

## SMALL AND MEDIUM ENTERPRISES EQUITY INVESTMENT SCHEME (SMEEIS) IN NIGERIA: PRO OR ANTI-INDUSTRIALIZATION?

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### Abstract

This study empirically evaluates the performance of the Small and Medium Scale Enterprises (SMEs) Equity Investment Scheme in Nigeria (SMEEIS), the study tries to look into different sources of funds available to small and medium enterprises in Nigeria, the study also looked at importance of small and medium enterprises in an economy like Nigeria and its comparison to other economies in some countries. Small and Medium Enterprises are known as pioneers of industrialization to this extent, they employ high number of employees and also are the determinant of the economic growth of a nation, hence, the need for financing them for efficiency and effectiveness. The panacea for solving problems of economic growth in developing countries has been the centerpiece of industrial development of many countries like Nigeria. Banking sector of the economy with this view tries to solve some of the problems associated in small and medium scale industry. Therefore the study looked into the effectiveness of Small and Medium Enterprise Equity Investment Scheme (SMEEIS) as per initiative of the banker's committee. The study therefore looked into views of other scholars, bankers' committee act and also problems facing small and medium enterprises in Nigeria. The study also looked into the various schemes available to small and medium enterprises with a critical view to the scheme under study (small and medium enterprise equity investment scheme). The study found that the program/scheme failed as a result of many factors due to the initiators of the scheme are the beneficiaries. The study concludes that the aim of the scheme was not actualized as a result of conditions given by the bankers' committee as per eligibility and other factors like infrastructure, communication facilities, lack of technology, literacy level, stiff competition of Multinational Corporations (MNCs) and Lack of steady power.

**Keywords:** Enterprises, Equity, Investment, Industrialization, Economic growth.

## 1. INTRODUCTION

### 1.1 Background of the Study

Small and medium sized enterprises (SMEs) are the backbone of virtually all economies of the world because of their role in employment creation and provision of personalized services. SMEs have strong influence on the sustainable development process of less developed as much as developed countries because they foster economic growth and alleviate poverty. The development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for developing countries like Nigeria. The best performing economies in the world are heavily based on SMEs which are major sources of dynamism in economic development. The requirements for SMEs to access the global market and upgrade their position within the international market as a result of trade liberalization are becoming increasingly difficult due to competition.

The increasing prevalence of flexibility and specialization of SMEs has persuaded many business analysts to believe in the strategic role SMEs play in the industrial structure of any developing nation. But he noted that SMEs are quite vulnerable to external shocks due to the global competition from the

liberalization of trade. There is reasonable assurance that given favorable policy environment, SMEs can successfully compete in the global market (Briggs, 2007).

Most governments, especially in Less Developed Countries (LDCs) now recognize the need to formulate policies that create conducive atmosphere for the establishment and operation of SMEs. The new emphasis by various governments in LDCs on SME development can be linked with the current global trend of economic liberalization and the need to bridge the development gap that hitherto exists between them and industrialized countries.

Governments in developing countries, especially in Nigeria, provide a wide variety of programs to develop and assist SMEs. Despite these programs, it has been observed that their impact on the performance of SMEs has been less than satisfactory.

This can be attributed to some factors that governments and policy makers in developing countries have failed to put into consideration in the design and implementation of SME development programs. Most SMEs either remain small, moribund or shut down within few years of operation due to some constraints that hinder their growth, especially finance. Though Small and Medium Enterprise Equity Investment Scheme is a voluntary initiative of the bankers' committee in order to finance and support the growth of small and medium scale enterprises, the problem statement is how effective has this been carried out and how it has meet and/or satisfy its objective of an establishment, with this in view, this study is ensues.

## **2. REVIEW OF RELATED LITERATURE**

The study will be meaningless if other related views are not consulted, and also as guideline into the study, other scholars' views have to be stressed.

### **2.1. Small and Medium Enterprises Equity Investment Scheme (SMEEIS) Revised Guidelines for Operation of the Scheme.**

#### **2.1.1 Establishment of The Scheme:**

The Small and Medium Enterprises Equity Investment scheme is a voluntary initiative of the Bankers' Committee approved at its 246th Meeting held on 21st December, 1999. The initiative was in response to the Federal Government's concerns and policy measures for the promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation.

The Scheme requires all banks in Nigeria to set aside ten (10) percent of their Profit After Tax (PAT) for equity investment and promotion of small and medium enterprises.

#### **2.1.2 Purpose of the Scheme and Eligibility:**

The 10% of the Profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local technology and generating employment. The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises. This will reduce the burden of interest and other financial charges expected under normal bank lending, as well as provide financial, advisory, technical and managerial support from the banking industry which covers very legal business activity is covered with the exception of

- (i) Trading/merchandising,
- (ii) Financial Services.

