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MSME SECTOR: THE NEW PARADIGM FOR NIGERIA'S ECONOMIC DEVELOPMENT



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The Micro Small and Medium Enterprises (MSMEs) according to SMEDAN, 2013 report are described as businesses whose employment limit falls between 1-9 and a total assets (excluding land and buildings) less than N5 Million Naira (for micro), 10-49 and a total assets (excluding land and building) above N5 Million Naira (but not exceeding Fifty Million Naira (for small) and 50-199 and a total assets excluding land and building) above N50 Million Naira, but not exceeding Five Hundred Million Naira for Medium.

MSMEs play a major role in most economies, especially in developing Countries. They contribute greatly to employment generation, poverty alleviation, create avenue to enhance industrial development, encourages economy of scale, opportunity for support from Development Partners and serves as a vibrant source of revenue to government in form of taxes and others.

According to a World Bank report, MSMEs contribute up to 45% of total employment and up to 33% of National Income in emerging economies. In Nigeria there are over 36 million

registered MSMEs with huge transactional turnovers.

Despite the contributions of this all-important sector, the National Policy on MSME identified a number of challenges to MSMEs in Nigeria. These include lack of access to credit, poor and unreliable infrastructure, heavy regulatory burden, low international competition and absence of a coherent policy and framework for coordination. This position is supported by the World Bank which indicates that about 70% of MSMEs in emerging markets lack access to credit and the figure is wider in Nigeria.

Among all these challenges, access to finance is a major constraint to SMEs growth as over 50% of formal SMEs do not have access to formal credit. Unlocking sources of capital is therefore crucial to enable the sector grow and provide the needed jobs and growth potentials. The significant drop in crude oil revenue calls for strategies to support the non-oil sectors with focus on SMEs and the agriculture sector.

It is therefore imperative that progressively efforts be made to move informal SMEs into formal sector for better access to finance and government services with higher tax revenue and better regulation. This is why the FSS2020 strategy provides a huge opportunity to leverage on for the development of the MSME sector in Nigeria

THE FSS2020 STRATEGY FOR THE MSME SECTOR

The FSS2020 platform considers the MSME sector strategic because of its huge potentials and contributions to the

development of the Nigeria economy. The FSS2020 developed six (6) Strategic Objectives and three (3) Transformational Programs to drive the development of the sector. These strategic objectives and the respective initiatives have a high multiplier effect on the entire Nigeria financial system. The six objectives are: 1. Advocate and Work with the government to Drive SME development, 2. Promote Financial Reporting and Governance, 3 Collaborate with Quality Control Organizations to ensure Micro and SMEs output meet National & International Standards, 4. Collaborate on the Development of Financial Services, Products and Channels, 5. Increase the Provision of Long Term low Interest Financing and 6. Couple the enhancement of Access to Finance with Business Development Support.

The Transformational Programs meant to drive these objectives include:

1. **SPV for SME Production & Investment Clusters:** *The aim of this initiative is to establish a special purpose vehicle (SPV) structure that houses a group of business operators in the same value chain in Industrial areas.* Some of the deliverables for the initiatives are: Systemized access to finance and SME development, Pipeline for Capital Market expansion, Shared Services to reduce operating cost.
2. **MSME Corporate Governance & Business Standards:** *The aim of this initiative is to develop & implement a simplified corporate governance and*

standards framework for MSMEs. Some of the deliverables for this initiative include: Enhance Quality and Credibility of MSMEs, promote access to finance, promote cooperation of the locals integration with international markets, and facilitate entrepreneurship.

- 3. National Collateral Registry:** *The aim of this initiative was to design and develop a Central Collateral Registry for movable assets to address the collateral challenges that prevent access to finance by MSMEs.* Some of the deliverables for this initiative include: Increase MSMEs access to finance, reduce informal sector; Legal enforcement in case of default. It is of interest to note that the National Collateral Registry is already operational with a total asset worth of N60bn (Sixty Billion Naira) on the registry as at March, 2017.

The implementation of the identified TPs is to be run by the following implementing agencies: SMEDAN, CBN, FMIT&I, CAC, FRC, SON, NAFDAC, ICAN, ANAN, SEC, FMF, CAC. It is hoped that if properly implemented, it will turn around the MSME landscape in particular and the Nigeria economy in general.

