating internal risks.

⁶¹ SMERA, The Associated Chambers of Commerce & Industry of India



Credit rating services for SMEs are conducted by SME Rating Agency (SMERA) and selected rating agencies in the Country. SMERA is a public-private partnership between government/private/multinational corporations/lenders and banks committed to the SME sector such as the Small Industries Development Bank of India. SMERA has entered into MOUs with 29 banks and financial institutions to incentivise SMEs by providing commercial benefits to highly rated SMERA units. SMERA commenced rating SMEs in 2004 and had completed about 40,000 SME ratings as at the end of Q3 2014.

Credit ratings for SMEs are subsidized by the Government. The Ministry of Finance allocates funds to the National Small Industry Corporation which in turn disburses the fee to MSMEs. Under the current framework, the SMEs pay 25% of the rating fee and the National Small Industry Corporation pay the rest (75%) to the credit rating agency. In addition the Indian Banking Association has also assisted SMERA with connecting to potential clients and giving a 1%-2% interest rate subsidy for highly rated SMEs.

Credit agencies evaluate SMEs on critical risk areas encompassing:

- Sector risks
- Dependency risks
- Cluster risks
- Management risks
- Financial risks

The assessment of SMEs is also based on the three C's namely:

- Character: this refers to how an SME has handled its past debt obligations.
- Capacity to repay: this refers to how much debt an SME can conveniently repay given the structure of business operations.
- Capital: this refers to available assets of the borrower, such as real estate, savings or investment that could be used to repay debt if income should be unavailable.

The SME rating methodology combines financial factors based on statistical models with qualitative methods which are based on due diligence and on-site visits. It is a forward- looking rating which uses robust industry benchmarking to assess SMEs. For specialist sectors such as IT and Biotechnology, SMERA hires Industry experts to sit on the ratings committee to provide additional guidance on assessment.



Table 17: Factors Determining Credit Ratings of MSMEs

Financial Factors	Qualitative Factors
▪ Solvency ratio	▪ Quality of management
▪ Liquidity ratio	▪ Location Advantage
▪ Profitability ratio	▪ Marketing network
▪ Activity ratio	▪ Legal issues
▪ Trend analysis	▪ Industry and macroeconomic assessment

Source: SME Rating Agency (SMERA)

Initially, the credit rating system was skewed toward small and medium enterprises due to the lack of proper structuring in majority of the micro enterprises. However, as SMERA developed capacity, the organization retained consultants to assist micro enterprises in creating financial statements after which the enterprise would be redirected to SMERA for a rating.

Although lending institutions and SMEs still face a number of challenges which hinder loan disbursements, lenders have still realised significant benefits from the ratings process. Such benefits include reduced bad debts, lower exposure to highly risky accounts, faster loan approvals/denials.

Table 18: Challenges Confronting SMEs and Lending Institutions

Challenges Confronting SMEs	Challenges confronting Lending Institutions
High interest rates (around 17%-22% per annum)	Information Asymmetry
Disbursement of small loans (average US\$2,000)	Lack of disclosure by SMEs
Absence of a supportive environment	Lack of financial Management
	Poor Loan Application Process
	Poor Business Structuring

Source: SME Rating Agency (SMERA) and Agosto & Co. Research

The adoption of credit ratings has also resulted in significant benefits for SMEs such as a reduction in credit sanctions, increase in the size of loans extended to SMEs and reduction in interest rates. Beyond relieving challenges faced in accessing finance, the feedback has assisted SMEs in improving efficiency and resulted in higher turnover and profit. The agency provides SMEs with key parameters to gauge the respective SMEs and its health.

Resulting Benefits of Credit Ratings for SMEs in India

- *SMEs that are able to secure high credit ratings have been able to secure low interest charges ranging between 0.5%-1.5% which lowers cost of funding. In addition, the assignment of ratings to SMEs has assisted them in negotiating more favourable rates with bankers.*
- *Credit Ratings appraise SMEs based on financial quality of the business and other qualitative measures of good performance. This gives external stakeholders such as suppliers and potential buyers confidence in their capability and financial stability and also improves the ability of these SMEs to secure new businesses and improve turnover.*
- *The presence of credit ratings has helped SMEs accelerate the time frame of loan processing. According to a survey conducted by SMERA, about 12% of companies with rating certifications from credit rating agencies reported that the processing time for loan sanctions significantly declined after receiving a credit rating. This saved time and money and resulted in the swift release of much needed funds.*
- *In some cases, highly rated SMEs are approached by banks to assist in meeting funding gaps for carrying out expansion activities. Thus, the assignment of good ratings on the SMEs enlightens bankers significantly on the credit worthiness and repayment capacity of the SMEs.*
- *Ratings create credibility for SMEs working with Multinationals, the Government and other large corporate organisations. SMEs have been able to secure larger orders from contractors by submitting credit rating for tenders which creates assurance on the SME's capability to handle the order.*
- *In monetary terms, the benefit of undertaking credit ratings since the inception of the program has been quantified at \$200 million. A survey undertaken by SMERA in 2014 showed that 21% of SMEs rated had received interest rate subsidies, 17% benefitted from increase in credit limits, 12% witnessed reduction in processing time in application for credit while approximately 8% enjoyed reduction in collateral requirements.*

Recommendations for Nigeria

A key challenge affecting the ability of MSMEs to access funding is the lack of information on the creditworthiness of most MSMEs. This challenge can be alleviated by encouraging the adoption of credit ratings for SMEs. Although, there exists credit bureaus in the Country, the level of information proffered by these services are not commensurate to risks borne by lending institutions upon loan disbursement. This is particularly evident in the disbursement of CBN intervention loans (particularly the MSDEF loans) where banks bear the full credit risk for the funds. The Indian model provides a noteworthy example as it engages support from the Government and the organised private sector (particularly credit ratings, banks and lending institutions) to provide funding assistance to MSMEs.



Section 5: Key Findings, Conclusion & Policy Recommendations



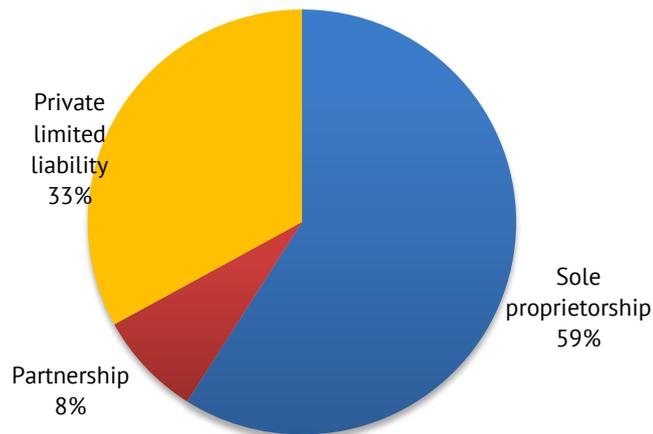
Key Findings

The key findings revealed by Augusto & Co.'s Survey on MSMEs in Lagos, Aba, Owerri and Abuja are as follows:

Type of Business

Fifty nine per cent of the businesses we surveyed operate as sole proprietorships, 33% run private limited companies while 8% run partnerships. Our survey fields indicate that a higher percentage of businesses operated as sole proprietorships, which are often referred to in the local euphemism as “one-man-businesses”. The country’s large exposure to the informal sector seems to also reflect in the survey result as most of these sole proprietorship businesses are also unregistered.

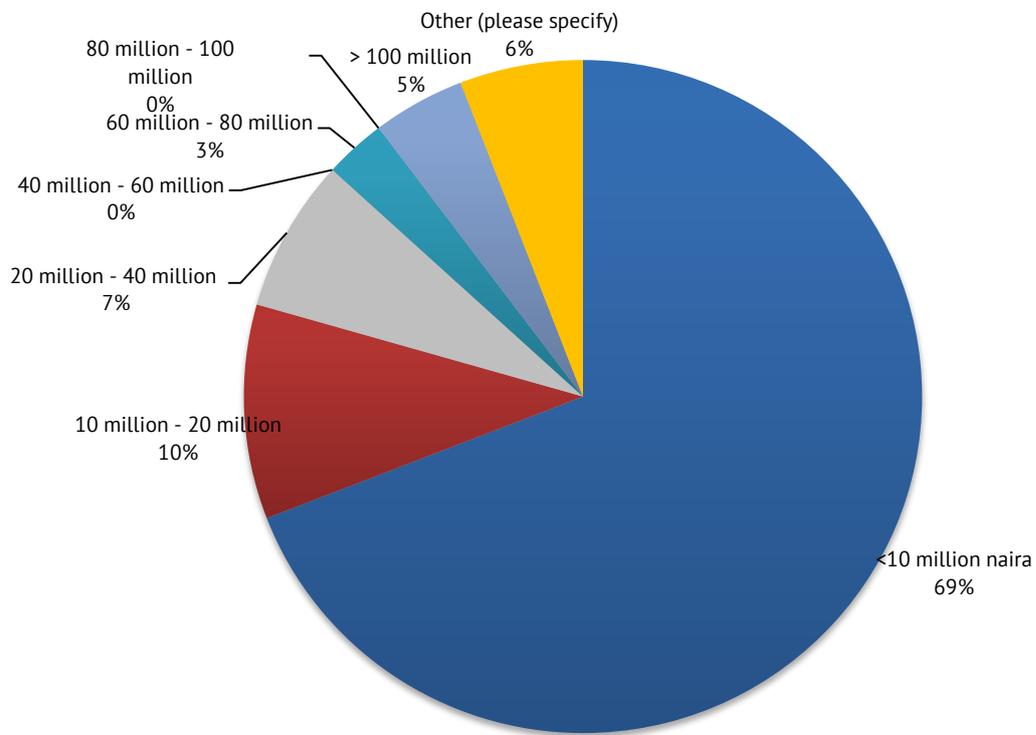
Which type of business are you running?