To be eligible for equity funding under the Scheme, a prospective beneficiary shall:

- (i) Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filing of annual returns, including audited financial statements;
- (ii) Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities.

Eligible enterprises are free to approach any bank, including those they presently have relationship with, to seek funding under the scheme. Prospective beneficiaries should note that the banks may operate the scheme directly, through their wholly owned subsidiary venture capital companies or through venture capital companies floated by consortia of banks or through independent venture capital companies. Prospective beneficiaries are advised to seek the opinion of third party consultants such as lawyers, accountants and valuers in determining the value to be placed on the assets and capital of their businesses in order to determine a fair price before or during negotiations with the banks.

The recommendations of industrial associations, particularly Manufacturers Association of Nigeria (MAN); National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA); National Association of Small and Medium Scale Enterprises (NASME); and National Association of Small Scale Industries (NASSI) will be mandatory for members of these associations. Membership of recognised NGOs engaged in entrepreneurial development and promotion of small and medium scale enterprises will also be an advantage.

#### 2.1.3 Presidential Consultative Advisory Committee (PCC):

A PCC comprising members from the following institutions shall be setup for the scheme:

- (a) The Central Bank of Nigeria (Chairman)
- (b) The Bankers' Committee;
- (c) The Presidency;
- (d) Federal Ministry of Finance;
- (e) Federal Ministry of Industry ;
- (f) Manufacturers Association of Nigeria (MAN);
- (g) National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA);
- (h) National Association of Small Scale Industries (NASSI); and
- (i) Development Finance Department of the CBN shall be the Secretariat of the Committee.

Identified Key Stakeholders:

The identified key stakeholders include:

- (i) The Federal Government
- (ii) The Central Bank of Nigeria
- (iii) The Bankers' Committee
- (iv) Individuals' banks
- (v) Independent Fund Managers
- (vi) The Securities and Exchange Commission and
- (vii) Promoters of Small and Medium Industries.

Responsibilities of Stakeholders:

The federal government:

- (i) Stable macro-economic environment;
- (ii) Stable and reliable regulatory and legal framework;
- (iii) Adequate physical infrastructure,
- (iv) Prudent fiscal regime; and
- (v) Capacity building.

Specifically, the responsibility of the Government with respect to the implementation of the SMEEIS is to pass the enabling legislation to provide the following tax reforms and incentives:

Make the bank's contribution to the Scheme enjoy 100% investment allowance;

Reduce tax paid by SMEs to 10%;

Provide 5 years tax holidays to the SMEs under the Scheme; and exempt divested fund under the Scheme from capital gain tax.

The Central Bank of Nigeria:

- (i) Ensure sound financial system;
- (ii) Liaise with the Federal Ministry of Finance to ensure that the required tax incentives are granted;
- (iii) Monitor the implementation and gather statistics to quantify the impact of the scheme ;
- (iv) Articulate clear guidelines for the implementation of the Scheme;
- (v) Liaise with the SEC to facilitate and simplify the registration of venture capital operators;
- (vi) Ensure each bank's compliance with the guidelines of the Scheme and penalise erring banks in accordance with the penalty stipulated for non - compliance;
- (vii) Capacity building;
- (viii) Disseminate information on the scheme to SMEs and the larger public ;
- (ix) Prepare annual progress report; and
- (x) Provide data for the review of the Scheme after 5 years for the Bankers' Committee.

The Bankers' Committee:

- (i) Obtain the co-operation of the major stakeholders ;
- (ii) Disseminate information on the Scheme to SME promoters and the larger public ;
- (iii) Oversee joint collaborative efforts under the scheme;
- (iv) Monitor the implementation of the Scheme;
- (v) Capacity Building; and
- (vi) Review the Scheme after five (5) years.

Individual Banks:

- (i) Provide funding for equity investment in SMEs;
- (ii) Comply with the guidelines of the Scheme;
- (iii) Report on the activities of the Scheme on monthly basis to the Development Finance Department of the Central Bank of Nigeria and
- (iv) Capacity building.

Promoters Of Small And Medium Scale Enterprises:

- (i) Ensure prudent utilization of funds;
- (ii) Keep up-to-date records on project activities for inspection by the appropriate authorities when required; and
- (iii) Comply with the guidelines of the Scheme.

The Securities and Exchange Commission (SEC):

- (i) Facilitate and simplify registration of venture capital operators;
- (ii) Provide enabling environment, specifically, the development of the capital market; and
- (iii) Liaise with other arms of Government to ensure that SMEs have access to the market.

