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Full Length Research Paper

Preferences of micro, small and medium scale enterprises to financial products in Nigeria

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Micro, small and medium enterprises (MSMEs) are companies whose headcount or turnover falls below certain limits. The definitions change over time and depend, to a large extent, on a country's level of development. In both developed and developing economies, there are evidences of the immense contributions of MSMEs to economic growth and development. It has been recognized that among the constraints to effective development of MSMEs in Nigeria is the limited access of the investors to long term credit. Consequently, various funding initiatives have been instituted. However, the MSMEs are still complaining of inadequate funds. Hence, this paper set out to determine the preferences of MSMEs to financial products in Nigeria so as to adequately target them. Survey results indicated that 75.7% of the respondents relied mostly on own funds to finance their businesses, the frequency analysis indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7% followed by the problem of poor power supply/inadequate infrastructure which took 55.7%. It was therefore, not surprising that 86.1% of the respondents would want the Small and Medium Enterprises Equity investment Scheme to continue. However, 64.7% would prefer loan so they can be in full control of their businesses, while only 15.7% preferred equity. It was recommended that credit programmes that will take cognisance of the peculiarities of MSMEs in Nigeria be intensified so as to increase their access to funds in view of their dominance and potential contribution to the economy.

Key words: Micro, small and medium enterprises, financial products, credit, equity.

INTRODUCTION

Micro, small and medium enterprises (MSMEs) are companies whose headcount or turnover falls below certain limits. The definitions change over time and depend, to a large extent, on a country's level of development. Thus, what is considered small in a developed country like the USA could actually be classified as large in a developing country like Nigeria. However, the definition of MSMEs in Nigeria as contained in the National Policy on Micro, Small and Medium Enterprises (SMEDAN, 2007) is adopted in this study (Table 1), because it is in line with the definition in developing countries like Indonesia (Timberg, 2000; Elijah and Nsikak, 2011).

The National Policy document states that, where there is a conflict in classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (₦7m) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro (SMEDAN, 2007). This is because employment-based classification tends to be relatively more stable definition, given that inflationary pressures may compromise the asset-based definition.

Initial attempts of developed and developing countries to eradicate poverty focused on the development of large scale industries, based on the traditional economy of scale theory (Lawal, 2005). However, the economic downturn that followed the collapse of the world oil market in 1980s and the financial crisis in Asia in the 1990s brought to fore the important role of MSMEs in industrial and economic development in any given country. Small enterprises are known to adapt with

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Table 1. Classification of MSMEs in Nigeria.

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

Source: Small and medium enterprises development agency of Nigeria (SMEDAN), Abuja, 2007.

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

The flexibility, adaptability and regenerative tendencies of MSMEs, have made the sub-sector a pivotal focus for the industrial development of many countries, particularly the developing ones (Raji, 2000). According to Sule (1986), they provide an effective means of stimulating indigenous entrepreneurship, create greater employment opportunities per unit of capital invested, and aid the development of local technology. Through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. By producing intermediate products for use in large-scale enterprises, they contribute to the strengthening of inter-industrial linkages.

In both developed and developing economies, there are evidences of the immense contributions of MSMEs. In the Organization for Economic Cooperation and Development (OECD) economies, MSMEs account for over 95% of firms, 60 to 70% of employment, 55% of Gross Domestic Product (GDP) and generate the lion's share of new jobs. In developing countries, more than 90% of all firms outside the agricultural sector are MSMEs, generating a significant portion of GDP. For example, in Morocco, 93% of industrial firms are MSMEs and account for 38% of production, 33% of investment, 30% of exports and 46% of employment. In Bangladesh, enterprises with less than 100 employees account for 99% of firms and 58% of employment. Similarly, in Ecuador, 99% of all private companies have less than 50 employees and account for 55% of employment (WBCSD, 2004). In Indonesia, SMEs account for 98% of its enterprises and over 60% of its GNP (Timberg, 2000). Not all these MSMEs are in the formal sector; some occupy the unofficial labour market, which varies in size from an estimated 4 to 6% in developed countries to over 50% in developing nations (WBCSD, 2004).

By global standards large enterprises are very few in Nigeria. Peasant agriculture predominates, accounting for about 95% of total agricultural output in Nigeria and employment in the sector (Central Bank of Nigeria (CBN), Research Dept., 2000), while the agricultural sector has been the mainstay of the Nigerian economy and currently accounts for 40.9% of the country's GDP (CBN, 2010). It is also estimated that non-farm MSMEs account for over 25% of total employment and 20% of GDP in Nigeria (SMEDAN, 2007). Empirical evidence shows that MSMEs dominate the industrial sector in Nigeria, accounting for about 70% of industrial employment and 10 - 15% of manufacturing output (CBN, 2000). In addition, the number of persons employed by MSMEs over the years has generally risen (CBN, 2004). Available information confirms that informal manufacturing enterprises are dominated by small-size operators in the country, in terms of number of people employed with percentage distribution ranging between 92 and 98 across activity sectors. Furthermore, the contribution of the entire informal sector (agricultural sector inclusive) to the GDP was put at 38.7% (CBN/FOS/NISER, 2001). They have been very prominent in the manufacture of bakery products, leather products, furniture, textiles and products required for the construction industry.

MSMEs can play bigger role in developing national economies, alleviating poverty, participating in the global economy and partnering with larger corporations. They do however need to be promoted. Such support requires commitments by and between governments, business and civil society (CBN, 1981; NASME, 2003; NISER, 2005; Akinyosoye, 2006; SMEDAN, 2007; Oyelaran-Oyeyinka, 2007; Ojo, 2010). It has been recognized that among the constraints to effective development of MSMEs in Nigeria is the limited access of the investors to long term credit and the general non availability of comprehensive information which can guide potential investors and hence reduce the cost of pre-investment information gathering which may be very high and prohibitive (Inang and Ukpong 1993; Essien, 2001; Owualah, 2002; Anyanwu et al., 2003; CBN, 2004; Ogujiuba et al., 2004; Akinyosoye, 2006; Adelaja, 2007; Adamu, 2009).

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

Various funding initiatives have been instituted in the past to improve the access of MSMEs to long term funds in order to improve their performance and contribution to the economy. Funding consists of the financial resources required to transform the ideas of an entrepreneur into a viable project. It can take the form of loans, equity capital, venture capital, working capital or any other form (Raji, 2000). To this end, a variety of financial institutions, schemes and funds have been developed in Nigeria over the years (CBN Briefs, 1992 to 2006). The period, 1964 - 1999 can be described as the old financing initiatives, while the period, 2001 to date can be described as the current financing initiatives.

In Nigeria, after several years of debt (credit) financing, inadequate capital or lack of it is still believed within state planning circles and even among MSME owners themselves to be a major inhibiting factor for new and growing MSMEs. Specifically, it is argued that inadequate equity capital creates the need for debt financing which the MSMEs are ill-equipped to attract; and determines or influences their initial decisions concerning the acquisition of fixed assets, working capital requirements and even location (Owualah, 2002; CBN/NISER, 2004). To alleviate the shortcomings of the past schemes towards the financing of MSMEs in Nigeria, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was created and put into operation from August 2001 with emphasis on banks providing equity finance rather than debt. By the third quarter of 2008, the Bankers Committee took the decision that participation under SMEEIS be optional. After almost five decades of tinkering with various financing schemes for the MSMEs, it has become pertinent to carry out an empirical study on the effectiveness of these funding initiatives in Nigeria.