Size of Annual Sales

Sixty nine of our respondents earn less than ₦10 million as yearly revenue, 10% earn between ₦10-20 million while 7% earn between ₦20-40 million as revenue per annum.

What is the size of your annual sales?

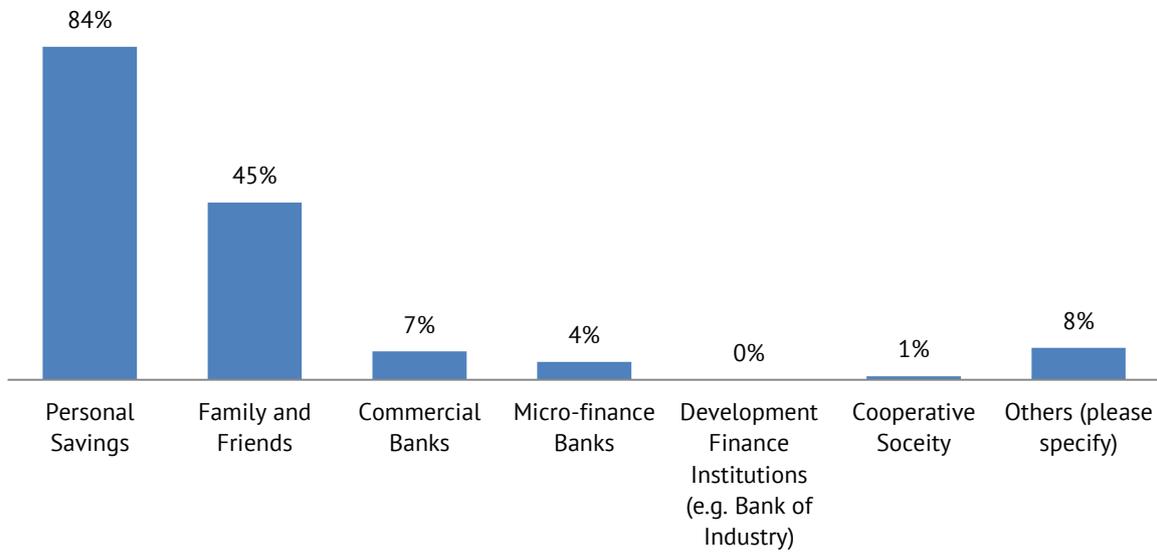


Source of Funds

Eighty four percent (84%) of the MSMEs we interviewed use personal savings to fund their businesses. Forty five percent source for finance from family and friends, 7% rely on commercial banks, 4% on microfinance banks and 1% on co-operative societies.



Where do you get money for your business from?



MSMEs' Awareness about CBN's Funds

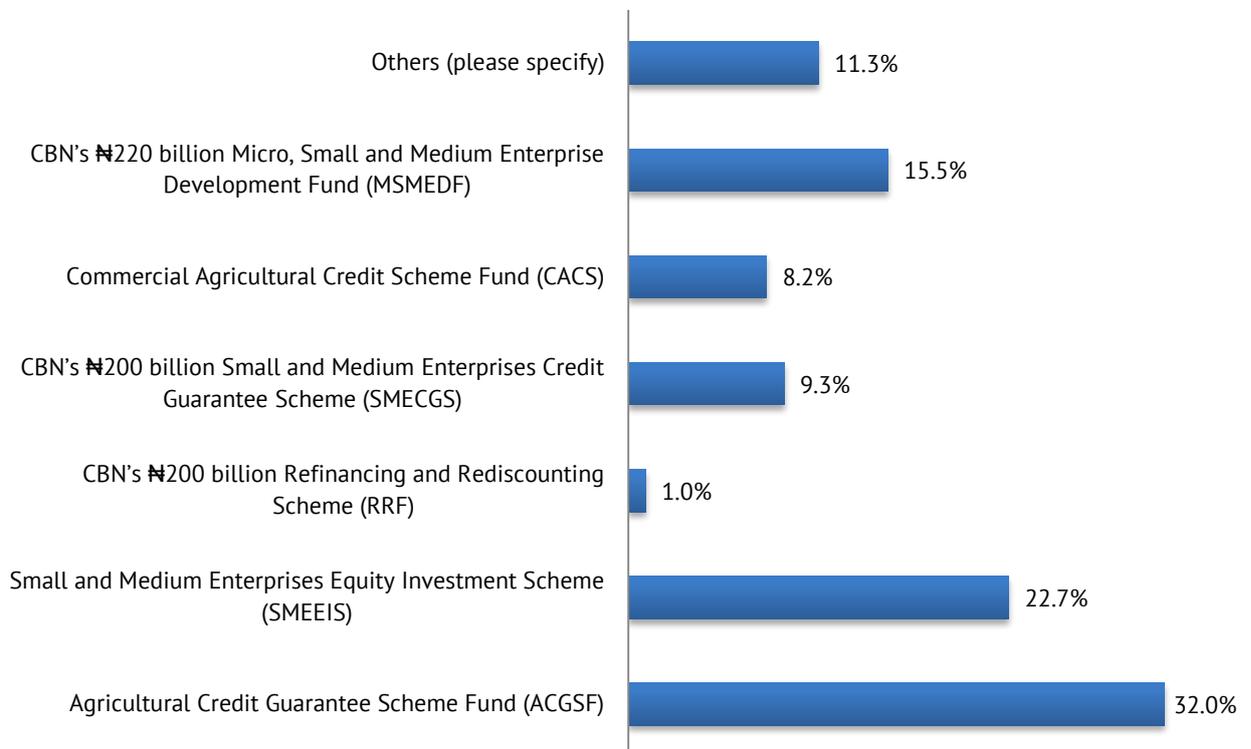
While 89% of our respondents were aware about all the CBN's funds, 9% were not aware that the apex bank had funds for MSMEs. The remaining respondents were not sure whether the funds were still in existence.

When we inquired further as to which CBN fund type our MSME respondents were aware of, we realized that 32% know the Agricultural Credit Guarantee Scheme Fund (ACGSF), 23% are aware of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS), 16% know the ₦220 billion Micro, Small and Medium Enterprise Development Fund (MSMEDF), 9% are aware of the CBN's ₦200 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), 8% know the Commercial Agricultural Credit Scheme Fund (CACS) and 1% are aware of the CBN's ₦200 billion Refinancing and Rediscounting Scheme (RRF). We believe that there is a need for the apex bank to create greater awareness of more recent funds through radio jingles, adverts, etc.

Do you know that the Central Bank of Nigeria has funds for micro, small and medium sized businesses?



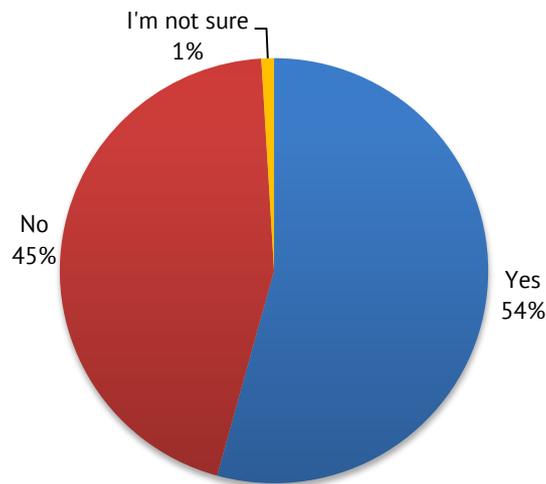
Which Central Bank of Nigeria funds do you know about?



MSMEs’ Awareness about the Federal Government YouWiN! Grant

While 54% of our respondents have heard about the YOUWIN Grant, 45% said they do not know what YOUWIN was about and 1% of our respondents were not sure of what the fund was about.

Do you know about the Federal Government YouWiN! Grant?

