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Catalyzing Economic Development Through SMEs

As Chief Executive of a small business, I experience, firsthand the pains and frustrations that many business-owners face in Nigeria. Some of the challenges include high operating costs, limited and almost nonexistent access to financing, stiff competition by larger corporations and a poorly skilled labour force. An estimated 80% of small businesses fail within the first five years of operations and of those that survive very few scale up to becoming medium firms within ten years. Support for small and growing businesses across the country is weak and financial institutions have little or no incentive to take the risk on lending to small businesses.

Small businesses have the potential to contribute significantly to the economy. They provide employment, goods and services, taxes to the government and are a good source of economic activities. In the United States, small businesses are the main drivers of the economy and the primary source of jobs for Americans. According to the US Census Bureau, small businesses with less than twenty workers account for approximately 98% of businesses and are seen as the incubator for innovation and employment growth.

A review of key economic standard of living indicators for Nigeria show that growth is not yet inclusive. There is huge disparity in income between high- and low-income earners. Cost of living is high with additional pressure from poor access to electricity and clean water. There is pitiable work-life balance amongst the employed and under-employed, especially low-skilled workers who must travel early from urban squalor settlements to the cities for work. Indeed, social deprivation appears to be on the increase.

However, earlier this year, the Federal Government launched The National Enterprise Development Plan (NEDEP), which could be the key to transforming the micro, small and medium enterprise sector. NEDEP aims to deliver growth for Nigerian MSMEs by resolving many of the problems that small businesses currently experience to enable these businesses to generate employment.

Considering the Facts

According to the World Bank, the number of persons living in poverty globally declined from 1.9 billion to 1.2 billion between 1990 and 2010. However, over the same twenty year period in Africa, the number of poor people has increased from 290 million to 414 million. The proportion of poverty in Nigeria is estimated to have reduced from 48% in 2004 to 46% in 2010 though in absolute terms the number of poor people has increased.

The National Institute for Social and Economic Research (NISER) estimates that 64 million youths in Nigeria are unemployed and an additional 1.6 million are under-employed. This represents an astonishing 82% of the youth who are not contributing their full potential to



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economic development. The National Bureau of Statistics has a more optimistic picture placing youth unemployment at around 24%.

Recent WAEC results reveal that only 30% of high school students scored above the minimum requirement of five credits in their final examinations. Despite the consequence

of low transition rates from secondary school to tertiary institutions, only 10% of tertiary school graduates find regular formal sector employment as the remaining 90% enter into the informal economy to find sustenance. Notwithstanding, the quality of skills remains poor across both tertiary educated as well as uneducated people.

There are an estimated 17 million small businesses in Nigeria today yet their effect on the country pales in comparison to other countries which boast such a large number of SMEs. 54% of MSMEs operate in the agricultural sector while 40% operate in the service sector and 6% in industry. These figures show that MSMEs in Nigeria mainly operate at the bottom of the value chain as they are predominantly primary producers. This is the case for an industrial revolution.

Addressing the Problem

As part of its focus on Industrial revolution in Nigeria, the current administration launched the National Enterprise Development Plan. This plan appears to be based on a critical study of MSMEs in Nigeria and it outlines nine priority areas including 1. Strengthening institutional framework; 2. Developing a revised national policy on MSME; 3. Implementing a robust delivery and monitoring structure; 4. Increasing access to affordable finance; 5. Increasing access to markets; 6. Developing business development skills; 7. Developing technical skills; 8. Promoting youth inclusion; and 9. Reducing high operating costs.

The government therefore seems to have figured out the problems and we look forward to a careful implementation of the outlined priority areas. However, as we look towards implementation, it must be noted that the government has a lot of work to do especially given the current state and underachievement of many of the institutions responsible for implementing NEDEP. For instance SMEDAN cannot boast of real impact on the MSME sub-sector and the Bank of Industry, while celebrated as contributing significantly has a long way to go to increase the number of MSMEs and SMEs that it supports.

With regards to lending and in addition to the good plans that the NEDEP proposes with BOI and partnerships with commercial banks, I have two recommendations. Firstly, wealthy individuals should create venture capital funds that can be used as long-term financing to fund high potential startups and SMEs. There are many good ideas for which funding is a challenge as entrepreneurs are usually limited to money from friends and family. However, more developed economies benefit from venture capital, which provides early stage long-term capital to start-ups irrespective of background and also give fair returns to the venture capitalists. This is not charity but an investment in growth opportunities by equity investors. Secondly, banks should be encouraged or incentivized by the CBN to provide small sums as uncollateralized short-term loans to MSMEs to fund some of their operations. These short-term small loans

should be extended based on some measure of risk assessment, which could include track record and banking history, but can certainly not be on the basis of the standard terms that typical credits are given.

The Effects

Employment will be created by the private sector and government can be relieved of its current burden to generate employment. Today, the government remains the key employer of labour and we must move away from the high dependence on government to provide employment and benefits, to ensuring that the government creates the environment for businesses to thrive.

SMEs will generate enough income to pay appropriate taxes that can fund government programmes. With the right structures, employees will partake in retirement savings and secure a future for themselves and their families, thus reducing dependence on family, friends and society. Paying taxes and retirement savings spur accountability and good governance as more people will be interested in what the government does with its revenue and how funds are allocated. Consequently, people will make demands on leaders to increase transparency and reduce corruption.

The masses will be socially and economically included as their purchasing power rises. The masses currently have a much lower purchasing power than the wealthy though the power and means to purchase exists. Increasing income will increase consumption and spur an increase in economic activities.

Key Message

1. Implement the National Enterprise Development Plan

An implementation of the NEDEP will address many of the key challenges that MSMEs and SMEs face today. Key priority areas that have been outlined within NEDEP are viable.

2. Revamp Government Agencies with Responsibility for MSME Development

Re-evaluate the contribution of agencies such as SMEDAN and revamp them to meet the requirements of the sector today.

3. Create Venture Capital Funds

Wealthy Nigerians should create venture capital funds to provide long-term start-up capital to MSMEs and SMEs and additional returns to themselves. In addition, banks should provide unsecured lending of small sums as short-term lending to help MSMEs and SMEs to meet their operational requirements.

Wealth in Africa, especially Nigeria is in the hands of a few and the growth that the continent boasts about does not trickle down to the bottom of the pyramid. Small businesses are a potent tool that can be used to fast-track inclusive development and economic growth.

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