Source: (Bankers' committee 2005).

## **2.2. Definition of Small and Medium Enterprises.**

The definition of small and medium enterprises (SMEs) varies from country to country, region to region and from agencies to agencies in today's world. Loveman and Sengenberger (1990) in Terungwa (2011)

recounted that, “Small enterprises” or “small and medium enterprises” are elusive concepts. They do in fact hide a large heterogeneity in the types of the firms.

According to NCI (2003) in Terungwa (2011), a small-scale industry is an enterprise with total cost (including working capital but excluding cost of land) above N1.5 million but not exceeding N50 million, with a labour size of between 11 and 100 workers, while the medium-scale industry has a total cost (including working capital but excluding cost of land) above N50 million but not exceeding N200 million, with a labour size of between 101 and 300 workers. On the other hand, the revised operational guidelines of SMEEIS (2005) defines a small and medium enterprises as an enterprise with a maximum assets base of five hundred million naira (N500m)(excluding land and working capital), and with no lower or upper limit of staff. The contradictions in the definition of SMEs as given by NCI and SMEEIS point to the different interpretations of what SMEs really are to different schemes. Hence, their approaches to the funding of SMEs are affected. In addition to this, bank lending habit does not in any way favour SMEs with respect to funding. Consequently, SMEs resort to informal sources of financing. In this context, the formal forms of financing are the ones regulated by the government, while the informal forms of financing are not so regulated by the government.

The Nigerian concepts of SMEs are somewhat divergent but the Central Bank of Nigeria agrees with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) in their definition of a SME as any enterprise with a maximum asset base less than N200 million (equivalent of about \$1.43 million) excluding land and working capital, and with the number of staff employed not less than 10 (otherwise will be a cottage or micro-enterprise) and not more than 300. Moreover, this definition for SMEs was based on the revised definition by the National Council on Industry in 2001.

A major gap in Nigeria’s industrial development process in the past years has been the absence of a strong and virile SME sub-sector. The little progress recorded from the courageous efforts of the first generation of indigenous industrialists was almost completely wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP). Many observers from different traditions and political orientations embrace the idea that small enterprises should be seen as the key to national economic regeneration and a road to renewed growth of employment. The role of the SMEs in the development and sustainability of a national economy is quite obvious as seen in the developed economies in Europe, Asia and North America.

The economy of a developing nation like Nigeria ought to be characterized by a large number of micro, small and medium businesses mainly in the informal sector. SMEs not only contribute significantly to improving living standards, they also bring about local capital formation and achieve high levels of production. For these reasons the presence and development of SMEs are desirable at the various tiers of governments, especially in states lacking SMEs and industrial development.

### **2.3 Profitability of Small and Medium Enterprises**

The results of a survey of Small and Medium Scale Industries conducted in Ondo State in 2001 showed that at least 70% of the established SMEs were started purely for the financial profit. The report also showed that 90% of the respondents in the survey had their businesses established within less than a decade before the survey was conducted. The survey also showed that while all had capital investments of in excess of ₦100,000 (approx. 667 US\$), where 1 USD ≈ 150 NGN (Nigerian naira, ₦), only 40% had capital utilization of above 75% and the capacity utilization of 30% was put below 50%. In 1999, 30% of the industries surveyed showed a sales volume that is in excess of ₦20,000 (approx. 133 US\$) and these were the industries whose profit for that year was above N1,000, the highest profit was ₦28,150 (approx. 188 US\$). Fig. 6 shows distribution of industries according to the ranges in which their break-even point falls. The figure shows that most of the industries broke-even between 60% and 79% (Awosusi, 2001 in Terungwa (2011)).

#### **2.4. SMEs Development Schemes in Nigeria**

Over the years, the Federal Government has taken various steps, including monetary, fiscal and industrial policy measures to promote the development of SMEs in Nigeria. This was achieved through the funding and setting up of industrial estates to reduce overhead costs. The Federal Government also established specialized financial institutions, including the Small Scale Industry Credit Scheme (SSICs), Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) with the aim of providing long-term credit facilities to SMEs (Briggs, 2007). Through the help of donor bodies, the government also helped in facilitating and guaranteeing external finance from the World Bank.

#### **2.5 Development Bank and other International Financial Institutions.**

In addition, the government established the National Directorate of Employment (NDE), to help young men and women in acquiring skills necessary for self-employment. The National Economic Reconstruction Fund (NERFUND) was also set up in 1990 to provide medium to long-term local and foreign loans for small and medium scale businesses, particularly those located in the rural areas. The government also provided technical training and advisory services through the Industrial Development Centres and facilitated the setting up of Small and Medium Industry Equity Investment Scheme (SMIEIS) (Olorunshola, 2003).