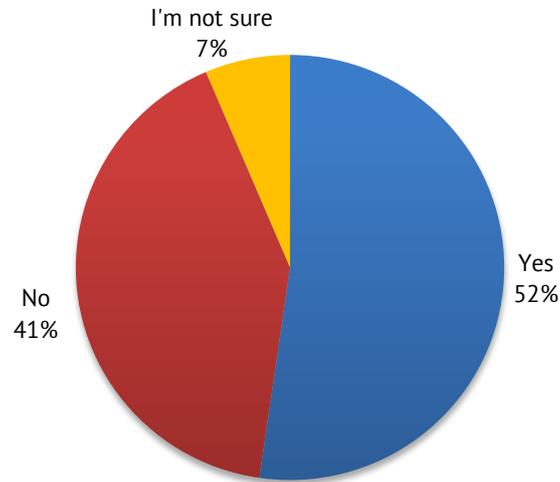


MSMEs’ Awareness about BOI’s loans

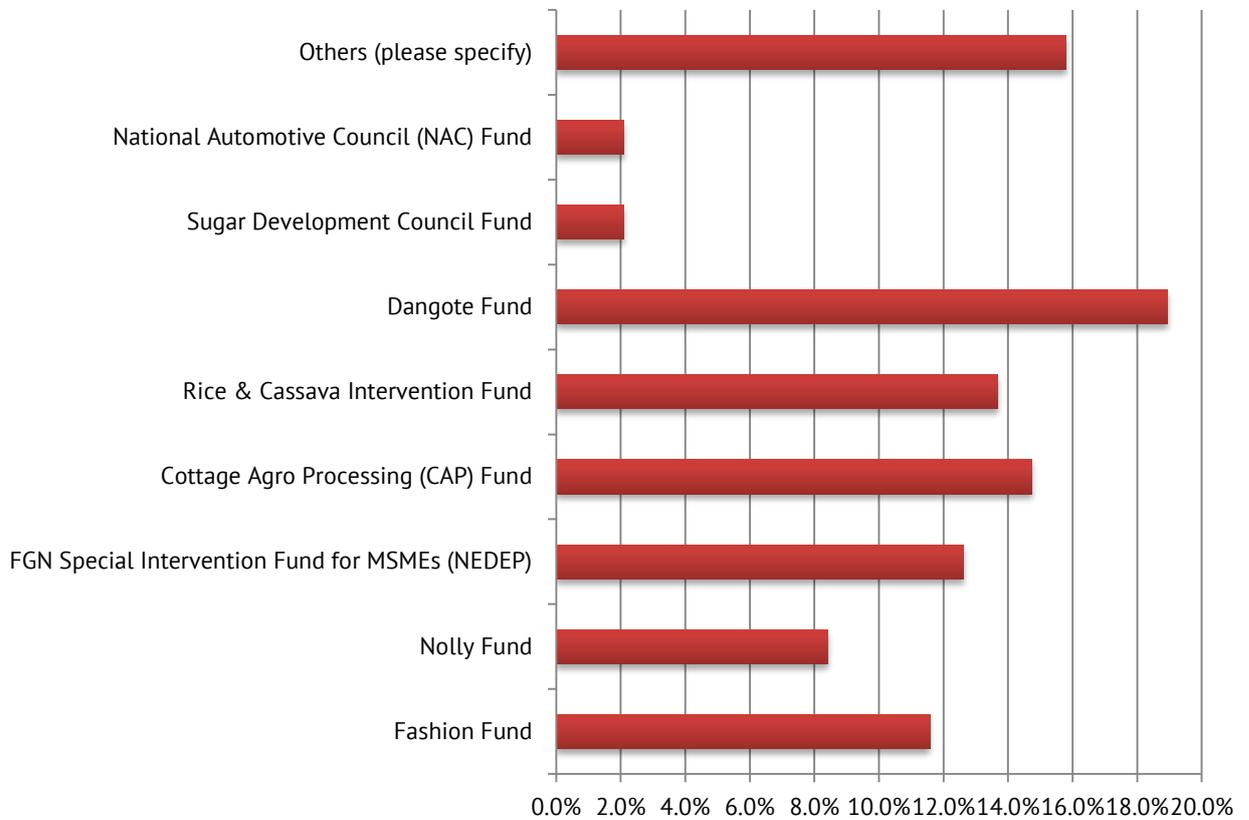
Fifty two percent of our respondents know about BOI’s funds. Forty one percent are not aware that the bank disburses funds while 7% of our respondents were unsure as to whether the bank disburses funds. Further research reveals that 19% of our respondents know about the Dangote Fund. Fifteen percent know about the Cottage Agro Processing (CAP) Fund, FGN Special Intervention Fund for MSMEs (NEDEP) - 13% and the Fashion Fund, 12%. Although BOI funds are more popular than CBN funds, MSMEs complain about easy rejection of their loan applications by BOI. While this should be addressed, BOI should also try to create awareness about the unpopular funds.



Do you know that Bank of Industry has loans for micro, small and medium companies?



Which Bank of Industry (BOI) funds do you know about?



Commercial Bank Loans

While 31% of our respondents have applied for a commercial bank’s loan, 69% have never accessed loans from commercial banks. Of the 26.4% of the respondents who have applied for commercial bank loans, 16.1% were granted the loans while 83.9% did not get the loan.

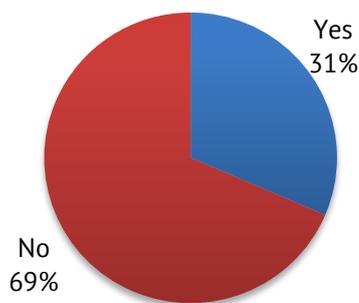
Our respondents who have never applied for a commercial bank loan state that high interest rate was the major challenge (73% of our respondents stated this as the key challenge). Other challenges include: complex documentation process (52%), lack of collateral (45%), MSMEs do not need commercial bank loans (39%), MSMEs only need bank guarantees not bank loans (11%).

Commercial Bank Interest Rates

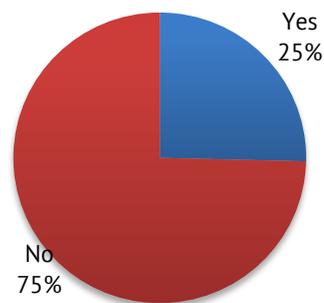
Our survey reveals that interest rates offered to MSMEs by commercial banks range from 26-30% (28% of our respondents reveal that they were charged this), 11% were charged rates between 21-25% while 11% were charged rates between 16-20% and 30-35%.

When asked what the loans were used for, we discovered that 27% use commercial bank loans to augment working capital and 24% buy equipment and 33% to expand their businesses.

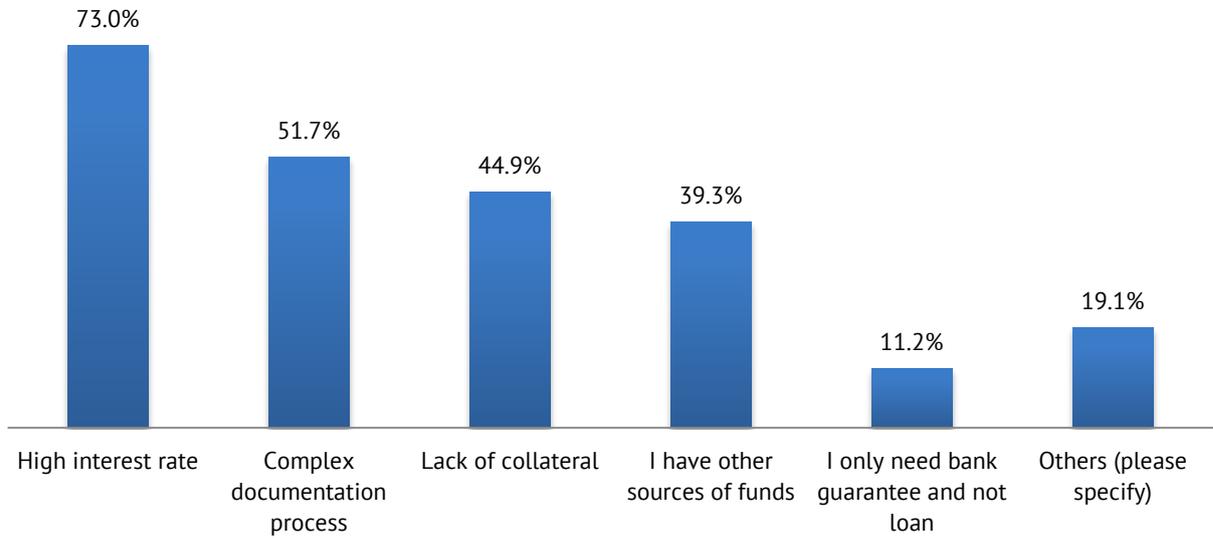
Have you ever applied for a loan from a commercial bank?