The main objective of this study is to determine the sustainable financing option for MSMEs in Nigeria now that they have been exposed to both debt and equity finance through the banks. The paper will also profile the structure of MSMEs in Nigeria and identify their constraints. It is expected that the outcome of this study will provide useful information to the various stakeholders concerned with the development of the MSME sector in Nigeria and beyond, because according to Ojo,'' the basic problem in Nigerian Financial System like many less developed countries is that we do not know exactly what financial technology to adopt or how to combine alternative financial techniques and what policy to pursue to make the financial sector play the desired role adequately'' (Ojo, 1976).

MATERIALS AND METHODS

Scope of the study

This study puts the various credit initiatives directed at MSMEs in Nigeria between 1970 and 2010 in perspective and specifically looks at the disbursement of the SMEEIS funds from inception in 2001 till 2009 when it was suspended. The study therefore, covers the whole country but with analytical emphasis on the Lagos-Ogun axis.

Type and sources of data

Both secondary and primary data were used for the study. Secondary data were sourced from the Central Bank of Nigeria on the disbursements under SMEEIS. With the aid of a structured questionnaire, primary data were sourced from MSMEs in five of the six geopolitical zones of the country where the SMEEIS funds were disbursed in order to determine their preferred financing option now that they have been exposed to both credit and equity financing. The questionnaire was used to gather information on the socio-economic characteristics of MSME operators such as age, educational qualification and gender. Firm characteristics such as size and type of enterprise, ownership structure and age of business were also obtained. Information was also obtained on the financing and operations of the MSMEs which include; sources of funds, raw materials, operating cost and capacity utilization rate. Finally, respondents were requested to list the constraints limiting their performance and their problem with the SMEEIS. A panel survey was also carried out with the SME group of the Lagos Chamber of Commerce and Industry.

Sampling procedure

From inception in 2001 to March 2009 when the participation in SMEEIS was made optional to banks, a total of 333 projects were financed in 24 states and the Federal Capital Territory. The following 12 states did not receive any funding under the SMEEIS; Adamawa, Bayelsa, Borno, Ebonyi, Gombe, Jigawa, Katsina, Kebbi, Kogi, Niger, Taraba and Yobe. From the foregoing, 5 of the 6 states that comprise the North East zone of Nigeria, namely; Adamawa, Borno, Gombe, Taraba and Yobe

Table 2. Selection of study sample.

Zone	Total number of projects financed under SMEEIS	Selection
South-west	231	74
South-south	31	10
North-central	26	8
South-east	15	5
North-west	9	3
Total	312	100

Source: Computed from SMEEIS returns in the development finance department of the central bank of Nigeria, Abuja.

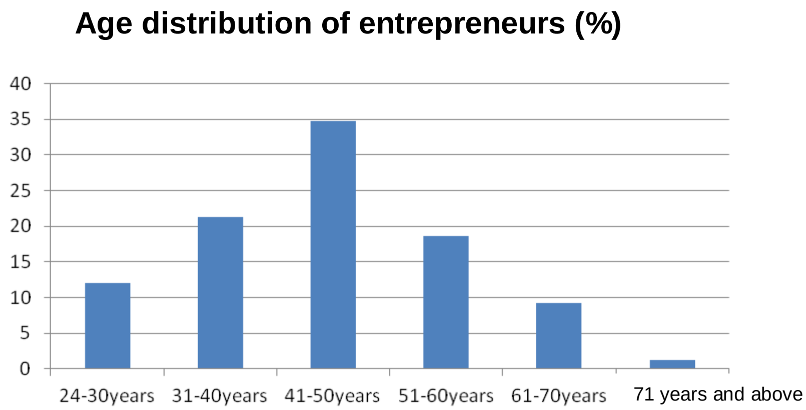

Figure 1. Age of the entrepreneur.

states did not receive any funding under the SMEEIS. Consequently, the North East zone of the country was left out of the sample to be drawn for the primary survey. Thus, a purposive sampling technique was used to draw the sample for the study. The survey was carried out between March and June, 2010. The table showing the selection of the study sample (Table 2).

The panel survey

The Lagos Chamber of Commerce and Industry has the Small and Medium Scale group which meet quarterly. In view of this, a panel survey was carried out with this group during the data collection exercise. One in March, 2010 and another in June, 2010. In all a total of 45 members were interacted with. During this interaction, a lot of information was obtained on their credit sourcing problems and preferences.

Analytical techniques

A combination of analytical tools was employed. These include measures of central tendency and dispersion, proportional analysis, growth rate and trends, graphs and charts and frequency distribution. These were used to profile the structure of MSMEs, evaluate the disbursement of the SMEEIS fund and analyze the constraints limiting the performance of MSMEs and their problems with the SMEEIS.

RESULTS AND DISCUSSION

Out of the 100 questionnaires that were administered, 80 gave consistent response. This signifies a response rate of 80 percent. However, information supplied by the respondents along with those gathered from the 45 members of the SME group of the LCCI during the panel survey carried out were quite revealing and confirmed the findings of previous surveys by the Central Bank of Nigeria, the National Bureau of Statistics and the Nigerian Institute for Social and Economic Research on the structure of MSMEs in Nigeria (2001 and 2004). The survey results were also in line with empirical findings by some of the authors in the Literature review of Lawal (2005); Akinyosoye (2006); Ogunrinola and Alege (2007) and Meludu and Adekoya (2007).

Age of the entrepreneur

The analysis of the survey returns showed that the ages of the entrepreneurs ranged from 24 to 72 years with a mean age of 45 years ± 12.1 years (Figure 1). This

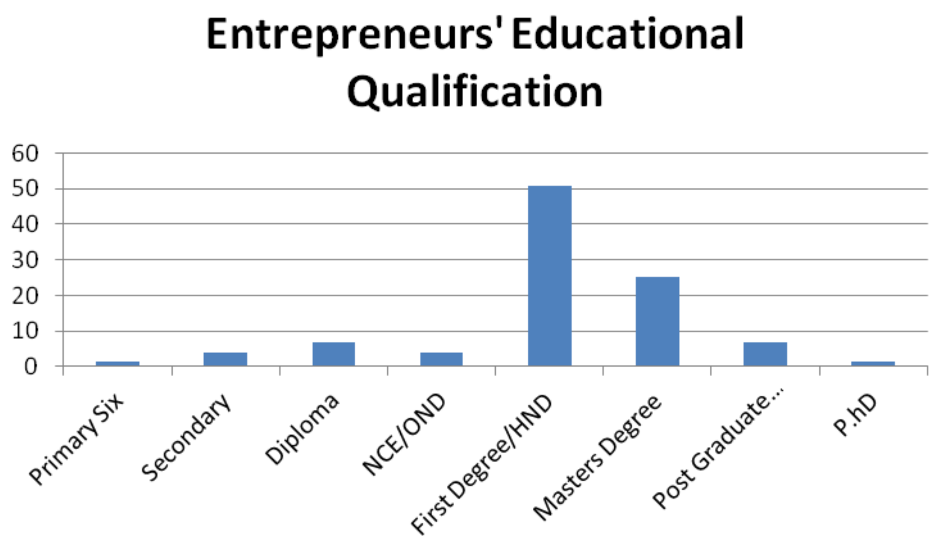

Figure 2. Educational qualification of the entrepreneur.