SMIEIS is a scheme set up by the Bankers' Committee requiring all banks in Nigeria to set aside 10 per cent of their profit before tax (PBT) for equity investment and promotion of small and medium industries. The range of activities in respect of which funds should be applied are those in the real sector of the economy as listed below with the exclusion of trading, agro-allied, information technology, telecommunication, manufacturing, educational establishments, services, tourism and leisure, solid minerals, construction, and any other activity as may be determined from time to time by the Bankers' Committee (Anyawu, 2003).

#### **2.6. Importance of Small and Medium Enterprises**

Generally, the United Nations' millennium development goals (MDGs) are being pursued in Nigeria in line with the need to enhance the process of development in the country by making all the basic amenities of life at the disposal of the masses. Specifically, the immediate past administration of Dr. Goodluck Ebele Jonathan is of the vision that, by the year 2020, Nigeria would be among the 20 largest economies of the world otherwise popularly called Vision 20-20-20. This is achievable if it is premised on a sound and committed economic policies implementation in the country. It must be emphasized that it is while attending to small matters that bigger things are created.

Vision 20-20-20, for example, is economically a big and remarkable thing, but unless Nigeria attends to smaller economic matters, she cannot achieve it. There is, therefore, the need to assess the country's stand now to see if she is heading to the right direction in actualizing her dreams. Small and medium enterprises (SMEs) play important roles in the economic growth and sustainable development of any economy (Ariyo, 2005). They may look small or inconsequential but are actually the foundation of any economically stable nation. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost; provision of a vehicle for reducing income disparities; development of a pool of skilled and semi-skilled workers as a basis for future industrial expansion, among others.

Kpelai (2009) asserts that SMEs are the engine room for the growth of any developing economy, because they form the bulk of business activities in developed and developing economies like Nigeria. Many economies like Canada, Croatia, etc have acknowledged that SMEs are crucial for industrial

restructuring and have formulated national SME financing policies, targeted at developing the sub-sector. However, the small business' contribution to macro-economic development is inhibited by the fact that they have no, or only overpriced, access to finance institutions and other services (Schneider, 2013).

### **2.7 Sources of Fund to SMEs.**

More so the accessibility to funds and the cost of raising them have remained issues limiting the in-capitalisation requirement leading to premature collapse of SMEs (Mambula, 2009). Funding has therefore remained one of the key managerial problems that keep confronting business enterprises in Nigeria today. The two fundamental financing concepts of SMEs, the formal and informal forms of financing, have been identified by previous researchers, scholars and practitioners (Gelinas, 1998; Aruwa, 2004a). The findings were that, among the most popular of the formal sources of financing, the commercial banks and development banks remain the formal sources of finance for enterprises. The informal sources, which comprise borrowing from friends and relatives, and cooperative credits, have also been identified as potential sources of financing SMEs.

The problem of SME financing has received the most tremendous research efforts from researchers. Some notable works in this respect include Aernold (1998), Anic and Paus (1998), Inang and Ukpong (2002) and Aruwa (2004b). In their findings, four problems in financing SMEs have become recurrent: the cost of capital; risk; the inappropriate terms on bank loans; and the shortage of equity capital. They are of the suggestion that

government should come to the rescue of SMEs. (Babatope and Akintunde, 2010). This call was seemingly answered when Small and Medium Enterprises Equity Investment Scheme (SMEEIS) came on board in 2001. SMEEIS is a bankers committee financing initiative that started in 2001 to finance SMEs in form of equity participation. Some of the works concerning financing of SMEs were done before SMEEIS came into existence while some were in the early operational years of SMEEIS, which some of the researchers felt was too early to assess the initiative objectively. Presently, it is over nine years since the inception of the scheme, which is a reasonable period to critically assess its performance. SMEEIS is the current sector driven economic policy thrust of government involving banks. It is an equity financing initiated by the federal government aimed at formalizing SMEs source of financing.

### **2.8 The Factors Militating Against Accessing the SMEEIS Funds by SMEs in Nigeria.**

Hanger (2005) asserts that, from the borrower's perspective, if faced with a cost of lending that is above the true risk-adjusted cost, the borrower will have incentives to seek out alternative sources of funding. Bank lending theory suggests that, where information asymmetry and moral hazard are prevalent, firms are likely to fund themselves firstly from retained earnings and then from bank debt rather than issuing equity. This is referred to as the pecking order theory/hypothesis. The theory further suggests that the mix of debt and equity should be the cumulative result of hierarchical financing decisions over time. Evidence around the world indicates that small scale enterprises provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology. SMEs through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. Furthermore, by producing intermediate products for use in large scale enterprises, SMEs contribute to the strengthening of industrial linkages. These explain the increased interest which developing countries have shown in the promotion SMEs since the 1970s (Ekpenyong and Nyong, 1992 in Babatope and Akintunde 2010).