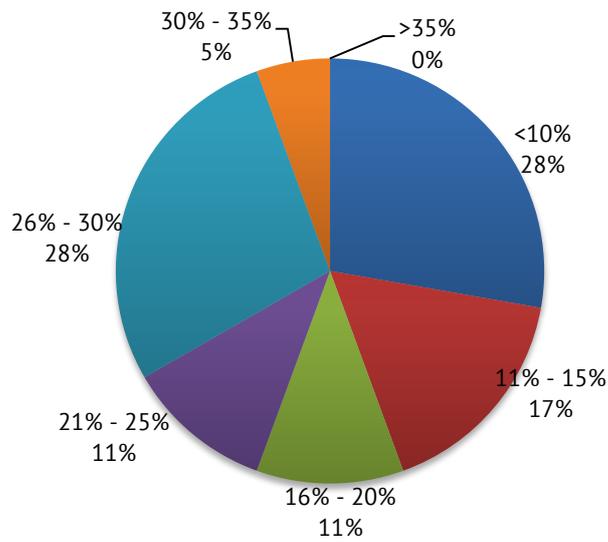
If you applied for a commercial bank loan, did you get the loan?



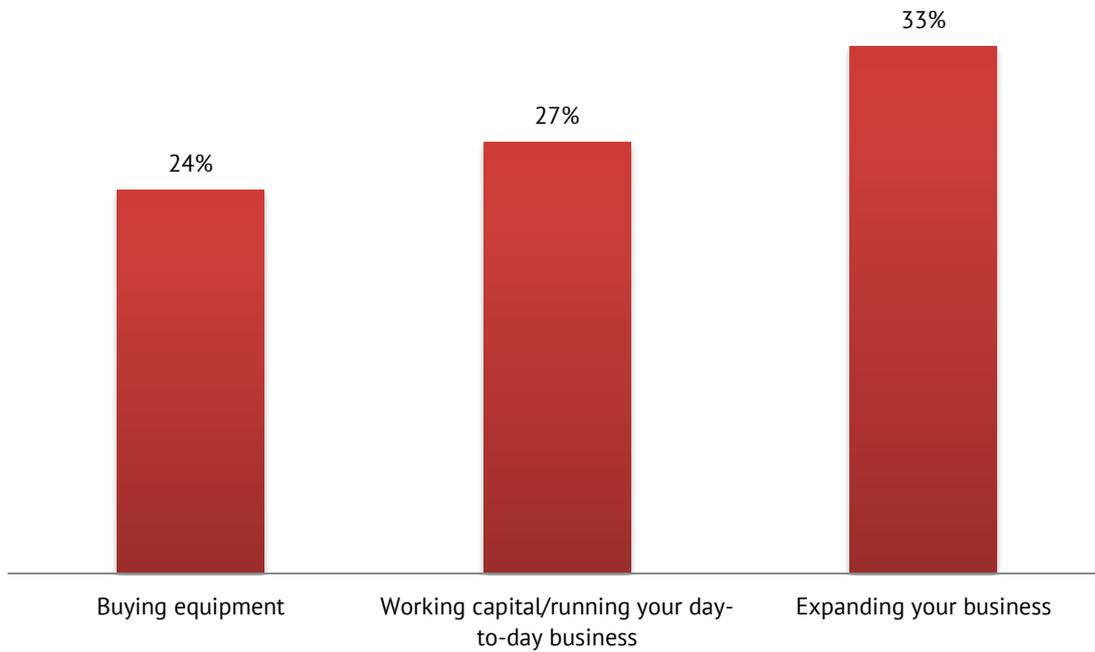
Why have you not applied for a commercial bank loan?



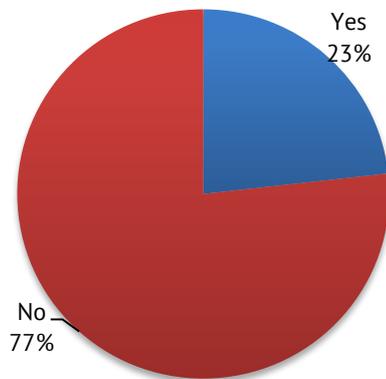
If you have received any commercial bank loans, please choose the interest rates that you pay on the loan?



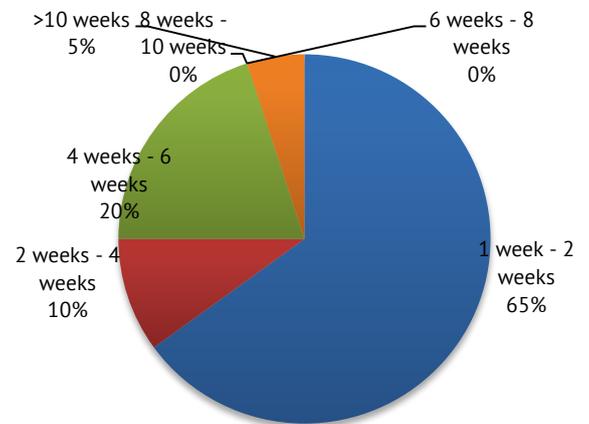
What did you use your loans for?



Do you import goods?



How long does it take to clear a container at the port?

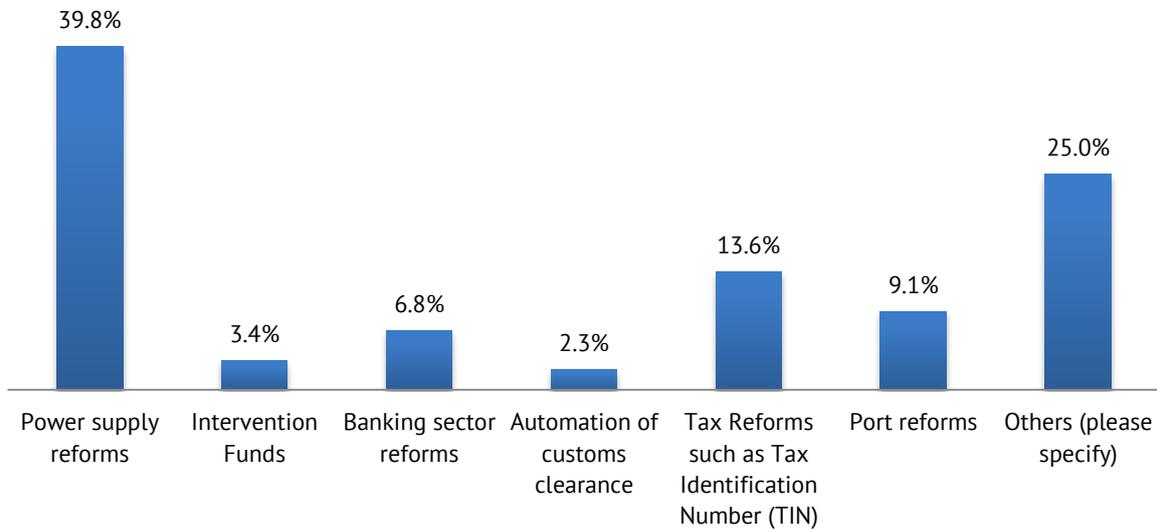


Impact of Government Policies

Forty percent said the power sector reforms had the greatest impact on their businesses. 3% said the intervention funds were highly beneficial to them, 7% preferred the banking sector reforms, 14% felt positive impacts from the tax reforms.



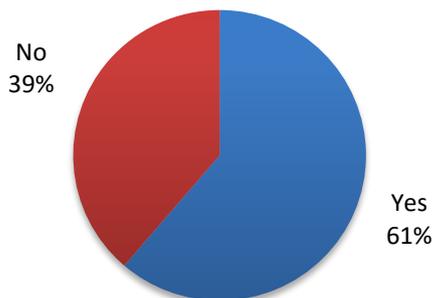
Which government policies have positively impacted your business?



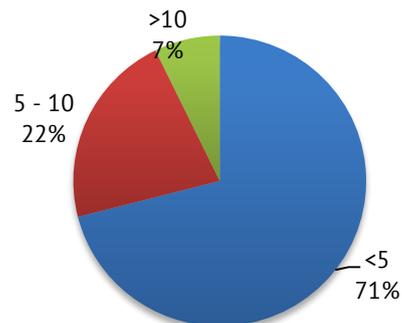
Taxes

While 61% of our respondents said the current tax system affected their businesses, 39% were not directly affected by the tax system. In addition, 65% of our respondents pay the value added tax (VAT).