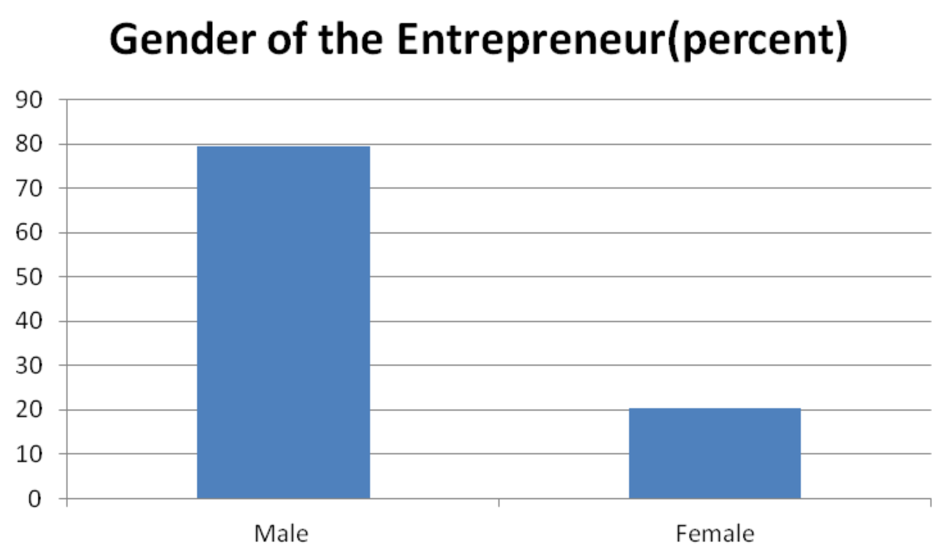

Figure 3. Gender of the entrepreneur.

shows that the entrepreneurs are still in their active age range.

Educational qualification of the entrepreneur

Education is known to be a key factor in determining the productivity of labour and as such the success and profit levels of enterprises. It thus, plays a key role in determining access to microcredit (Adenegan et al., 2006). Results in Figure 2, show that all the respondents were highly literate and had one form of formal education or the other. More than half of them had a first degree and above. This is a positive development as a high literacy rate will impact positively on the operations of the MSMEs (The Urban Institute, 2008).

Gender of the entrepreneur

Most of the operators in the MSME sector were men as they constituted about 80% of the respondents (Figure 3). This is in line with previous studies in the sector (Lawal, 2005; Ogunrinola and Alege, 2007) and has implication for the business climate in Nigeria in view of the fact that women constitute to about 50% of Nigeria's population (CBN Statistical Bulletin, 2006). Furthermore, the study by the Central Bank of Nigeria Research Department in

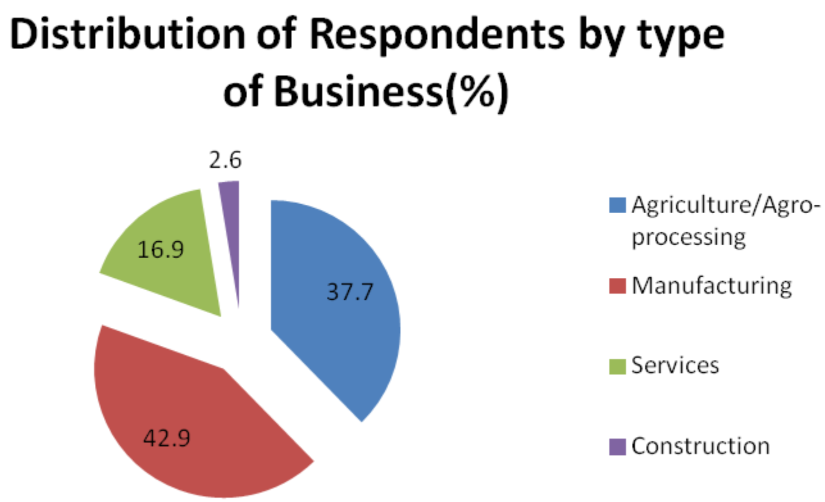

Figure 4. Type of business.

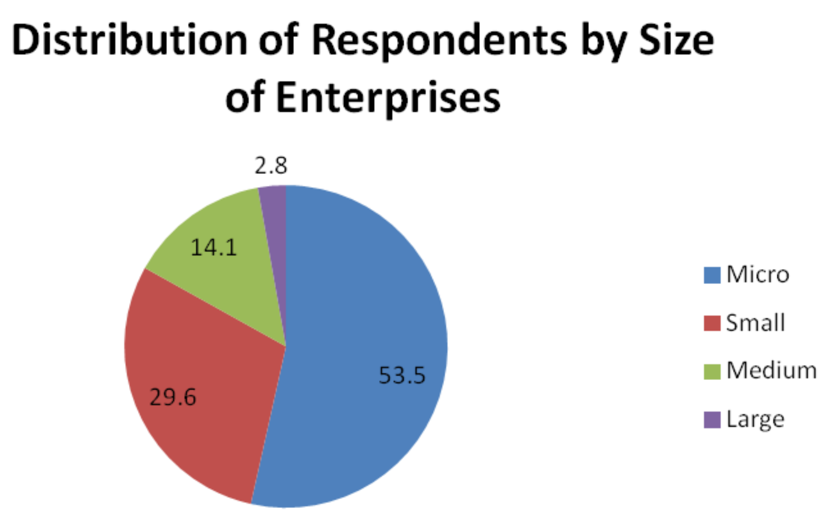

Figure 5. Size of enterprise.

collaboration with the World Bank in 1999 revealed that women accounted for just 1.73% of the Nigerian Agricultural and Cooperatives Bank's clientele in 1994. In the same vein, fewer women (3.6%) were also reported to have obtained loan from banks in the study by Meludu and Adekoya in 2007.

Type of business enterprise

In line with the Central Bank of Nigeria classification of enterprises eligible for funding under the SMEEIS (CBN, 2006), the type of businesses engaged in by the respondents were analyzed. Results in Figure 4 shows that 37.7% of the respondents were engaged in the agriculture/agro-processing sector, 42.9% were in the manufacturing sector, 16.9% were in the services sector while 2.6% were in the construction sector. This sectored distribution of business enterprises confirms that MSMEs are dominant in the real sector of the Nigerian economy.

Size of enterprise

Enterprises were classified into sizes based on the number of employees as contained in the National Policy on MSMEs (SMEDAN, 2007). Most authors have also used employment- based classification because it tends to be a relatively more stable definition, given that inflationary pressures may compromise the asset-based definition. The analysis in Figure 5, reveal that more than half of the respondents (53.5%), were in the micro-enterprise category (having less than 10 workers). This was followed by those in the small-scale category

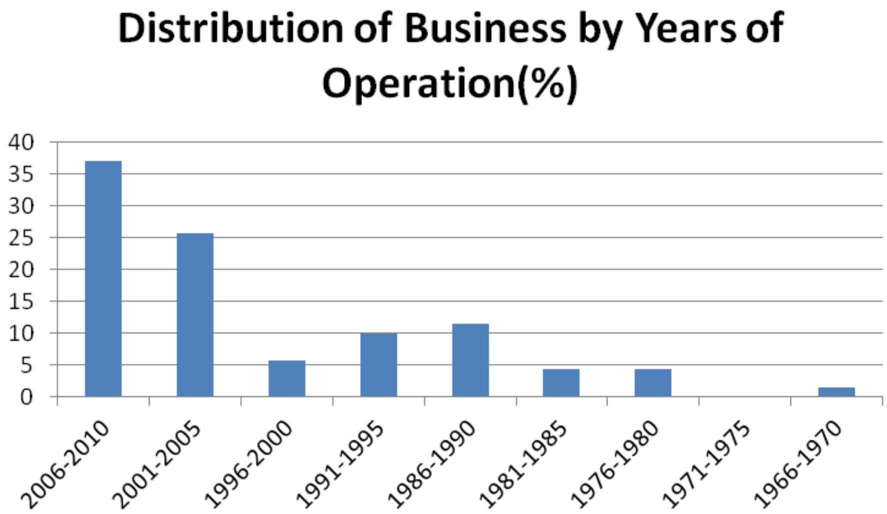

Figure 6. Age of business enterprise.

