

**A GOODWILL ADDRESS BY THE GOVERNOR, CENTRAL
BANK OF NIGERIA TO THE 9TH BANKERS CONFERENCE
HOLDING AT SHERATON HOTEL AND TOWERS, ABUJA,
ON THE THEME “UTILIZATION OF THE SMIEIS FUNDS:
THE RIGHT APPROACH”.**

The President, Commander-in-Chief of the Armed Forces
of Nigeria, Chief Olusegun Obasanjo, GCFR
Chairman of the Occasion,
President, The Chartered Institute of Bankers,
Captains of Industry,
Distinguished Bankers,
Distinguished Ladies and Gentlemen,

1. I feel greatly honoured to be invited as the Guest of Honour at this august occasion. The annual Bankers’ Conference is a welcome initiative of the CIBN to promote professionalism in the industry. I congratulate the Institute and urge that the effort be sustained and improved upon. Your choice of the theme for this year’s Conference “Utilization of the Small and Medium Industries Equity Investment Scheme (SMIEIS) Funds: The Right Approach” – is apt and germane to the current efforts to strengthen the growth performance of the Nigerian economy and diversify its productive base. The Central Bank of Nigeria is proud to be identified with this policy initiative because of its conviction that a viable SMEs sector holds the key to a speedy recovery of the Nigerian economy and its industrialization.

2. Most developing countries, including Nigeria, have since the 1970s shown great interest in the promotion of SMEs for three main reasons: (i) the failure of past industrial policies, which were anchored on large capital intensive industries, to generate self sustaining growth; (ii) increased emphasis on self-reliant approach to development; and (iii) the discovery that dynamic and growing SMEs can contribute substantially to a wide range of developmental objectives. The degree of success in this endeavour is varied from country to country, but it is generally believed that countries of South East Asia provide ideal models.

3. In most of these countries, entrepreneurship and access to capital funds have often been identified as the most important critical factor in the promotion of SMEs. It is in this regard that Nigeria experimented with various SME financing schemes and programmes, including:

- (i) CBN credit guidelines, which required banks to allocate a stipulated minimum credit at concessionary interest rates to the preferred sectors of the economy, including SMEs;
- (ii) Specialized loan schemes, including the SME I and SME II Programmes that were sponsored by the World Bank and administered/ supervised by the CBN.
- (iii) Establishment of development finance institutions, which provided long-term loans to the real sector at concessionary interest rates.
- (iv) Provision of fiscal incentive packages in the form of tax relief to all SMEs during their first six years of operation; granting of pioneer status; and periodic downward adjustment of tariffs to reduce production cost.

4. An appraisal of the performance of the SMEs in Nigeria shows that past policies have made but limited impact on the sector. For example, SMEs are known to be very active in promoting increased use of local raw materials, as most of them are engaged in the processing of local inputs into either intermediate or final output. Similarly, many SMEs have successfully adapted imported machinery for local usage, thus positioning themselves as veritable tools for promoting technical know-how and developing indigenous technology. Finally, SMEs are mostly resource-based and, therefore, well dispersed throughout the country. Indeed, they have, to some extent, facilitated the opening up of the rural areas and have assisted to mitigate rural-urban drift.

5. In spite of these achievements, the potentials of the sector's contribution to economic growth and development have not been fully exploited. Many factors have been identified as constraining the growth of the sector. They include: poor access to long term funds; inadequate and inefficient infrastructure; overbearing bureaucracy and inefficient administration of incentives that were designed to promote the sector; and multiplicity of taxes and levies among others.

6. Of all the constraints, inadequate access to long-term finance is, perhaps, the most serious as some studies indicated. The World Bank (1993) reported that 58 and 97 per cent of the SMEs in Sri Lanka and Tanzania attributed lack of access to finance as the most important constraint to the growth of the sector. Another study by an Interministerial Technical Committee on the establishment of a National Credit Guarantee Scheme for

SMEs in Nigeria, estimated that only about 50 per cent of the demand for finance by SMEs was met in 1993. Today, the proportion of unsatisfied demand could be higher, given that the development finance institutions have not functioned for some years, while the externally sourced funds dwindled. The only formal sources of funds available to SMEs today are the deposit money banks and the capital market. Historically, and understandably, these sources are not known to be SME-friendly to say the least. The factors that have made it difficult for SMEs to access funding from the banks and the capital market are well known. But they are worth restating here:

- (i) Mis-match arising from borrowing short and lending long, which banks tried to avoid;
- (ii) High risk associated with lending to SMEs, given the high mortality rate resulting from poor management and lack of succession plans prevalent in the sector;
- (iii) Inability of SME promoters to possess collateral guarantees required for bank financing;
- (iv) Inability of SMEs to meet the listing requirements in the capital market.
- (v) Poor accounting/lack of transparency and the inability of most SMEs entrepreneurs to separate their business accounts from their personal accounts.