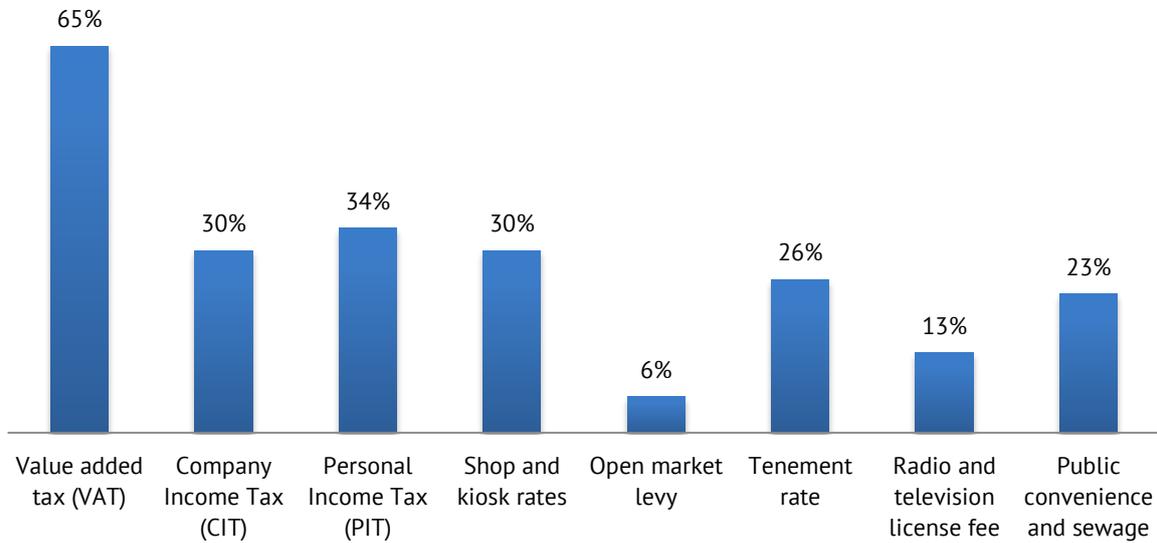
Does the tax system affect your business?



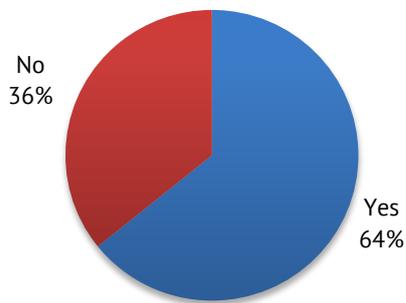
How many taxes and levies do you in the course of running your business?



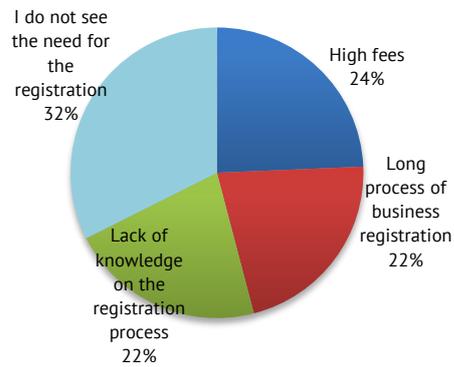
What taxes does your company pay?



Have you registered your business?



If you have not registered your business yet, what are the major reasons?



How easy was it to register your business?

Very difficult	Difficult	Moderate	Easy	Very easy
4%	8%	55%	24%	8%

The age-long perception about complexities with business registration seems to be deterring several entrepreneurs from formalising their businesses. In addition, entrepreneurs with unregistered businesses do not see the need to formalise their businesses through registration. In our question on why entrepreneurs had not registered their businesses, there was a 22% score apiece by respondents who cited long registration processes and lack of knowledge of the registration process while 32% do not see the need for registration.



Conclusion

Access to Finance is the most touted challenge facing MSMEs in Nigeria. However, our engagements with long-term small business owners and other stakeholders like SMEDAN and BOI revealed there are other structural bottlenecks and operational challenges that stymie the growth of small businesses in the country. The overwhelming verdict of these veteran small business entrepreneurs is that strong market knowledge which covers issues such as product knowledge, understanding of consumer preferences, supply chains and distribution networks are as germane as access to finance. While not undermining the role of finance to small businesses, a lack of depth in understanding the target market could ultimately lead to the erosion of capital invested in the business. Our engagements also indicates that many small businesses record stunted growth for a long time often leading to the collapse of these businesses owing to their poor market knowledge.

This makes it imperative to strengthen the capacity building framework and other mentorship initiatives in the MSME space. To develop MSMEs, capacity building and mentorship must become front burner issues that must be incorporated into the policy framework for MSMEs. Thus SMEDAN needs to be restructured and strengthened to perform its task. The government also needs to support not-for-profit organisations that are providing these mentorship and capacity building services to MSMEs.

The need to improve the country's infrastructure like ports, roads and electricity also seems to be largely paling into a worn out cliché but nevertheless still remains germane. But the gross neglect of the country's soft infrastructure leading to deep problems with land ownership, property rights, the weak intellectual property (IP) framework and a flawed tax system also add up to the problems SMEs in Nigeria face. Nigeria needs to invest massively in these soft infrastructures if our MSMEs have to serve as the primaries for innovation for the larger economy.

Novel initiatives in the Nigerian market like the credit scoring model being mulled by the Central Bank and the BDSP approach by the Bank of Industry should greatly help in addressing bottlenecks around access to finance. But overall, Nigeria needs new funding platforms like crowd funding, venture capital and angel investors especially for innovative MSMEs that may not have the credentials to attract bank lending. We still believe that the banks will eventually latch on to the MSME space, albeit late waiting for the lowering of the risk profile of the Nigerian business environment. But stakeholders need to deepen the role that banks play in the MSME space as the latter still dominate the Nigerian financial system and are in pole position to support MSME growth.

Overall, the drop in oil prices creates a sobering opportunity that should lead to the diversification of the Nigerian economy. The drop in oil prices largely constricts the government's capacity to undertake social projects and create jobs. This reinforces our long term belief that the government should not be unduly saddled with job creation but should be fixated with creating the enabling environment and adopting macro-economic reforms that would stimulate the creation of jobs by entrepreneurs. Small business owners have emerged Nigeria's largest job creators simply on the back of resilience. But this resilience



has its limitations. That is why there must be a holistic approach that seeks to galvanise all of Nigeria's resources into boosting the MSME space to unlock inherent value that has stymied growth of small businesses for too long.

Policy Recommendations

1. Implementation of the *Agusto* MIFPEM

The *Agusto* MSME Intervention Funds Performance Evaluation Model (*Agusto* MIFPEM) measures intervention funds across three main metrics namely:

- Disbursements relative to fund size
- Impact on the MSMEs
- Impact on the economy

Agusto & Co. recommends that the performance parameters recommended by the *Agusto* MIFPEM are adopted through the tenor of intervention funds. Overall, we expect that through the implementation of the three pillars of *Agusto* MIFPEM, the success of intervention funds can be effectively measured and monitored to ensure that the funds are adding value to the MSMEs and the economy.

2. Education

In our opinion, poor basic education affects MSMEs development grossly. The negative effects of poor educational system are evident in the inability of some small business owners to read and understand collateral requirements of banks and understand business registration requirements. Bank account opening procedures can also be very cumbersome for unlearned MSMEs. Whilst the MSME policy advocates entrepreneurship and financial education for MSMEs, basic education is of utmost importance to foster competitiveness, technological innovativeness and managerial competencies for Nigeria's private sector development through the growth of small businesses.

3. Restructuring Entrepreneurship Education

Agusto & Co. proposes that only successful entrepreneurs with successful businesses of between 10-20 years in Nigeria should be employed as lecturers for entrepreneurship development studies. This will make learning active, with the tutor providing real life examples to students and possibly serve as mentors for business minded students.

4. Financial Education

We believe that financial education skills which range from simple book keeping skills to understanding loan terms and banks' commission on turnover (COT) per mille charges are necessary to improve the financial management skills of these MSMEs.



5. Bank Vendor Short-List

Our interviews reveal that excluding poor financial management skills, some MSMEs also have fraudulent intent when approaching banks for finance and can easily diversify the funds to other uses if not properly monitored. This is why many banks pay directly to suppliers when financing the assets or supplementing working capital of their MSME clients. Nonetheless, some operators reveal that many MSMEs still connive with suppliers to dupe the banks. To reduce the incidence of fraudulent activities by MSMEs and suppliers, we believe that banks should have a list of vendors that can supply various types of assets to the MSMEs and, the MSMEs should confirm that the supplier has delivered the assets in good working condition before the bank pays the vendors. While we believe that the fraudulent attitude of some MSMEs and vendors stems from corruption which is deeply entrenched in the Nigerian system, MSMEs with fraudulent intent will always find it difficult to access funds as banks have become wiser.

6. Inclusion of Bankers Committee on the National Council on MSMEs in Nigeria

While the MSME policy accommodates a good number of private sector organisations, it is necessary that the Bankers' Committee be included as part of the National Council on MSMEs in Nigeria. This in our opinion will enable commercial banks understand the challenges in lending to MSMEs.

7. Adoption of IFC Holistic Approach To Enhancing SME Competitiveness

We also believe that a holistic approach is necessary for the effective implementation of the MSME policy. We suggest that the MSME policy operators adopt the International Finance Corporation (IFC'S) holistic approach to enhancing SME competitiveness. This model offers solutions to address key challenges SMEs face.

8. Infrastructural Improvements

In Nigeria this conducive climate necessitates the provision of adequate infrastructure and social amenities particularly electricity. In our opinion, having adequate electricity not only reduces operating expenses but also improves productivity especially for manufacturing MSMEs.

9. Capacity Building to Create Linkages Between MSMEs and Large Corporations

IFC believes that development results are improved when capacity building is linked to SME's access to markets and finance. Therefore, IFC developed several programs in some countries that create linkages between SMEs and large businesses. These linkages create powerful incentives for SMEs to build managerial and operational capacity within their own operations. By accessing new markets more effectively, SMEs create opportunities for long-term financial sustainability which can lead to increased job creation.