(29.6%), employing 10 to 49 workers. The medium enterprise category constituted 14.1% (employing 50 to 199 workers). The least were those in the large scale category (2.8%), employing 200 workers and above. This result further validates previous studies that MSMEs dominates Nigeria's economic landscape (CBN/NISER, 2004; SMEDAN, 2007; Ojo, 2010).

Years of operation

The number of years a business enterprise has been in operation is an indication of the maturity of the business. Established firms are said to have greater survival duration than start-ups. However, over time start-up firms are likely to survive as existing businesses (The Urban Institute, 2008). A review of Figure 6 showed that among the respondents, young businesses dominated as 37.1% of them started their business in the last five years. This group was followed by those who had been in business for 10 years which constituted 25.7%. Those who had remained in business for 15 years constituted 5.7 percent, while those who had been in business for 20 and 25 years constituted 10.0 and 11.4% respectively. Those whose businesses were 30 and 35 years old constituted 4.3% respectively while only 1.4% of the respondents had remained in business for over 40 years. Similarly, the study by Meludu and Adekoya, 2007, revealed that more than half of the respondents (54%) had been in business from one to ten years while 46% had been in business for over ten years. The study by Lawal, 2005, revealed that about 23% of his respondents had been in business for less than five years while 55.5% had remained in business for five to twenty years.

Ownership structure/Business registration

One of the requirements for the assessment of the SMEEIS funds was that the business enterprise must be registered with the Corporate Affairs Commission (CAC) as a limited liability company (Bankers' Committee, 2001). In terms of legal status, 84.2% of the respondents had their businesses registered with the CAC, while 15.8% of them had not done so (Figure 7). Most importantly, an analysis of the ownership structure by respondents revealed that 46.6% of the businesses were registered as limited liability companies while 40 percent were sole proprietorships. Partnership constituted 5.3% while cooperatives and public limited liability companies constituted 4 percent respectively. This implies that of the MSMEs in the survey, only 46.6% were qualified to access SMEEIS funds. This was however, an improvement over the 30% recorded during the CBN/NISER base line survey in 2004.

Sources of finance

Analysis of survey results indicated that 75.7% of the respondents relied mostly on own funds to finance their businesses while 20.3% relied mostly on banks to finance their operations. About 2.7% of the respondents financed their operations from the share capital while 1.3 percent relied on suppliers' credit (Figure 8).

This survey result confirms the copious literature on the problem of access to credit by MSMEs in Nigeria (Inang and Ukpong, 1993; Essien, 2001; Owualah, 2002; Anyanwu et al., 2003; CBN, 2004; Ogujiuba et al., 2004, Akinyosoye, 2006; Adelaja, 2007; Meludu and Adekoya, 2007; Adamu, 2009). The conclusions drawn from these literatures are that MSMEs are discriminated against by banks in the provision of medium to long term loan facilities because they are perceived to be risky and do not have the skills to successfully run a business, consequently, they rely mostly on their personal savings,

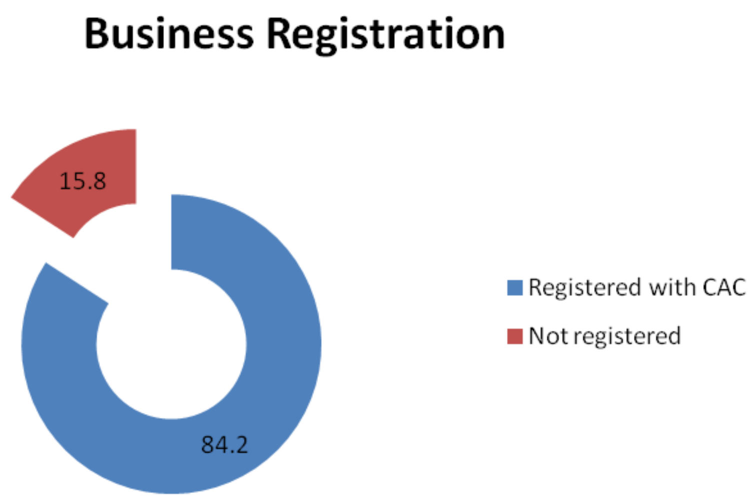

Figure 7. Ownership structure.

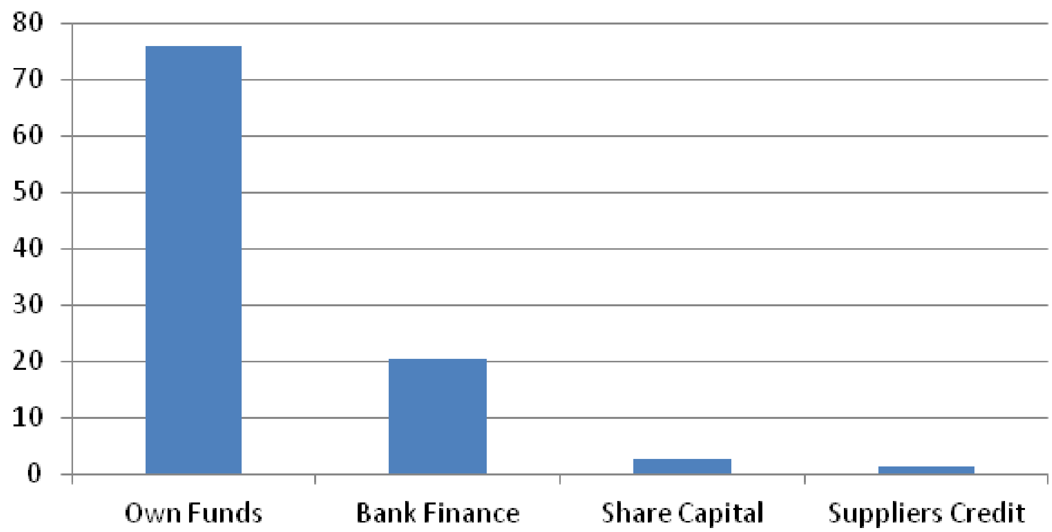

Figure 8. Sources of funds.

that of their close relatives and friends and the informal financial markets which are grossly inadequate.

Distribution of operating expenses and capital expenditure

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

Sources of raw materials

Most of the respondents sourced their raw materials locally (83.1%) while 10.8% of them used imported raw materials. However, a few of them (6.2%) obtained their raw materials from both local and foreign sources (Figure 9).

The fact that over 80% of MSMEs raw materials are sourced locally confirms that they promote and contribute immensely to national economic activities through backward and forward linkages (Sule, 1986; Udechukwu, 2003).

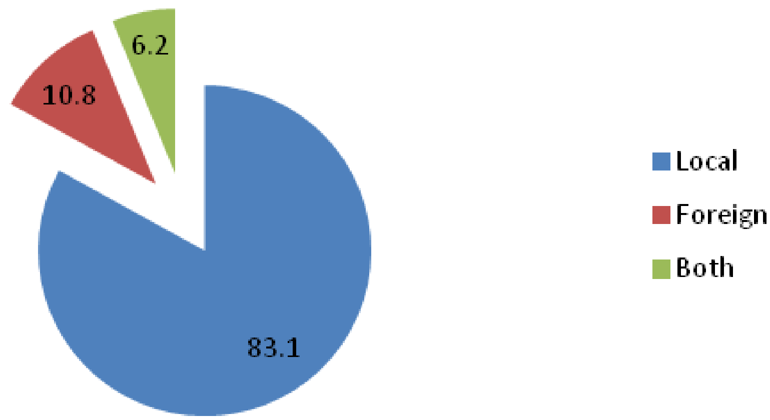

Figure 9. Sources of raw materials.

