Bullion

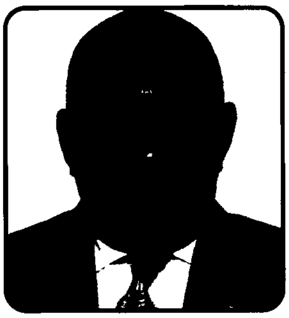
Volume 40 | Number 2 Article 2

6-2016

How micro small and medium enterprises (MSMES) can leverage on Central Bank of Nigeria's real sector initiatives

Paul Nduka Eluhaiwe
Central Bank of Nigeria

HOW MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs) CAN LEVERAGE ON CENTRAL BANK OF NIGERIA's REAL SECTOR INITIATIVES



Paul Nduka Eluhaiwe
Special Adviser to Governor on Development Finance, CBN

1.0 INTRODUCTION

With a GDP of N80,222,128.32, Nigeria is one of the largest economies in Africa and among the most promising on the continent. Sound economic policies have been largely responsible for the performance of the economy in recent times. This includes the actions of the Central Bank of Nigeria and other financial system stakeholders to channel funds from surplus to deficit sectors through financial intermediation that is consistent with the absorptive capacity of the economy for MSMEs to thrive.
Despite Nigeria's growing economy and large population however, which ordinarily should serve as an investment haven for businesses, the World Bank "Doing Business 2015 Report" ranked the country 170th among 189 countries in terms of the ease of doing business. Nigeria's ranking for 2015 is slightly better than that of 2014, which placed the country in the 175th position out of 189 countries. This implies a difficult terrain for MSMEs to thrive in terms difficulty for start-ups, tough trading policies, high taxes etc.

The MSME sector plays tremendous role in reengineering the socio-economic landscape of the country. Chowdhury et. al (2013) in their study on "Problems and Prospects of SME Financing" found that that SMEs contribute significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth.
Micro, Small, and Medium Enterprises (MSMEs) are vital in developing the Nigerian economy in terms of employment creation, balanced resources utilization, income generation, utilization of local technology and raw materials and in helping to promote change in a gradual and peaceful manner. There is growing realization on the part of the Government that instead of the promotion of large-scale enterprises, it should incentively promote micro, small, and medium enterprises.

Therefore, the need for strong, accelerated economic growth and development are now more acute than ever. The importance of Micro, Small and Medium Enterprises in the growth process is considered to be a key engine of economic growth and development in Nigeria. Hence, the development and promotion of this sector holds the key to inclusive growth and plays a critical role in Nigeria's future. He MSMEs sector plays a pivotal role through several pathways that goes beyond job creation. They are the growth-supporting sector that not only contribute significantly to improve living standards, but also bring substantial local capital formation and achieve high level of productivity. However, to perform these roles access to finance is a critical requirement that needs to be met for their growth and sustainability.

This paper seeks to explore how MSMES can leverage on financing interventions of the CBN with a view to enabling them grow their businesses, employ more Nigerians and contribute to GDP.

2.0 THE NIGERIAN MSME LANDSCAPE

2.1 Definition of MSMEs in Nigeria

As in developed economies, Nigeria with the introduction of the National Policy on MSMEs has addressed the issue of definition as to what constitutes micro, small and medium enterprises. The definition adopts a classification based on dual criteria, employment and assets (excluding land and buildings) as shown on table 1.

- Micro Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira with a workforce not exceeding ten employees.

- Small Enterprises are those enterprises whose total assets (excluding land and building)

Table 1: Definition of MSMEs in Nigeria

S/No	Size Category	Employment	Assets (Excluding land and Buildings)
1	Micro enterprises	Less than 10	Less than 5
2	Small enterprises	10 to 49	5 to less than 50
3	Medium Enterprises	50 to 199	50 to less than 500

Source: SMEDAN (2010). ***National MSME Collaborative Survey***

are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees.

- Medium Enterprises are those enterprises with total assets excluding land and building) are above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total workforce of between 50 and 199 employees.

2.2 MSMEs Spread and Distribution in Nigeria

According to the SMEDAN (2010) National MSME collaborative survey, the population of MSMEs in Nigeria stood at 21,264 SMEs and 17.2 million Microenterprises. This is summarised in tables 2 and 3 as well as on figures 1, 2 and 3. From the tables and figures, it is clear that the Southwest region of the country has the highest number of SMEs and Microenterprises with 4,474 and 3.2 million respectively. This is followed by the Northwest region which has 5,010 and 3.1 million SMEs and Microenterprises respectively. The zones with the lowest number of MSMEs are the Northeast and Southeast zones The former has 1,618 and 2.8 million SMEs and Microenterprises respectively while the Southeast zone has 2,250 and 2.1 million SMEs and Microenterprises respectively.