Akabueze (2002) asserts that the significance of finance in the drive for economic growth is fairly well established and generally accepted. For instance, the take-off and efficient performance of any industrial enterprises, be it small or large, will require the provision of funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments. Apart from entrepreneurship,

funds are required to bring together the other factors of production— land, labour and capital – before production can take place. Provision of funds to the industrial sector, particularly, for the SMEs has, therefore, been of prime interest to policy-makers in both the public and private sectors. Aladekomo (2003) notes that successive governments in Nigeria have, since the last three decades, shown great interest in financing of SMEs, by establishing specialized banks and other credit agencies/schemes to provide customized funding to the sub-sector to enhance growth and stability.

In addition to these, programmes like the Nigerian directorate of employment (NDE), better Life for rural women, family support programme, child care trust, people's bank, national poverty eradication programme (NAPEP), to mention a few, have been introduced. Most of these institutional arrangements have, however, performed below expectations over the years owing to operational bottlenecks.

The impact of all existing credit schemes to SMEs, in terms of providing funds for meaningful and sustained development among the SMEs, had hardly been noticeable. These credit schemes either have a direct or indirect link with banks. The banks by their nature and position in the economy, therefore, remain the known formal source of finance for enterprises (Agumagu, 2006). It is disheartening to know that a 2001 World Bank survey on Nigerian firms showed that although 85% of the firms had relationships with banks, most of them had no access to their credit. This explains why SMEs in Nigeria represent about 90% of firms in the Nigerian industrial sector on numerical basis but regrettably contribute as low as one percent to GDP in contrast to countries like Indonesia, Thailand and India where SMEs contribute almost 40% to GDP (HPACI, 2002 in Terungwa (2011)).

## **2.9 Approaches of SMES Financing in other Countries.**

Since 1961, the government of Canada has supported small businesses in Canada via a strategic partnership with financial institutions. This strategic partnership exists in the form of the small business loans act (SBLA), which allows financial institutions and the government to “share the risks inherent in extending credit” where they exist. In its 37 years of operation, the SBLA has facilitated the financing, creation and/or improvement of more than 500,000 businesses. During this time, financial institutions have been able to provide small and medium sized enterprises with more than \$20 billion in financing. Loans guaranteed during 1997 to 8 totaled \$1.9 billion in Canada and more than \$145 million in Atlantic Canada (Canadian Bankers Association, 1997). While the Export Development Corporation (EDC) provides support to SMEs in the form of insurance services, loans are typically not issued directly to Canadian companies but rather are provided to foreign purchasers of Canadian exports. This financing is important, as it allows Canadian SMEs to successfully bid on and finance export sales opportunities (Canadian Bankers Association, 1997 in Terungwa 2011 ).

In EU countries, Gamsler (1998) in Terungwa(2011) noted that SME financing can be broken down into three major categories:

- (i) Credit guarantees;
- (ii) Loans/equity investments; and
- (iii) Grants.

All these instruments exist in EU and OECD countries.

Credit guarantees enable SMEs with sound investment proposals to borrow from commercial banking institutions at reasonable rates. They encourage the private financial sector to act, to raise the profile of the SME market and to be flexible on security. However, the transaction costs are high and in the case of poor design, they may lead to adverse selection and be a distraction from other policy matters. Concerning loans and equity, governments may pass on the benefits of low borrowing rates to SMEs, they can promote business start-ups and focus on other key economic development objectives (like the environment, quality or technologies).

However, they can discourage the formal financial sector and can confuse the responsibilities and obligations of borrowers and the commercial financing sector. Grants can promote start-ups, assist in new market development and are potentially complementary with unemployment benefits. However, they are unsustainable, politically difficult to share and difficult to coordinate. Gamsler (1998) in Terungwa (2011) opined that successful financial intermediaries have to address three key issues:

- (i) The financial service has to fit with the market;
- (ii) New financial techniques should slash administrative costs; and
- (iii) The new technique has to motivate repayment.