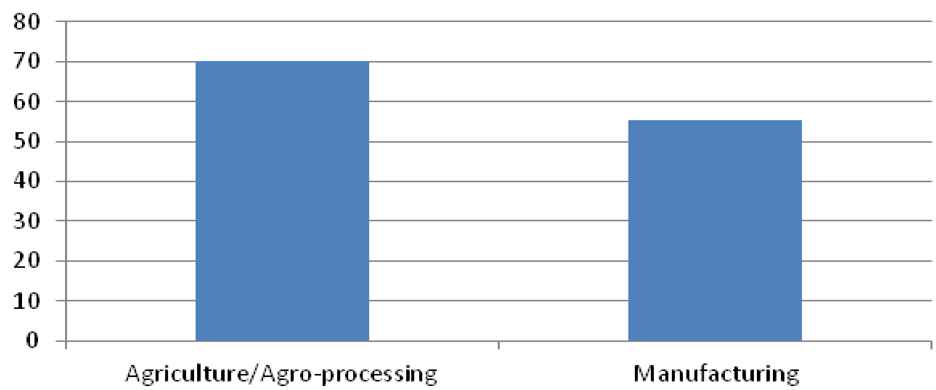

Figure 10. Capacity utilization rate by enterprise.

Capacity utilization rates

Analysis of the survey returns showed that capacity utilization rate was highest for MSMEs in the Agriculture/Agro-processing sector. It averaged 70.2%, while for those in the manufacturing sector it averaged 55.4% (Figure 10). This is in line with Apriori expectations as MSMEs in the Agricultural sector are better off in terms of raw materials supply, since Nigeria is majorly an agrarian economy. The result is further validated by data from the CBN (CBN Statistical Bulletin, 2007; Annual Report and Statement of Accounts, 2010).

Awareness of small and medium enterprises equity investment scheme (SMEEIS) and sources of information

One of the major problems identified as being responsible for the slow disbursement of the SMEEIS funds in the first few years of its introduction was lack of awareness among the intended beneficiaries (Anyanwu et al., 2003). Consequently, the CBN embarked on intensive nationwide sensitization programme (Development Finance Department CBN, 2007) and directed the commercial banks to do same. This exercise seemed to have paid off as majority of the respondents were aware of the SMEEIS (88.6%) as at 2010 when this survey was carried out while only 11.4% were not (Figure 11). This is a substantial improvement compared with the 20% awareness rate recorded by Anyanwu et al. (2003). Most of the respondents (26.2%) got to know about the SMEEIS through the mass media and publications on SMEEIS while a good number were sensitized by the organized private sector/business associations (25.0%). Through relations and friends 16.7% of the respondents were informed about the SMEEIS while commercial banks sensitized 16.3% of them. That the most effective channel among the respondents was mass media and publications on SMEEIS further confirms their high literacy rate as revealed in the earlier analysis (Figure 2).

Use of small and medium enterprises equity investment scheme (SMEEIS) funds

According to Frank and Bernanke (2007), credit is not an end in itself; it is a means to an end. The ultimate goal is

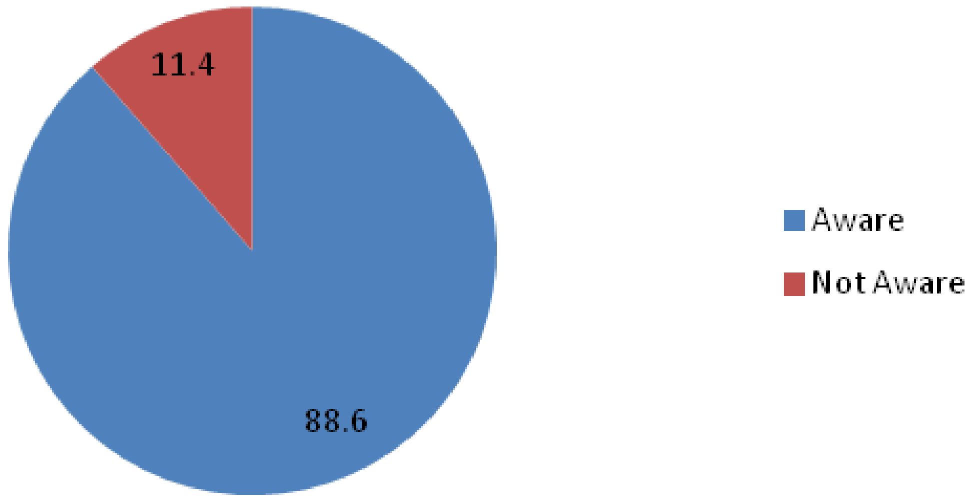

Figure 11. Awareness of SMEEIS.

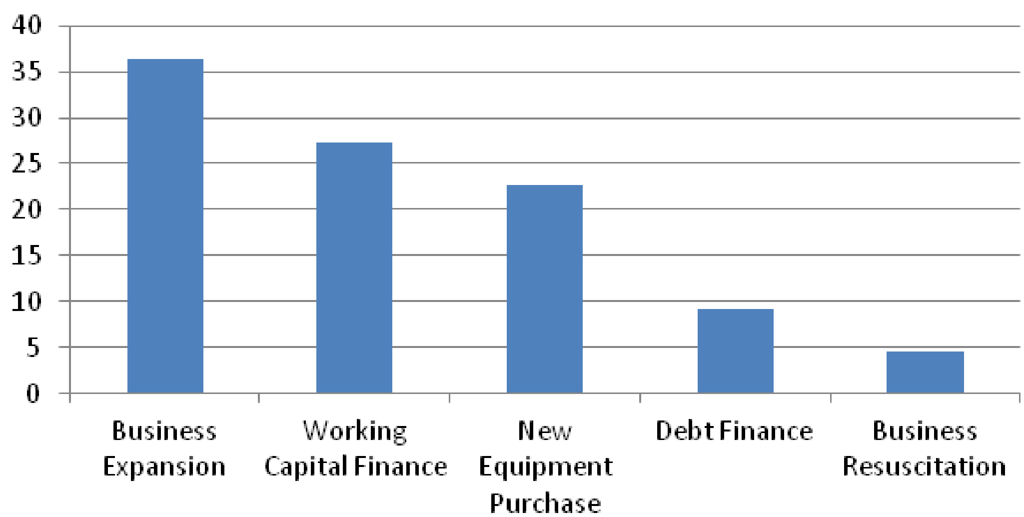

Figure 12. Use of SMEEIS funds.

to affect productivity. Thus, a successful economy not only saves, but also uses its savings wisely by applying these limited funds to the investment projects that seem likely to be the most productive. Consequently, this study sought to know the use(s) to which the SMEEIS funds were applied by the MSMEs. The result of the survey analysis is presented in Figure 12. Business expansion took the greatest proportion (36.4%), followed by working capital finance (27.3%).

A good number of the respondents (22.7%) used it to purchase new equipment while 9.1% of the respondents used it for debt finance. The rest of them (4.5%) used the SMEEIS fund to resuscitate their dying businesses. Similarly, the study by Ogunrinola and Alege (2007) revealed that 67% of their respondents claimed to have invested the last loan received on business equipment, while the remaining 33% maintained that theirs was spent on working capital for their business expansion. This analysis is quite instructive on the enormous potentials of the MSMEs in the Nigerian economy if their access to credit is enhanced.