FSS2020 MSME SECTOR: ACHIEVEMENTS, CHALLENGES AND INTERVENTIONS

The FSS2020 strategy for the MSME sector has implemented some of the initiatives since its inception. Some of the achievements include Passage of the Secured Transaction in Moveable Asset Bill into Law and assent by the President of the Federal Republic of Nigeria. With this, the Registry acquires a legal status and exists as a going concern, Sponsoring of the SMEDAN Amendment Bill,

initiation of Business Community-Based Credit Model (B2CM); Enhanced collaboration with SMEDAN and other implementing Institutions; Advocacy for government support through MSME intervention Fund;

However in the quest to implement these initiatives, the FSS2020 strategy for the sector identified the following as major setbacks: Perceived dominance of the program by CBN; Poor funding of initiatives; Lack of business management skills/capacity of stakeholders on NCR Software; Lack of an integrated and inter-operable Credit Management Software amongst Financial institutions (finance providers); Absence of Corporate Governance & Business Standards for MSME projects; Lack of Central Identity data base for MSMEs; low collaboration with the Financial Reporting Council (FRC) for the implementation of tailored IFRS for MSME and struggling engagement with NAFDAC, SON and others; Security Challenges which may hamper the development of Clusters; Stringent Collateral Asset Quality Requirements for SMEs; Stringent registration requirements for new entrants to the Alternative Securities Market (ASeM); Non-cooperation of the State and Local Governments (low interest, low funding); Inadequate alignment of State Councils on MSMEs with National Council on MSMEs (only 14 of the 36 States have keyed in into this initiative); Lack of access to funds by MSMEs; Lack of a regulatory framework for Accreditation of Business Development Services Providers; Low level of financial literacy and awareness among others.

These challenges can be resolved with some measures and crucial interventions provided by the implementation

of FSS2020 strategy for the sector. These measures include intervention meetings amongst key stakeholders, enhance collaboration between CBN and other stakeholders in the area of funding projects, engagement of State Governor for the implementation of SPV for SME production and development; increase advocacy. Others are in the area of provision of integrated and interoperable credit management software amongst financial institutions, collaboration of SMEDAN with Enhancing Financial Innovation & Access (EFInA) on Access to Finance and enhanced financial literacy advocacy.

FSS2020 DESIGNS A NEW CREDIT MODEL FOR MSMEs IN NIGERIA

In recognition of the multiplier negative effect of poor access to credit, the FSS2020 Secretariat developed a Business Community-Based Credit Model (B2CM) to mitigate against those challenges earlier identified bedeviling sector.

B2CM is an initiative intended to catalyze the growth of the MSME through value chain creation, productivity, employment generation and ease of access to credit to meet required business needs in line with Strategic Objective of the FSS2020. The desire to develop the proposed model is borne out of the need to bring together small businesses of similar value chain for linkage, convenience, maximum productivity and employment generation. The model is expected to address the challenge of lack of access to credit and other important business resources to the MSMEs. The current credit model for MSME sector is not flexible enough, the effect of which negatively affect operations of MSMEs and the growth of the economy. The B2CM is advocated to overcome the challenges by identifying and qualifying MSMEs with potentials

for growth through indices like volume of employment, business turnover, sales performance. The model de-emphasizes the conventional approach of providing cash to the operators and emphasizes building skills, supply of equipment and technologies required for the 21st century MSMEs.

FSS2020 SUPPORTS SMEDAN AMENDMENT BILL TO STRENGTHEN MSMEs OPERATIONS IN NIGERIA.

As part of efforts to ensure MSMEs are positioned for better performance and productivity, FSS2020 supported the passage of the SMEDAN Amendment Bill to make sure laws and regulations that can guide MSME operations are in place to support contemporary business ideologies. The bill has gone through Public Hearing with the National Assembly. The major objects include positioning SMEDAN as an agency to be

warehoused with the Federal Ministry of Trade & Investment. The bill also allows SMEDAN to issue regulations to all MSMEs, vested with the powers to regulate and accredit Business Development Service Providers (BPSD) to know the players and standardize the services; Increase funding for MSME by imposition of some taxes on imported items through the trustees comprising CBN and other regulators with SMEDAN as Secretariat, incorporation of the ADR window in the Bill to enable SMEDAN settle through Alternative Dispute Mechanism disputes among MSME players.

Given the massive contributions of the MSME sector to the Nigerian economy, it is obvious that the future of most economies anchors on a well-developed and participatory MSME sector. It therefore gives hope for the promising future

where MSME sector is given the required attention.

The desire to diversify the Nigerian economy is no longer an issue of debate given the current reality in the oil and gas industry globally. The solution is in the systematic development and successful drive of the MSME sector as the engine of growth.

The FSS2020 platform is strategically designed to support the growth of the MSME in Nigeria. To achieve this all stakeholders need to work in synergy and with government to support the FSS2020 MSME initiatives in particular and the entire FSS2020 program in general and align programs with a view to turning around the financial system.