Terungwa(2011) emphasized that SMEs support is not just about giving away money. The lesson of the advanced market economies shows that an enabling legislative framework has to be created prior to giving loans to SMEs. It is a government task to increase the supply of credit facilities to the SME sector in order to provide funding for its economic expansion. Government support can be provided in the following forms:

- (i) Promoting the granting of credit to SMEs through targeted guarantee schemes; and
- (ii) Supporting merchant banks in a general sense (through tax incentives, legislation, subsidies, liquidity guarantees, etc). Grants can promote start-ups, assist in new market development and are potentially complementary with unemployment benefits. However, they are unsustainable, politically difficult to share and difficult to coordinate.

## **2.10 The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund in Nigeria.**

The formal financial institutions have been organised to finance SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the federal government's desire to promote SMEs as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. Venture capital financing supplements or takes the place of credit facilities that the conventional banks are unwilling to give. The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk. Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998 in Terungwa 2011). The Nigerian government's version of venture capital financing of SMEs -SMIEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and to promotion of small and medium-scale enterprises. The goal is to reduce interest rate burden and other financial service charges imposed under normal bank lending.

However, SMIEIS's fund has been reported to have accumulated 20 billion naira, but only 8 billion naira has been disbursed. The reason for the inability of the SMEs to avail themselves of this fund is yet unconfirmed. The apparent lack of investment in the micro-enterprises sub-sector could be informed by the absence of approved guidelines which is still being finalized. According to Sanusi (2004), a breakdown of the SMIEIS fund investment by sectoral distribution shows that 68.82% went to the real sector while service related investment accounted for 31.18%.

This, Terungwa(2010), see as a sharp reversal from the initial trend recorded under the scheme. The bankers Committee have allocated the investment of banks with respect to the fund as 60, 30, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. Analyzing the geographical spread of the SMIEIS fund,

Sanusi (2004) reported that Lagos-based investments have gulped 56.63% of the fund, and Abuja and 18 states received the balance 43.47%.

Golis (1998) in Terungwa (2010), submits that venture capitalists do not seek enterprises on the start-up and survival stage but only in the stability and rapid growth stages did the venture capitalists appear.

Yet the method of financing remains a critical success factor for SMEs. To be eligible for equity funding under the scheme, a prospective beneficiary shall:

- i) Register as a limited liability company with the corporate affairs commission and comply with all relevant regulations of the companies and allied matters act (1990) such as filing of annual returns, including audited financial statements;
- ii) Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities (Bankers Committee Revised, 2005).

Aruwa (2005) lamented that given the developmental stage of Nigeria's dominant SMEs; it is difficult for them to meet any of these requirements. Consequently, SMEs in Nigeria do not have the capacity to access funds from SMEEIS.

### **3. DISCUSSION OF FINDINGS**

#### **3.1 Reasons the Scheme for SMEs Development have failed to achieve their Objectives.**

The following reasons can be seen as why government programs designed for SMEs development have not been able to achieve their desired objectives:

- a. Lack of Information and Awareness:- There is lack of information and awareness on the part of proprietors of SMEs about schemes that are meant to reduce their administrative and production costs of operation at the initial stage of operation. Most SMEs are not aware of the tax holiday granted by the Nigerian government under the pioneer status that grant five years tax holiday (and can be extended for a further two years) to a new company registered in Nigeria.
- b. Improper Program Design and Implementation:- SMEs development programs are often not properly implemented due to inconsistency in guidelines on application and lack of information on the needs and operational difficulties of SMEs. Most programs are often designed without putting into consideration the peculiar nature and level of education of entrepreneurs that are supposed to benefit from the program. Some of the programs are designed by World Bank experts who also are not familiar with the peculiar problems faced by SMEs in Nigeria.
- c. Lack of Infrastructures:- The lack of infrastructural facilities such as steady power supply, good access roads, telecommunication, especially in the rural areas, and constant water supply has hindered the attainment of SMEs development objectives. The operating cost of most SMEs is very high because they now spend a lot of money to generate their own electricity.
- d. Weaknesses in the Legal and Regulatory Framework:- The legal and regulatory framework does not protect creditors (Banks) against loan default from SMEs and the enforcement process through the courts is often slow. This and collateral security requirements combine to constitute barriers to SMEs access to finance.
- e. Lack of Support Services:- There is also the lack of support service such as consultancy advice from professionals. SMEs cannot afford the services of these professionals due to their meager resources. Most SMEs venture into businesses by accident of which they do not have the idea of the cost implication or as a means of survival without carrying out feasibility study.
- f. Lack of transparency from coordinators of programs:- Most of the respondents pointed out that some officials are not transparent in the disbursement of loans and also in the selection process of skill acquisition program designed for young and potential entrepreneurs
- g. Lack of Subsidies Especially to Farmers: With liberalization, government removed all forms of subsidy on petroleum products and fertilizer which indirectly increased the cost of SMEs that are into primary production. It was noted that farmers in industrialized countries are subsidized. Government should also help SMEs that produce industrial inputs. The above reasons of why government programs for SMEs have failed to achieve their objectives are not exhaustive. It

should be noted that if the structural framework upon which a well-designed program is lacking, the program no matter the amount of resources put into the design will definitely fail.