Continuation of scheme and preferred financing options

Analysis in Figure 13 show that majority of the respondents would want the SMEEIS to continue (86.1%). Certainly, to alleviate their inadequate finance problems as most of them cited inadequate finance/working capital as one of their major constraint.

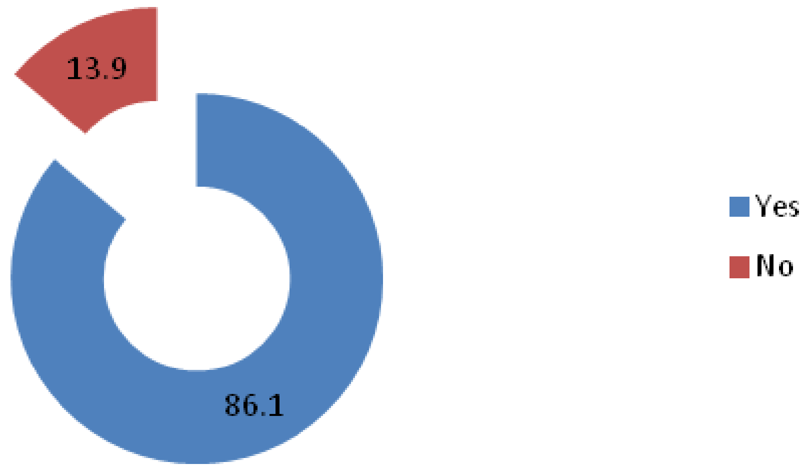

Figure 13. Continuation of the SMEEIS.

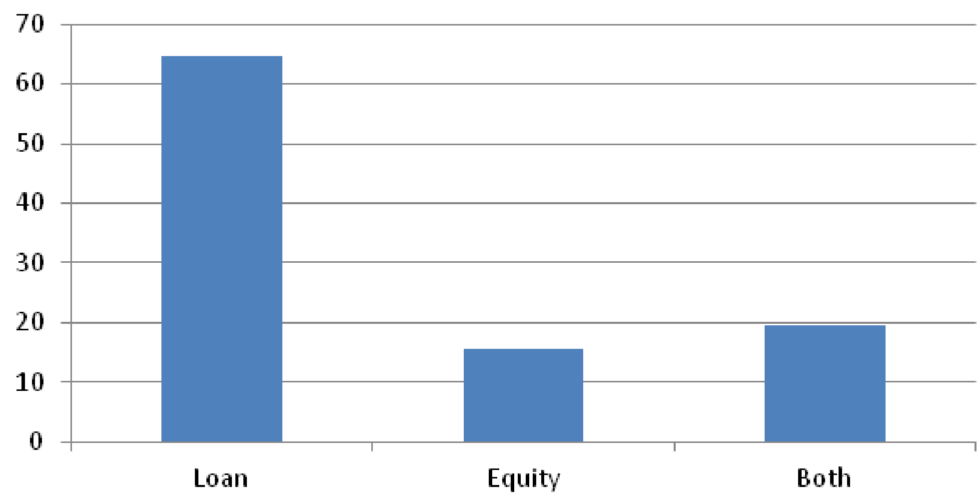

Figure 14. Preferred financing option.

The few, who did not wish the scheme to continue, cited the cumbersome procedures in place for accessing the product as the reason. However, when asked the financing option they preferred, 64.7% preferred loan so they can be in full control of their businesses, only 15.7% preferred equity and they felt it is a cheaper source of finance. About 19.6% would want both loan and equity finance to guarantee adequate finance for their operations (Figure 14).

This result is similar to that of Anyanwu et al. (2003) which reported that' most Nigerian small and medium industries did not want equity contributions to their businesses for fear of acquisition, instead, they preferred sole-ownership to partnership'.

In a similar study in Ghana by Aryeetey et al. (1994), it was discovered that, smaller firms in Ghana are not particularly receptive to external participation in their operations. In the Ghana study, over half (56%) of the total sample indicated a preference for debt to equity finance; a third preferred equity finance to debt finance. Many of the respondents in the Ghana study were reported to have expressed the view that they “cannot trust partners who would only put a little bit of money into an enterprise and want to control it”. Thus, in both Ghana and Nigeria, the issue among MSMEs is control of the business hence majority of them prefer loan/ debt to equity finance.

Disaggregation of survey results by size of enterprise

In the attempt to give this work a sharper focus the results discussed aforementioned were disaggregated by size.

Table 3 reveals that respondents in the small scale category had the least mean age of 40 years, while those in the medium scale category had the highest (47

Table 3. Socio-economic and firm characteristics of respondents by size of enterprise.

Indicator	Micro enterprise	Small enterprise	Medium enterprise
Mean age of respondent	43 years	40 years	47 years
Education (percent with 1st degree plus)	86.5%	85 %	80%
Gender (percent)	Male =70% Female = 30%	Male = 85 % Female = 15 %	Male = 100% Female = 0
Type of business (percent share)	Agric. = 26.3% Manu.= 36.8% Serv. = 36.8%	57.1% 42.8% 0	20% 70% 10%
Age of business enterprise (1-10yrs)	81%	47%	50%
Ownership structure (percent registered as limited liability)	26%	67%	90%
Sources of funds	Own funds = 95% Bank = 5%	40% 60%	40% 60%
Awareness of SMEEIS (percent)	90%	85%	50%
Continuation of scheme (percent)	73%	83%	60%

Source: Survey returns.

years). Respondents with a first degree and above were more prevalent in the micro enterprise category (86.5%) and less in the Medium enterprise category. Females were also more prevalent in the micro enterprise category (30% compared with 15% in the small scale category), and there was no female in the medium enterprise category. More respondents were in the agricultural sector in the small scale category 57.1% compared with 26.3 and 20% in the micro and medium scale category respectively. Those involved in the manufacturing sector dominated the medium scale category (70%). Younger businesses dominated the micro enterprise sector as 81% of the respondents in this sector started their business in the last ten years compared with 47 and 50% respectively in the small and medium scale categories. In the medium scale category, 90% registered their companies as limited liability companies compared with 66.7 and 26.3% by those in the small and micro enterprise sectors respectively.

In the same vein, those in the medium and small scale category had more access to bank finance (60% respectively) compared with 5.4% by those in the micro enterprise sector. In terms of awareness, those in the micro enterprise sector were quite aware of the SMEEIS (90%), compared with 85 and 50% of those in the small and medium scale category respectively. The greatest proportion of those who would want the scheme to continue were found in the small scale category (83.3%) compared with 72.7 and 60% in the micro and medium scale categories respectively.

The aforementioned analysis is highly instructive and validates earlier studies that micro enterprises are less likely to access formal credit. This survey result also show that the micro entrepreneurs are more literate and most of their businesses are young, which validates the claim that the micro enterprise sector has become the residual sector, to which fresh graduates are flocking. The small scale category was dominated by agriculture/agro-processing enterprises, which confirms that the agricultural sector in Nigeria is still largely small scale oriented. The medium scale category on the other hand was dominated by manufacturing enterprises and most of them were registered as limited liability companies. Furthermore, they were all owned by men. This confirms the fact that women's' access to capital is very low, as substantial capital is needed to set up manufacturing enterprises.

Disbursement under the small and medium enterprises equity investment scheme

From inception in 2001 to end December 2008, the

Table 4. Sectoral distribution of SMEEIS investments.