10. Empowerment of Development Institutions

Agusto & Co. believes that for access to finance to be more effective in Nigeria, development institutions such as the Bank of Industry (BOI) need to be better empowered, with adequate funding so they can establish more credit schemes targeted at different sectors.



11. Appraisal of Development Institutions

In addition, development institutions should also be appraised to ensure that they disburse loans to credible MSMEs, evidenced by a low ratio of non-performing loans in their books. We also believe that development institutions should target MSMEs at the “edge of breakthrough” (breakeven points).

12. Government Cross-Country Study on International Best Practice for Cluster Development

It is necessary for the Nigerian Government to undertake a cross-country study in a bid to adopt international best practises for cluster development.

13. Implementation of Cluster Development in Phases

We also believe that cluster development should be executed in phases for the Nigerian Government to gain on the learning curve. Thus, cluster financing can commence with high impact areas such as Ladipo Market in Lagos (“the auto spare parts market”), Auto Spare Parts and Machinery Dealers Association (ASPAMDA) Market in Lagos, Otigba (Computer) Village in Lagos and the Aba Shoe & Leather Goods Market in Abia State.

14. Collaboration between SMEDAN and FATE Foundation

We recommend that SMEDAN works closely with FATE Foundation (and other organizations with robust Nigerian MSME database) given that FATE Foundation has a strong database of over 3,400 SMEs. ICT education is also necessary as many MSMEs are not ICT savvy. With the number of internet users on the telecom networks in Nigeria at more than 93 million subscribers as at H1’2015, we expect more IT savvy MSMEs in the near term.

15. Research into Key MSME Industries

Under the new MSME policy, “broad-based awareness and appreciation” was categorised as the policy’s first priority. One of the key strategies to achieving this priority is that publicity campaigns will be launched. Augusto & Co. believes that before these publicity campaigns are launched, it is necessary that research be carried out to highlight industries where opportunities exist for MSMEs to key into in the Nigerian economy.

16. Defining MSMEs Using Qualitative and Quantitative Benchmarks

Indonesia defines SMEs in qualitative and quantitative terms. The qualitative term excludes subsidiaries of large corporations from being defined as MSMEs even if they operate as small businesses. This qualitative definition of MSMEs which provides a clause on non-affiliation to large companies helps ring-fence the MSME space by excluding subsidiaries of large corporates that seek to be classified as small businesses. This also protects genuine MSMEs from crowding out. Our studies indicate that large businesses being masked as MSMEs crowd out the genuine small businesses from policy initiatives especially Intervention Funds aimed at MSMEs.

17. Implementation of Revenue Benchmarks in MSME Definition

Another weakness of the MSME definition adopted by the National MSME Policy is the absence of revenue benchmarks. This implies that companies with large revenues but minute staff size can be adjudged to be MSMEs based on this definition and eventually crowd out the genuine small businesses. However, we do note that BOI provides revenue benchmarks in its definition of MSMEs. However, these BOI revenue benchmarks are not incorporated in the National MSME Policy.

18. Subsidising the Cost of BDSPs

Cluster financing and cluster based development has been linked to the increased productivity and innovation among SMEs. Thus, the Government has adopted the use of cluster-based financing for SMEs in its new MSME policy. The Government (through the Bank of Industry) has also set up BDSPs to provide technical assistance to SMEs. However, the impact of the BDSPs remains limited due to the lack of information among MSMEs and the inability of MSMEs to afford the services of BDSPs. The Indonesian model wherein the Government provides paid-up capital to BDSPs which is repaid by servicing nearby clusters provides a noteworthy example to Nigeria. This approach can be targeted at micro enterprises (which have high financial constraints) in order to improve their willingness to seek out technical assistance that will be beneficial to business operations and have a potential multiplier effect on their contribution to the Nigerian economy.

19. Encouraging Backward Integration

Most large enterprises operating in manufacturing and general commerce depend on imported agricultural inputs for raw materials or finished goods for sale. However, many of these products can be locally produced. Backward integration will help large manufacturing firms source some of these imported raw materials locally. The need for sourcing these raw materials locally becomes more compelling in light of the current macroeconomic headwinds especially the restrictive foreign exchange policy of the Central Bank. This makes it imperative for large corporations to invest in backward linkages and help MSMEs in their supply chains. These investments by large businesses in MSMEs especially in the supply chain and backward linkages could create a synergy that is mutually beneficial to both stakeholders and the larger economy. By providing MSMEs with technical and financial support, production processes and product quality can be significantly improved. Successful implementation of supplier development programs would also have positive multiplier effects by increasing the contribution of MSMEs to Nigeria in terms of employment, higher GDP and GDP per capita.

20. Adoption Of Credit Ratings For SMEs

A key challenge affecting the ability of MSMEs to access funding is the lack of information on the creditworthiness of most MSMEs. This challenge can be alleviated by encouraging the adoption of credit ratings for SMEs. Although, there exists credit bureaus in the Country, the level of information proffered by these services are not commensurate to risks borne by lending institutions upon loan disbursement. This is particularly evident in the disbursement of CBN intervention loans (particularly the MSMEDF loans) where banks bear the full credit risk for the funds. The



Indian model provides a noteworthy example as it engages support from the Government and The Organised Private Sector (particularly credit ratings, banks and lending institutions) to provide funding assistance to MSMEs.

Critical Success Factors for MSMEs in Nigeria

Conducive Operating Environment

The large size of the Nigerian market holds a myriad of business opportunities for MSMEs operating in the country. However, the country's harsh operating environment stifles the development of businesses particularly MSMEs. There is need for bold structural reforms in the areas of property registration, land acquisition, business registration, customs and taxation. In addition, the Government needs to invest in critical infrastructure such as power, security, good transportation network and water supply. The development of critical infrastructure such as good road networks, adequate power supply and efficient transportation system should result in lower operating costs for SMEs. This could also lead to higher re-investment in businesses which could lower funding needs, result in higher profitability and increase the size of the business.

Streamlining Of the Tax Collection Process

Government policies such as multiple taxations from all tiers of Government increase operating costs whilst threatening the profitability and viability of SMEs. Although we realise that with dwindling oil reserves, the non-oil sector will become a tax hunting ground for the Government, we also advocate that the tax system should not be designed in a complex and punitive way that drives MSMEs into adopting tax evasion strategies. In addition, there is a need to simplify tax filing procedures to discourage tax evasion. Therefore, we recommend that mandatory levies be centralised and paid to a single agency. The new agency needs to be properly structured to ensure that jurisdiction challenges do not inhibit the success of the harmonisation initiative.

Patents and Intellectual Property Rights

The Government needs to put in place a proper system for patents and intellectual property rights. This will encourage innovation and ingenuity among SMEs. Innovation requires substantial investments in research and development. However due to the existing patent system most SMEs are confined to replicating existing products/technologies. In the absence of a proper patent system, companies that invest in research and development may fail to recoup investments as the product would be copied by other players operating in their space.

Education

SMEs play a critical role in employment generation. However, a key challenge raised by most entrepreneurs is the lack of employability of majority of the graduates in the country. Due to the poor standard of education in the country, majority of the graduates are not imparted with valuable skills needed to succeed as entrepreneurs. This in turn affects the productivity and the quality of output produced by most MSMEs. Large enterprises typically avoid this challenge by allocating significant sums



to re-training employees; hiring foreign expatriates or foreign-trained graduates. However, most MSMEs lack funds to retain skilled labour or retrain employees. The government should invest significantly in revamping technical colleges and universities to offer relevant syllabi to address the knowledge deficit within the Industry.

Research/Business Intelligence

According to Agosto & Co. research, the major challenge confronting veteran entrepreneurs is the lack of adequate business intelligence on critical trends affecting the success of their businesses. SMEs need to acquire timely and adequate information about their business environment, consumer-buying trends and latest innovations in the industries in which they operate. This will inform better investment decisions and improve the ability of entrepreneurs to achieve set objectives. In addition, the availability of good market intelligence would enable business owners to efficiently maximise capital invested in business, enhance market share and profitability.

Mentorship

Mentorship helps in the success of small and medium enterprises. Studies in countries such as the United Kingdom have shown that businesses are twice as likely to surpass five years of being in business when entrepreneurs-in-charge are mentored. Most entrepreneurs in Nigeria do not have mentors to provide guidance on how to effectively run business operations. In addition, most entrepreneurs are not properly enlightened on the benefits of having a mentor and thus do not actively seek out mentorship opportunities. Mentors will provide entrepreneurs advice on how best to achieve business objectives, evade making crucial mistakes that could be otherwise avoided and also provide much needed guidance

Mentorship programs should be implemented in tertiary institutions, vocational colleges and SME advisory enterprises in order to enhance the viability of existing SMEs and aspiring entrepreneurs. However, entrepreneurs need to actively seek out opportunities to build relationships with mentors with proven success in business and industry-specific skills related to running a business in their areas of specialisation. These opportunities can be acquired by registering with associations, networking and attending training programs & seminars.