### **3.2 The Factors Constraining SMEs from Benefiting from Government Programs.**

- a. **Lack of Technology:** SMEs lack the needed technology and the capability to achieve large scale production which should help reduce cost of production. This has indirectly constrained their ability to gain access to the global market because their products are not price competitive and mostly not standardized.
- b. **Insufficient Demand for SMEs Product:** There is the problem of low demand for SMEs products arising from consumers' dwindling real incomes and this imposes constraint on their growth prospects.  
Although many SMEs produce some inputs for larger industrial enterprises, the non-standardization of their products, lack of quality assurance as well as weak purchasing power effectively restrict their market access.
- c. **Poor managerial skills:** Poor management practices and the inability of SMEs to keep proper accounts of transaction hinder effective control and planning. Improper planning and control make SMEs unable to attract loans from financial institution for expansion.

### **3.3. Chances of SMEs Survival in a Liberalized Nigerian Economy.**

The chances of SMEs survival are becoming increasingly difficult under the liberalized Nigerian economy due to the observed following:

- i. **Lack of Cheap Access to Finance:** Despite financial market liberalization, SMEs still lack access to cheap source of finance due to high interest rates and collateral requirements. Banks are no longer under any credit directives from the government to grant long-term loans to SMEs. Banks regard many SMEs as high risk ventures because of the lack of a succession plan in the event of the death of the proprietor. As a result, working capital is still a major constraint on production, as most SMEs are restricted to funds from family members, friends and "loan sharks". These "loan sharks" charge exorbitant interest rates (100 to 120 percent per annum), even the commercial bank interest rates from 1980 to 2004 have been on average 17.99 percent. The lack of access to cheap finance makes SMEs unable to respond to increase demand.
- ii. **Stiff Competition from MNCs:** The liberalization of imports has created fierce competition for SMEs due to the importation of finished goods by MNCs that have access to cheap source of finance. Since SMEs production capacity is small, they cannot take advantages of large scale production which the big companies enjoy. Besides, consumer preference and market demands are against SMEs as far as trade liberalization is concerned. Since the liberalization of imports, the total value of finished products imported to Nigeria has increased tremendously.
- iii. **Poor value of the Naira:** The depreciation of the naira has also made business environment unfavorable to SMEs operation. As a result, the cost of production of those manufacturing SMEs that import their raw materials has increased. The depreciating naira has also induced inflation and eroded the profit worth of SMEs. the depreciation of the naira has even resulted in a situation where it is cheaper for manufacturing SMEs to import finished products than to produce in their factories.
- iv. **Lack of Steady Power Supply:** Absence of steady power supplies has compelled most SMEs to generate their own energy to power their machineries. In addition, cost of transporting the final products to the market, on the other hand, is very high due to lack of good access roads. This has imposed heavy financial burden on SMEs which has hampered their profitability.

### 3.4 Analysis and Interpretation of Responses on Formal Financing

According to the analysis of the responses from the questionnaire administered by Terugwa (2010) in respect of formal financing sources available to SMEs in Nigeria he observed in the analysis presented in Table 1, that none of the formal financing variables meet the cut-off mean of 2.5 for individual item. Respondents perceived that the utilization rate of formal financing sources among the SMEs sampled was low. The overall perception of formal financing sources that emerge from this analysis, therefore, is that there is low utilization rate of formal financing sources by SMEs in Nigeria given that the computed overall mean score of the variables (6.06) is less than the sections cut-off mean of 12.5. The standard deviation (3.65) shows that there is no much disparity in the respondents' perception as evidenced in the mean scores. Table 2 depicts a favorable perception on utilization of informal financing sources than the data presented in Table 1. The cooperative credit has the highest mean score of 3.91. What is significant in the table is that the SMEs' mean score of 14.68 on informal sources of finance is higher than the section's cut-off mean of 12.5. The disparity in perception as indicated by the standard deviation is low. Comparatively, the mean scores recorded for formal sources of finance in Table 1 recorded for informal sources of finance (Table 2). This is interpreted that informal sources of finance are more available and more utilized by SMEs in Nigeria than the formal sources.