7. While I admit that finance remains very important in the development of the SMEs in Nigeria, it is by no means the only major constraint. There are other fundamental problems which must be addressed alongside the problem of finance. These include lack of entrepreneurial capacity, management expertise and information management in decision making. Indeed, it is the recognition of these other critical areas of deficiency and the will to find comprehensive solutions to the problems that the SMIEIS has been initiated. As you are aware, the SMIEIS is an initiative of the Bankers' Committee in which banks are expected to set aside 10 per cent of their profit before tax for equity investment in SMEs. As the name implies, the SMIEIS is not a loan scheme. It is an equity participation programme. In fact, it goes beyond mere equity investment, because, it requires banks to commit and contribute their managerial know-how to ensure that the investment succeeds. It is very gratifying to note that this initiative has

successfully taken-off. As at July 2003, a staggering sum of ^18.6 billion¹ has been set aside out of which only ^4.53 billion had been invested.

8. Your Excellency, Distinguished Ladies and Gentlemen, despite the commendable effort of the rapid accumulation of resources, there is cause for concern that only ^4.53 billion or 24.35 per cent of the fund set aside had so far been invested. The reasons for this slow pace are not far-fetched. First, equity investment requires skill-sets which are quite different from what the banks are familiar with in credit appraisal and management. Secondly, at the time the Scheme took off in 2001, the necessary structures for the investing banks to effectively administer the Scheme were not in place. Thirdly, the dearth of attractive projects in which banks can invest, owing to poor record-keeping, poor managerial capability and lack of business packaging skills remains a limiting factor. Fourthly, there was resistance from the entrepreneurs who were reluctant to dilute their shareholding. It took them time to accept the idea of patronizing equity investment instead of loans. The main resistance was the unwillingness to accept discipline resulting from sharing control. There had been tendency to persist in the sort of indiscipline that made most of the SMEs fail in the first instance. It will take some time to effect a paradigm shift and encourage entrepreneurs in SMEs to appreciate as I have often indicated, that it is better to own 10 per cent of a successful and profitable business than to own 100 per cent of a moribund business. Last, but not the least, of course, is the issue of poor infrastructure, which is constantly recurring.

9. A number of measures have however, been adopted to ameliorate or outrightly eliminate some of these problems among which are:

- i. Massive public enlightenment aimed at educating all stakeholders on the benefits of SMIEIS.
- ii. Initiating a linkage with conglomerates programme to create more investment opportunities for SME operators.
- iii. Sponsoring universities to conduct economic studies to increase the database and knowledge on investment opportunities available to SMIs. In fact, we are in the final stage of selecting the prospective universities for this assignment.

¹ This amount could catalyse additional funds that would bring aggregate investments to over ^100 billion.

- iv. Urging state governments to establish industrial parks, adequately provided with functional infrastructure.
- v. Liaising with the Presidential Technical Committee on Housing and Urban Development to see how the SMIEIS can play a catalytic role in the building industry; and
- vi. Developing modalities for securing the original principles of the Scheme from being compromised in the future.
- vii. Deliberate programmes focused on entrepreneurship development. I have been encouraged by the response of multilateral institutions like the IFC, World Bank, United States Small Business Administration (USBA) and UNIDO, which have designed appropriate schemes to leverage on SMIEIS.

10. Let me use this opportunity to urge all beneficiaries of the Scheme to avert enterprise failure and its attendant consequences by ensuring that funds disbursed under the SMIEIS are channeled to enterprises that have met the stipulated criteria. In our peculiar environment, this condition would serve two purposes. Firstly, it would compel prospective fund recipients to shift their paradigm from the enclosed traditional one-man business to a broad public enterprise in a competitive market environment. Secondly, it would increase the chances of enterprise success and growth.

CONCLUSION

11. Distinguished Ladies and Gentlemen, I am fully convinced that SMIEIS shall succeed, provided that all stakeholders are committed to its implementation. There is no gainsaying the fact that many enterprises require funds but the funds must be administered profitably and judiciously. I must emphasize once again that SMIEIS does not preclude banks from giving normal loans. Indeed, an enterprise with SMIEIS investment may still leverage on loans. It is very gratifying that the scheme has generated considerable interest in the business community. While not pre-empting the resource persons who have been assembled to lead discussions on how to move the SMIEIS forward, it is my fervent hope that all the various facets of the topic will be examined with a view to making recommendations that will assist the full realisation of the objectives of this initiative.

12. I urge you to examine the issues dispassionately in the best interest of the economy. I am confident that given the array of professionals gathered here today, implementable recommendations will emerge from your

deliberations on strategies for strengthening the SMIEIS at the end of your discussions.

13. Thank you all for your kind attention.

Chief (Dr.) J.O. Sanusi, (CON)
Governor,
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Abuja.

14th August, 2003