A. Real sector/enterprise	Investment as at March, 2009			
	Number of projects	Amount (₦)	Number (%)	Amount (%)
Agro-allied (including wood work and water bottling)	45	2,311,975,707.58	13.51	8.20
Manufacturing (including printing and publishing)	144	8,103,773,769.65	43.24	28.73
Construction (including quarrying)	13	2,786,287,000.00	3.90	9.88
Solid minerals	3	59,440,000.00	0.90	0.21
Sub-total	205	13,261,476,477.23	61.56	47.02
B. Service- related sector				
Information technology and telecommunications	24	1,821,809,249.04	7.21	6.46
Educational establishment	7	897,935,000.00	2.10	3.18
Services	74	4,768,855,718.81	22.22	16.91
Tourism and leisure	23	7,454,001,847.00	6.91	26.43
Sub-total	128	14,942,601,814.85	38.44	52.98
C. Micro enterprises sector	0	0	-	-
Grand total	333	28,204,078,292.08	100	100

Total amount set aside under SMEEIS by consolidated banks: ₦42, 024,988,746.00. Source: Development Finance Department, Central Bank of Nigeria, Abuja.

cumulative sum set aside by banks under the SMEEIS was ₦42.0 billion. The sum of ₦28.2 billion or 67.1% of the sum was invested in 333 projects, out of which the real sector accounted for 205 projects, and the service-related sector, excluding trading, accounted for 128 projects (CBN, 2008). Table 4, indicates that 45 projects were funded under agro-allied (including wood work and water bottling), to the tune of ₦2.3billion, and this represented 13.5% of the total number of projects financed and 8.2% of total amount invested by banks in SMEs from 2001 to 2009. In the manufacturing (including printing and publishing) sector, 144 projects were funded to the tune of ₦8.1 billion, which represented 43.2% of the total number of projects financed and 28.7% of the total amount invested by all the banks under SMEEIS. In total 189 projects were funded under SMEEIS in the agricultural and manufacturing sector to the tune of ₦10.4billion, representing 56.8% of the total number of projects financed and 36.9% of total amount invested during the period under review.

An analysis of the geographical distribution of SMEEIS investments revealed that Lagos State got the highest number and amount. Banks funded 187 projects in Lagos to the tune of ₦11.6 billion, which represented 56.2% of the total number of projects funded and 41.3% of total amount invested.

This is not unconnected with the fact that most of the banks' headquarters are in Lagos where the officers in charge of the SMEEIS were domiciled. Certainly, it was cheaper and more convenient for the banks since they were required to appoint their staff as directors on the board of the companies they financed. However, this skewed distribution of SMEEIS investments has negative implications as 12 out of the 36 states in Nigeria did not benefit from the SMEEIS during the period under review (Table 5).

As stated in the SMEEIS guidelines, a minimum of 10 percent of the total sum set aside by banks was to be invested in micro enterprises, but this never happened despite the fact that as much as ₦13.8 billion or 32.9% of the total sum set aside remained un-invested as at end December, 2009.

In addition, following the decision to make participation under the SMEEIS optional for banks, the balance of the total funds set aside by banks under the scheme and total sum invested remained at ₦42.02 billion and ₦28.2 billion respectively, just like in December 2008, while the cumulative number of projects was reported to be 336 (CBN, 2009). All these have negative implication for the purveyance of finance to the MSMEs

In specific terms, the access of MSMEs to funds under the SMEEIS did not improve between 2008 and 2009 because the SMEEIS had become optional for banks from the 3rd quarter of 2008. This confirms the views by previous authors that increased access of MSMEs in developing countries and Africa in particular, can only be achieved and(or) enhanced by deliberate policy (WBCSD, Evbuomwan, 2004; UNEP Finance Initiative, 2007; Adamu, 2009; and Kormawa et al, 2011).

Constraints limiting the performance of micro, small and medium enterprises (MSMEs) in Nigeria

MSMEs in Nigeria have not performed like their

Table 5. Geographical distribution of SMEEIS investments.

S/N	Investment as at March 2009				
	State	**Number of projects**	**Amount (₦)**	**Number (%)**	**Amount (%)**
1	Abuja FCT	10	1,548,335,998.91	3.00	5.49
2	Abia	9	728,400,000.00	2.70	2.58
3	Adamawa	0	-	0.00	0.00
4	Akwa-Ibom	2	118,075,000.00	0.60	0.42
5	Anambra	6	422,398,122.82	1.80	1.50
6	Bauchi	1	68,400,000.00	0.30	0.24
7	Bayelsa	0	-	0.00	0.00
8	Benue	3	88,420,000.00	0.90	0.31
9	Borno	0	-	0.00	0.00
10	Cross-River	7	6,190,341,646.55	2.10	21.95
11	Delta	7	247,731,000.00	2.10	0.88
12	Ebonyi	0	-	0.00	0.00
13	Edo	8	493,144,958.27	2.40	1.75
14	Ekiti	2	57,600,000.00	0.60	0.20
15	Enugu	2	117,994,000.00	0.60	0.42
16	Gombe	0	-	0.00	0.00
17	Imo	2	214,938,994.39	0.60	0.76
18	Jigawa	0	-	0.00	0.00
19	Kaduna	7	436,000,000.00	2.10	1.55
20	Kano	8	343,898,346.00	2.40	1.22
21	Katsina	0	-	0.00	0.00
22	Kebbi	0	-	0.00	0.00
23	Kogi	0	-	0.00	0.00
24	Kwara	5	274,004,000.00	1.50.	0.97
25	Lagos	187	11,634,618,774.03	56.16	41.25
26	Nassarawa	1	153,000,000.00	0.30	0.54
27	Niger	0	-	0.00	0.00
28	Ogun	26	1,923,606,250.00	7.81	6.82
29	Ondo	6	622,700,000.00	1.80	2.21
30	Oshun	1	80,000,000.00	0.30	0.28
31	Oyo	18	443,201,792.00	5.41	1.57
32	Plateau	4	194,661,228.00	1.20	0.69
33	Rivers	9	1,724,943,181.11	2.70	6.12
34	Sokoto	1	27,665,000.00	0.30	0.10
35	Taraba	0	-	0.00	0.00
36	Yobe	0	-	0.00	0.00
37	Zamfara	1	50,000,000.00	0.30	0.18
	Total	333	28,204,078,292.08	100	100

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

counterparts in Asia, Latin America and some other African countries (Oyelaran-Oyeyinka, 2007; Ojo, 2010; Elijah and Nsikak, 2011). In order to appreciate the problems militating against their effective performance, they were asked to list them in the questionnaire administered to them. Analysis of their responses is presented in Table 6.

A frequency analysis indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7. This therefore means that access to credit is still a major problem militating against the effective performance of MSMEs in Nigeria despite all the funding programmes that have been put in place all over the years.

The problem of poor power supply/inadequate infrastructure was also mentioned severally. It took a

Table 6. The major constraints listed by MSMEs in order of severity.

Type of constraint	Percentage share
Inadequate fund/working capital	60.7
Poor power supply/inadequate infrastructure	55.7
Unfriendly macroeconomic policy	26.2
High cost of raw materials	21.3
Low demand	21.3
High labour turnover/unskilled labour	13.1
No modern equipment	8.2
Natural disaster	4.9
Security problems	3.3

Source: Survey returns.

Table 7. Respondents' problem with the SMEEIS.

Type of problem	Percentage share
Stringent requirement	48.1
Long/cumbersome processing period	37.0
Inadequate enlightenment	14.8

Source: Analysis of survey returns.

percent share of 55.7.