The study investigated what could be the likely financing problem that brought about deviation in the use of both formal and informal financing sources. Table 3 provides the analysis along five variables on Likert scale measures. The formal sources of finance combined mean score (13.99) on the cost, accessibility to source of finance, collateral security requirement, awareness of existence of sources of finance and the risk inherent in use is higher than the cut-off mean whereas the cut-off mean on informal sources, which is within acceptable mean score ( $9.82 < 12.5$ ). However, the informal source was 1.34. This is less than the mean score of 3.86 of finance mean score on awareness is lower than that of the formal sources. This could mean that the existence of formal sources of finance like SMEEIS is not to the knowledge of most SMEs. A further test of correlation between the mean scores of formal and informal sources of finance shows negatively- correlated relationship of -0.5000 on the variables of financing problems. This is shown in Table 4 further: it is no doubt that there is a relationship between formal and informal sources of finance as far as SME financing is concerned. The calculation of correlation coefficient (r) revealed an average negative relationship between these variables.

This could be explained that accessibility may be a problem more of the formal sources than of the informal sources. Similarly, the level at which collateral is demanded in formal sources is not the same as in an informal source. A positive correlation coefficient would on the other hand mean, the more collateral is needed in

formal source, the more it is needed also in an informal source. The negative correlation therefore, shows that the variables move on average in the opposite direction.

**Table 1:** Mean Scores on Formal Financing Sources

Variable	Sample size	Mean	Standard deviation	Minimum score	Maximum score
Formal finance as main source of capital	84	1.34	0.71	4.00	1.00
Bank loan	84	1.33	0.69	4.00	1.00
Second tier security market (SSM)	84	1.00	1.18	0.00	0.00
SMEEIS	84	1.20	0.57	4.00	1.00
Others	84	1.19	0.50	3.00	1.00
Combined mean/SD score	84	6.06	3.56	6.06 < 12.5	

**Table 2:** Mean Scores on Informal Sources.

Variables	Sample size	Mean	Standard Deviation	Minimum Score	Maximum Score
informal finance as main source of capital	84	3.86	0.48	1.00	4.00
Personal savings	84	3.60	0.82	1.00	4.00
Cooperative credits	84	3.31	3.39	1.00	4.00
Loans from friends/relatives	84	1.96	1.28	2.00	1.00
Ploughed-back profits	84	1.35	0.87	2.00	4.00
Combined mean/SD score	84	14.68	6.84	14.68>12.5	

**Table 3:** mean scores on financing problems.

Variables	Sample size	Formal sources	Informal sources
Cost	84	2.02	1.03
Accessibility	84	1.31	3.71
Collateral	84	3.71	1.62
Awareness	84	3.34	2.10
Risk (others)	84	2.37	1.36
Combined mean scores		13.99>12.5	9.82<12.5

**Source:** field data computation (November 2013) in Abia (2014).

#### 4. CONCLUSION

Small and Medium Enterprises SMEs though have series of program designed for them to attain growth, the above findings have seriously affected and hindered the SMEs from obtaining grants/loans and in other hand, impedes their growth. The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) structured for the small medium enterprises has not been able to disburse the appropriate funds to these small and medium enterprises. It was observed that a very little percent of the total fund has been disbursed to these SMEs, as well as the conditions attached to the loans itself made it impossible for their objectives to be attainable. For instance, according to bankers' committee Revised (2005), the enterprise must be a registered limited liability company with Corporate Affairs Commission as well as comply with all the relevant regulations of the company and allied matters act, the owners of these SMEs find it difficult as a result of the huge funds attached to registering under CAC. Most of these SMEs operate from the rural areas which also put them off the current trend, as a result of communication facilities, access road, and cost of transportation, also demands from the association to which they (SMEs) must register with in order to be recognized.

Stiff competitions from multinational corporation (MNCs): MNCs enjoys large scale production which lowers their production cost, and most banks operates with pay-back period of investment (how quick an

investment will pay its cost), therefore prefer giving loans to multinational organizations to small and medium enterprise.

The study will not be completed without appropriate recommendations. The various factors that are preventing SMEEIS from achieving good industrial development as per their objectives must be addressed.

The attitude of entrepreneurs to business management, accounting and proprietorship needs to be modified.

Government has to improve on the favorability of their fiscal and monetary policies, infrastructural provision and public enlightenment on SMEs.

The scheme under study has to consider the literate level of the SMEs owners and also guide them properly with timely information. The scheme should also encourage and help most of the SMEs owners to attain their condition for loaning and funding. They should also try as much as possible to be transparent in granting loans and funds.

Government should as well encourage the SMEs by provision of infrastructural and social amenities and communication facilities especially in rural areas. Government should also help in regulation of the schemes designed for small and medium enterprises and also monitor them for affectivity and efficiency.

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