Good Telecommunication Facilities

SMEs require good and affordable access to the internet and other communication facilities to conduct their daily business activities. Information communication technology (ICT) is very instrumental to the success of SMEs as it reduces the cost of operations. Furthermore, it is also important for telcos to improve on the quality of product offerings to SMEs and enlighten entrepreneurs on the ICT resources available to corporate customers as most small business owners lack this information. Successful MSMEs have been able to harness ICT to reduce business costs, achieve greater exposure for their products and build good customer and supplier relationships.



Table 19: Telecomm Packages Available to MSMEs

<p><u>Cloud</u></p> <ul style="list-style-type: none"> • Cloud Services • Cloud ERP • Cloud Security • Data Hosting • XaaS: Microfinance Software Solutions • Backup as a Service (BaaS) • Desktop as a Service (DaaS) 	<p><u>Web Services</u></p> <ul style="list-style-type: none"> • Web Hosting • Domain Name Registration • Personalised Business Email • Website Builder
<p><u>Voice & Messaging</u></p> <ul style="list-style-type: none"> • Smart Number • Messaging Service for SMEs • Closed User Group • Fixed Voice • Hosted Private Branch Exchange 	<p><u>Broadband Internet</u></p> <ul style="list-style-type: none"> • Fibre Broadband • Data Sharing • Worldwide Interoperability for Microwave Access (WiMAX) • Asymmetric digital subscriber line (ADSL)
<p><u>Unified Communication</u></p> <ul style="list-style-type: none"> • Video Conferencing • Conference Call • Web Services 	

Source: Telecomm websites and Agosto & Co Research

Technological Savviness

A significant proportion of the workforce employed by SMEs particularly low and middle managers lack sufficient skills, training and exposure to IT services. Therefore, there is a need for the revamping of the education sector to ensure that there is appropriate emphasis on the acquisition of ICT skills that are integral to the seamless running of businesses.

Marketing

It is very important for SMEs to market their products aggressively in order to create awareness, expand product reach to a wider market thereby increasing revenues and profitability. E-commerce is an important tool that creates a level playing field for small businesses competing with larger firms. In Nigeria, SMEs that cannot afford to set up an online trading platform can still reap the benefits of e-commerce by collaborating with firms such as Jumia, Konga and Dealdey. In addition, there has been a recent rise in SME market hubs which seek to create a platform for SMEs to increase product visibility and market their products. Due to the fast growing popularity of the E-commerce industry in Nigeria, small businesses selling through online platforms have been able to achieve dual objectives of higher sales volume and generating awareness for their products.

Strategic Planning

Most large companies depend on detailed, planned business strategies due to the complex nature of their operations and wide geographical presence. While we agree that MSMEs in Nigeria do not have the capacity to conduct such complex strategic plans due to financial and human capacity constraints, in Agosto & Co.'s opinion, MSMEs can also benefit from applying strategic planning at some level, to drive business operations. As long as it is realistic, measurable and clear, a good strategy will improve the company's performance materially - by driving better decision making and providing realistic objectives



against which MSMEs can measure performance. In addition, it would be useful in propelling the implementation of set organisational objectives.

Financial Literacy

Proper Bookkeeping

Most MSMEs have poor bookkeeping processes and do not understand the accounting fundamentals - such as the difference between revenues and profit which affect business operations. This affects their ability to save. Poor book keeping affects the ability of external users such as bankers to get proper insight into the business, thereby making it difficult for small scale entrepreneurs to secure loans.

The use of accounting packages is also uncommon among many MSMEs particularly for micro and small businesses, which lack information on the necessity of proper bookkeeping. Due to the lack of funding, majority of the MSMEs can neither afford to employ qualified personnel nor purchase accounting software.

The importance of proper bookkeeping to running MSMEs cannot be underestimated. Furthermore, there has increasingly been an emergence of cheap accounting applications such as the BOI SME Accounting Application (SAAApp) Software, which costs ₦20,000.00. For MSMEs that cannot afford the accounting application, there are also available accounting applications that can be subscribed to after monthly payments.

Table 20: Sample Affordable Accounting Packages available to MSMEs

Accounting Application	Monthly Pricing
Wave Accounting	Free
Intuit QuickBooks Online	Starting from \$9.95 (₦2247.75)
FreshBooks	Starting from \$9.95 (₦2238.75)
Zoho Books	Starting from \$24 (₦5400)

Source: *Businessnews Daily*

Critical Success for Advisory Firms in the SME space

Mentorship

Stakeholders should regularly organise forums and other relevant platforms to create networking opportunities for MSMEs among large organisations, Multinational companies and other small players operating in their space. This could result in the creation of business relationships which would foster growth and productivity in the SME space.

Maintain Dialogue with Other Relevant Stakeholders

There is need for inter-communication between the different stakeholders in the Nigerian MSME space. This will accelerate the process of realising results in policy actions directed at promoting the growth of SMEs in the Country.

Linkages with Large Enterprises

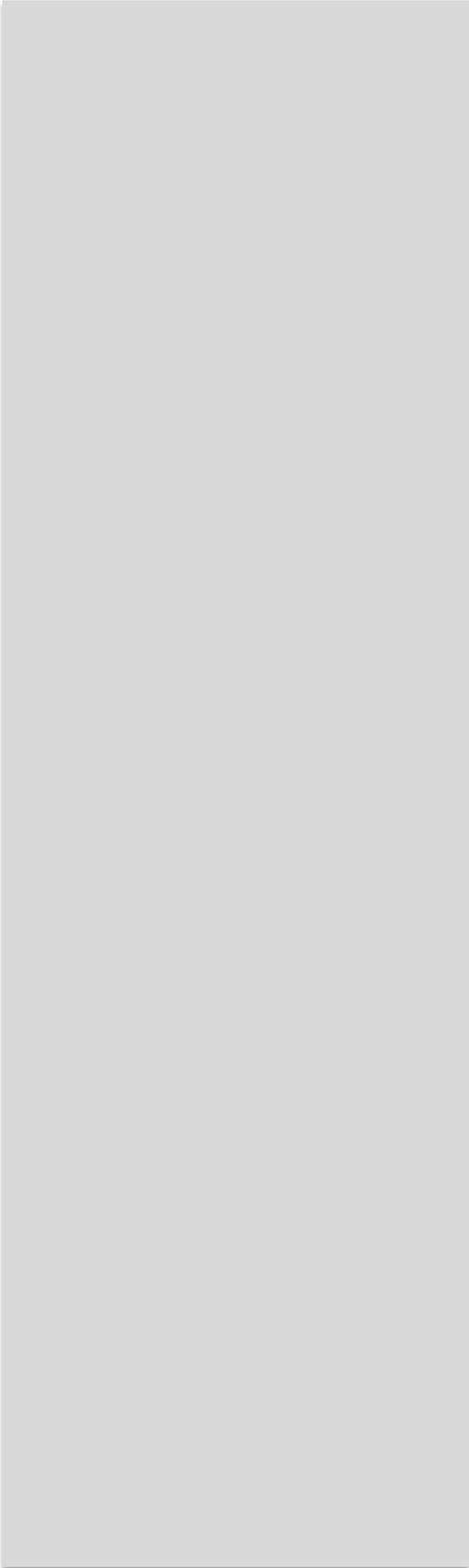
Advisory firms typically have relationships with large enterprises, multinational companies, government and international development partners. Therefore, stakeholders can create networking opportunities for member SMEs with these parties, to encourage buyer-supplier relationships with large companies that source for inputs locally. These forums can also encourage companies that import domestically available products to patronise MSMEs. In some industries such as packaging & printing where this model has succeeded, MSMEs have benefitted significantly. In order to maintain competitiveness, local printing and packaging firms have been compelled to improve and develop expertise in printing, conversion technology and package manufacturing. This has in turn contributed to the technological development of the overall industry. Furthermore, the high standards of large enterprises have driven MSMEs to engage in capital investments to improve the quality of their products.

A major challenge confronting SMEs that have supplier relationships with large enterprises is that payments for rendered services are usually delayed. Advisory firms can also serve as advocates advising large enterprises to alleviate cash flow problems and provide social responsibility to MSMEs by swift repayment for rendered services.

Training

Advisory firms should conduct relevant training programs for SMEs to enlighten them on financial and strategic planning, book keeping and the loan application process. Furthermore, adequate awareness should be created on the existence of these programs as most micro and small enterprises are largely unaware of these trainings. Proper training on relevant business areas will ensure that entrepreneurs and their employees acquire relevant knowledge which is critical to the smooth running of business operations





Appendices



Appendix 1: MSMEDF Requirements of Participating Financial Institutions (PFIs)

Eligibility and Terms for Participation

Microfinance Banks & Finance Companies

Microfinance Banks are required to satisfy the following conditions:

- a) Submission of latest CBN/ NDIC examination report
- b) Submission of two years audited/management accounts
- c) Acceptable risk management framework
- d) Sound Corporate Governance culture indicated by:
 - Adherence to ethical values
 - Degree of separation of ownership from control/management
 - Number of non-performing insider-related facilities
 - Evidence of membership of apex association and up-to-date payment of annual subscription
 - Compliance with up-to-date and timely rendition of monthly returns to the CBN as stipulated in the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.
- e) Any other condition as the CBN may stipulate from time to time.