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

Unfriendly macroeconomic policy (monetary, fiscal and external sector policies) also rated highly at 26.2%. High cost of raw materials also featured prominently at 21.3%. So was the problem of low demand due to a sluggish economy.

MSMEs also complained of problem of high labour turnover/unskilled labour. This may not be unconnected with problem of poor wages as workers will always seek 'greener pastures'. The problem of lack of modern equipment was also mentioned (8.2%) which may not be unconnected with the problem of inadequate funding which most of them complained about.

Problem with SMEEIS

As stated in the SMEEIS guidelines, a minimum of 10% of the total sum set aside by banks was to be invested in micro enterprises, but this never happened despite the fact that as much as N13.8 billion or 32.9% of the total sum set aside remained un-invested as at end December, 2009 (CBN 2009 Annual Report and Statement of Accounts). This state of affairs is an indication that there is a problem. Thus, respondents were requested to list the problem with SMEEIS from their perspective. The major problems the respondents complained about with the SMEEIS are presented in Table 7. The MSMEs complained of too stringent requirements for the assessment of SMEEIS. This problem scored 48.1%. This is not surprising as less than fifty percent of them did not register their company as limited liability company which is a major requirement to assess the SMEEIS. This was followed by the problem of long/cumbersome processing period which scored 37%. This is a problem that had characterized the earlier funding schemes and the SMEEIS was not spared because of our peculiar environment. The problem of inadequate enlightenment (14.8%) also featured among those that affected MSMEs access to the SMEEIS. This is because apart from being aware of the scheme, some MSMEs actually needed more information on how and where to access it. A few did not actually have viable bank accounts nor were all the banks fully involved particularly at the initial stages.

Conclusion

This paper set out to determine the preferred financing option by MSMEs in Nigeria now that they have been exposed to both debt and equity finance through the banks. In doing so, the paper first of all profiled the structure of MSMEs in Nigeria to put the sector in perspective, examined their finance and operational activities and identified their constraints. It also examined the disbursements under the Small and Medium Enterprises Equity Investment Scheme being the most recent funding initiative, while putting the old ones in perspective. The following are the main conclusions of this paper:

From the result of the survey carried out, the fact that MSMEs dominate the country's landscape has once again been validated. Most of the entrepreneurs are young and highly literate. This calls for need to focus on policies that will support their activities as they have been confirmed as agents of economic development (Udechukwu, 2003; Anyawu, 2003; Olorunshola, 2003; CBN, 2004; WBCSD, 2004; Onugu, 2005; Akinyosoye, 2006; Ojo, 2010; Elijah and Nsikak,; 2011). In specific terms, as stated by the World Business Council for Sustainable Development (WBCSD), 'the key to poverty alleviation is economic growth that is inclusive and reaches the majority of people. Improving the performance and sustainability of local entrepreneurs and micro, small and medium enterprises (MSMEs), which represent the backbone of global economic activity, can help achieve this type of growth' (WBCSD, 2004). In this vein, the activities of government institutions focused on MSMEs in Nigeria such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), as well as those in the organized private sector such as the National Association of Small and Medium Enterprises (NASME), LCCI, and National Association of Small Scale Industries (NASSI), should be encouraged, particularly now that unemployment rate and poverty index in Nigeria are on the upward trend (World Bank, 2012). In view of the fact that few women were found in the MSME sector, these organizations should encourage more women to be involved in the MSME sector to take advantage of their huge share in Nigerian population to boost the nation's output and economic wellbeing. Furthermore, the Action Plan and Institutional Framework for the Implementation of the National Policy on MSMEs in Nigeria (which is one of the key literature for this study) is quite comprehensive. It is recommended that it should be implemented fully to achieve the laudable goals of the Federal Government in the MSME sector.

The analysis carried out in this study showed that substantial funds were disbursed under the SMEEIS but the distribution was skewed geographically. Furthermore, the access of MSMEs to funds under the SMEEIS did not improve between 2008 and 2009 because the SMEEIS had become optional for banks from the 3rd quarter of 2008. More worrisome was the fact that the portion of the SMEEIS funds reserved for the micro enterprise sector was never disbursed. This state of affairs validate the survey results which indicated that MSME operators still did not have enough funds for their operations and that the micro enterprise sector was the worst hit. The survey results further revealed that on average, raw materials and labour constituted 74.2% of respondents operating cost, and this has implication for working capital availability. In order words, inadequate working capital could paralyze an MSME's operation in Nigeria, since it constitutes over 70% of their operating cost. This is probably why they clamour for more access to credit. As regards capital expenditure, plant and machinery took the highest proportion (about 40percent), confirming the fact that plant and machinery constitute a huge part of MSMEs investment outlay as well. The implication is that MSME's require a lot of money to be able to replace their obsolete equipment, thus, the complaint of lack of modern equipment recorded in this study is tenable.

It is therefore, recommended that all the funding institutions, schemes and funds directed at the MSMEs in Nigeria, such as the Bank of Industry, the Bank of Agriculture, The Agricultural Credit Guarantee Scheme Fund, the Small and Medium Enterprises Credit Guarantee Scheme Fund (SMECGS) which has replaced the SMEEIS, should be sustained and intensified, in order to improve the access of MSMEs to credit as it has been confirmed that increased access of MSMEs in developing countries and Africa in particular, can only be achieved/enhanced by deliberate policy(WBCSD, 2004; UNEP Finance Initiative, 2007; Adamu, 2009; and Kormawa et al, 2011). It should also be noted that the result of the survey analysis on the uses to which respondents put the SMEEIS funds is quite instructive on the enormous potentials of the MSMEs in the Nigerian economy if their access to credit is enhanced, as business expansion took the greatest proportion (36.4%), followed by working capital finance (27.3%). A good number of the respondents (22.7%) used it to purchase new equipment while, 9.1 percent of the respondents used it for debt finance. The rest of them (4.5%) used the SMEEIS fund to resuscitate their dying businesses.

In addition, adequate attention should be paid to the micro enterprise sector and geographical spread in credit initiatives as the poverty indices seem to have been moving in tandem with access to credit (NBS, 2004). Finally, as revealed in this study and complemented by that of other authors (Aryeetey et al., 1994; Anyanwu et al, 2003), emphasis should be on debt financing rather than equity financing as most MSMEs (64.7%) in this study prefer debt to equity finance in view of the fact that they want to be in full control of their businesses. However, the operation of the credit programmes should recognise the peculiarities of the MSMEs in view of their complaints with the SMEEIS. The provision of industrial estates fitted with modern equipments and leased out to MSMEs at subsidized rates is recommended to help alleviate the problem of lack of modern equipment in view of their poor capital bases. This will substantially increase MSMEs output and their wellbeing and enable them to contribute more to the development of the economy as the survey results indicated that over 80% of their raw materials are sourced locally.

The problem of inadequate power supply needs to be urgently tackled as it is really hampering the activities of the MSMEs and impoverishing Nigerians. In addition, the problem of inadequate road network and bad roads if addressed will boost MSMEs activities in Nigeria. The Central Bank of Nigeria and the Ministry of Finance and other government agencies in charge of Nigeria's economic management process should intensify efforts at providing conducive macroeconomic environment for MSME operations. The agencies of government in charge of security and alleviation of problems due to natural disasters should focus on the MSMEs in view of their important contribution to the economy, while MSME operators should insure their lives and properties and operations with the relevant insurance agencies so as to moderate the effect of these problems on their operations in the years ahead.

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