Microfinance Institutions (NGO-MFIs and Financial Cooperatives)

- a) Registration with Corporate Affairs Commission or appropriate ministries, departments and agencies (MDAs) of States/FCT.
- b) Corporate, trustee and management profile
- c) Acceptable risk management framework
- d) Third party guarantee of at least two trustees
- e) Sound corporate governance
- f) Submission of six months statement of account
- g) Submission of two years audited accounts or management accounts
- h) Membership of the apex association with evidence of up-to-date payment of subscription
- i) Compliance with up-to-date and timely rendition of monthly returns to the CBN as stipulated in the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.
- j) Any other condition as the CBN may stipulate from time to time.

Deposit Money Banks (DMBs)/Development Finance Institutions (DFIs)

A DMB/DFI to be eligible for wholesale funding shall satisfy the following conditions:

- a) Sign MOU with the CBN
- b) Undertake to bear all the credit risks of the loans they shall be granting.
- c) Issue authority to the CBN to deduct the balance of the outstanding loan at source from its account with the Bank.
- d) Set aside 10% of SME fund accessed for financing start-up businesses

Acceptable Collateral (from PFIs excluding DMBs)

Any or a combination of the following collateral shall be accepted by the CBN as security for loans from PFIs (excluding DMBs) to cover a minimum of 75% of the loan amount:

- a) Financial assets including pledge of treasury bills, placements, bonds, etc.
- b) Third party guarantee from at least two board members/trustees and/or third party guarantee from high net worth individuals
- c) Any other collateral acceptable by the CBN from time to time

Source: Central Bank of Nigeria

Appendix 2: Profile of BOI Funds

Name	Description/Purpose	Fund Size	Interest Rate (per annum)	Maximum Tenor	Target Market
1 National Automotive Council (NAC) Fund	The fund was launched in 2003 to create employment, develop MSMEs in the production of automotive parts, develop the skills & build on the knowledge of such companies.	₦16.91bn	Long term loan: 7.5% Working capital loan 10%	Long term loan: 5 years Working capital loan: 3 years (Maximum of 12 months moratorium)	Limited liability companies and enterprises engaged in the assembly of automobiles, automotive component manufacturers, automotive workshop and car service centres.
2 Sugar Development Council Fund	In November 2009, BOI and the National Sugar Development Council signed an MOU. The Fund was set up to support the sugar value chain through local inclusion and to reduce Nigeria's dependence on imported refined sugar.	N/A	Long term loan: 5% Working capital loan: 7%	10 years (including 3 years moratorium)	Limited liability companies and enterprises in the sugar value chain
3 National Programme for Food Security (NPFS)	In December 2009 the Federal Ministry of Agriculture and Rural Development (through the National Programme on Food Security (NPFS)) and BOI implemented the NPFS Fund. The fund was established to aid in factory construction, supply/installation of small-scale equipment for processing groundnut, oil palm, rice, fish, meat and cereals.	₦800m	8%	7 years	Agro-allied processors and farmers
4 CBN Intervention Fund	The Fund was established in April 2010 to aid the development of the manufacturing sector of the Nigerian economy by improving access to credit.	₦235bn	7%	15 years	Nigerian SMEs
5 Dangote Fund	In March 2011, in partnership with BOI, the Dangote Group initiated an MSME fund for job creation.	₦10bn	5%	Dependent on the company's cash flow	Nigerian SMEs in sub-sectors such as Agro-industries, solid minerals and polymer based industries
6 FGN Special Intervention Fund for MSMEs (NEDEP)	In 2014, the Federal Government of Nigeria developed an initiative to subsidise loans to SMEs. The fund can be accessed through SMEDAN by applicants under the National Enterprise	₦5bn	9%	Dependent on the company's cash flow (maximum of 12 months)	Registered limited liability companies, enterprises and cooperatives in Nigeria



		<i>Development Programme (NEDEP) Scheme.</i>			<i>moratorium)</i>	
7	<i>Cottage Agro Processing (CAP) Fund</i>	<i>The fund was launched in September 2014, to support cottage agro processing plants in Nigeria that will produce food products and raw materials for industries within and outside the staple crop processing zone (SCPZ).</i>	<i>₦5bn</i>	9%	<i>5 years (maximum 6 months moratorium)</i>	<i>Limited liability companies, enterprises and cooperatives that process agricultural products or raw materials</i>
8	<i>Rice & Cassava Intervention Fund</i>	<i>The Federal Ministry of Agriculture and Rural Development (FMARD) and the BOI signed an MOU in October 2014 for the establishment of 10 medium scale rice mills of about 36,000mts of paddy per annum and six cassava flour mills of about 18,000mts of cassava tubers per annum. The mills are expected to be in Kano, Kogi, Kebbi, Zamfara, Bayelsa, Bauchi, Benue, Ogun and Anambra states.</i>	<i>₦13.6bn</i>	5%	<i>10 years including a one year moratorium</i>	<i>Limited liability companies and companies engaged in value creation in the rice/cassava sub sector through setting up milling facilities</i>
9	<i>Nolly Fund</i>	<i>BOI launched the Nolly Fund in April 2015. In support of the creative arts industry. The fund aims to increase job creation directly and indirectly.</i>	<i>₦1bn</i>	10%	<i>1 year at the end of a moratorium of six months</i>	<i>Companies engaged in the entire value chain from pre film production to post film production</i>
10	<i>Fashion Fund</i>	<i>In August 2015, BOI launched the Fashion Fund for female entrepreneurs. The fund is in line with BOI's aim to boost the creative arts industry</i>	<i>₦1bn</i>	9% (Maximum of 12 months moratorium)	3 years	<i>Female Entrepreneurs (Women must have majority shareholding)</i>
11	<i>Graduate Entrepreneurship Fund</i>	<i>The fund was launched in October 2015 by BOI and National Youth Service Corps (NYSC) to empower youths and address the problem of graduate unemployment.</i>	<i>₦2bn</i>	9% (6 months moratorium)	5 years	<i>NYSC Corpers</i>

Source: Bank of Industry



Appendix 3: BOI Clusters

	Product Cluster	Skills Training Institute
1	Adire (Tie & Dye)/Aso Oke	Yaba College of Technology
2	Animal Feeds	FIIRO
3	Aquaculture	Nigerian Institute of Oceanography and Marine Research
4	Bakery	FIIRO
5	Blocks and Interlocking Stones	FIIRO
6	Ceramics & Tiles	PRODA
7	Cosmetics/Hair Products	FIIRO
8	Dairy	National Animal Production Research Institute (NAPRI)
9	Digital Printing/Multimedia Publishing	
10	E-Commerce/Information & Communications Technology (ICT)	CWG Academy /CC-Hub/NIIT/New Horizon
11	Fashion/Garmenting	Yaba College of Technology
12	Fish Smoking/Drying	FIIRO
13	Food Processing (comprising processing of agricultural products)	FIIRO/PRODA/Niji Lukas
14	Foundries/Metal Fabrication/3D Printing	PRODA
15	Furniture/Wood Processing	Sokoa Chair Centre
16	Gemstones	Laurel School of Mines/Nigerian Institute of Mining and Geosciences
17	Greenhouses	Dizengoff/International Institute for Tropical Agriculture
18	Groceries Packaging	FIIRO/International Institute for Tropical Agriculture
19	Laundry and Dry Cleaning	
20	Leather/Footwear	Nigeria Institute of Leather and Science Technology
21	Liquefied Petroleum Gas/Compressed Natural Gas	Petroleum Training Institute, Warri
22	Meat Processing	FIIRO
23	Mechatronics	PRODA/Bola Ige Mechatronics Institute, Esa-Oke, Osun State/Institute for Industrial Technology
24	Special Health Care	Teaching Hospitals
25	Movie Production (Nollywood)	National Film Institute, Jos
26	Plastics	
27	Quick Service Restaurants	National Institute for Hospitality and Tourism/Polytechnics
28	Quarries	Laurel School of Mines/Nigerian Institute of Mining and Geosciences
29	Recycling	FIIRO/PRODA
30	Solar (off grid)	NASENI
31	Technical/Vocational Schools (Offering City & Guild Certificate)	Polytechnics & Technical Colleges accredited by the National Board for Technical Education
32	Water/Beverage Packaging	FIIRO
33	Theme Parks	National Institute for Hospitality and Tourism
34	Water Transportation	Maritime Academy of Nigeria
35	Light Manufacturing (Paper, Roofing Sheets, lube blending, Paints, etc.	FIIRO/PRODA

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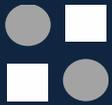
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