2.3 Contribution of MSMEs to GDP

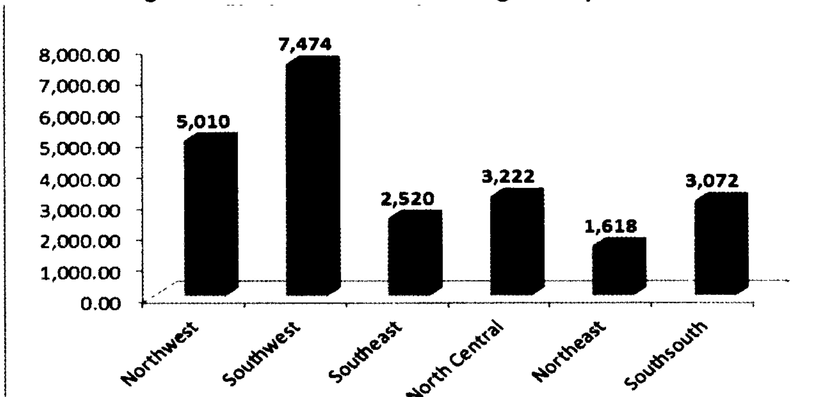
The contribution of SMEs to GDP was reported by SMEDAN (2012) following a comprehensive nationwide survey. According to the report, MSMEs contributed 46.54 percent to Nigeria's GDP in nominal terms (figure 4). The result further showed that in terms of contribution to each sector, MSMEs made the highest contribution to most sectors of the Nigerian economy like agriculture (98.01 per cent), mining and quarrying (67.78 per cent), manufacturing (63.74), wholesale and retail (67.97), real estate and refining (99.13) as well as health and social works (73.82) as shown on figure 4.

Table 2: SMEs Population in Nigeria by Geo-zones

	Number of Small Enterprises	Number of Medium Enterprises	Total	Percentage
Northwest	4,682.00	328.00	5,010.00	21.86
Southwest	6,928.00	546.00	7,474.00	32.61
Southeast	2,350.00	170.00	2,520.00	11.00
North Central	2,960.00	262.00	3,222.00	14.06
Northeast	1,480.00	138.00	1,618.00	7.06
South south	2,864.00	208.00	3,072.00	13.41
Total	**21,264.00**	**1,652.00**	**22,916.00**	**100**

Source: SMEDAN (2010). National MSME Collaborative Survey

Figure 1: Number of SMEs in Nigeria by Geo-zones



Source: SMEDAN (2010). National MSME Collaborative Survey

3.0 ACCESS TO FINANCE BY MSMES IN NIGERIA

Access to finance had been singled out as one of the major challenge impeding the survival and growth of start-up SMEs in Nigeria.. According to Maas and Herrington (2006), quite a significant number of entrepreneurs are of the opinion that, although there seems to be sufficient funds available it remains difficult to access these funds, especially for start-up SMEs. The ability of SMEs to grow depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance. Against this background, the consistently repeated conception of SMEs about their problems regarding access to finance is a priority area of concern, which if not properly addressed, can endanger the survival and growth of the SMEs sector.

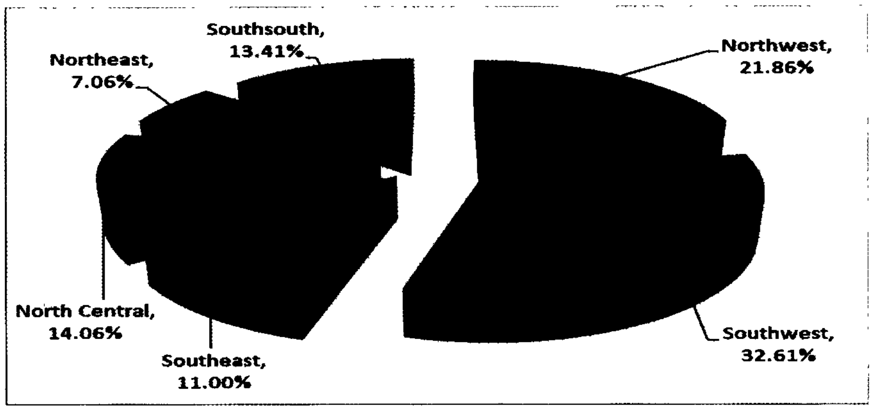
The development of a robust SME sector would be a viable means to create jobs and reduce poverty in Nigeria. Following years of Dutch Disease and loss in international competitiveness, the Nigerian SME sector is fragile, operating in a business environment that presents considerable challenges (e.g. poor infrastructure, low skills, weak governance). This caused the overall share of SME contribution to GDP growth to halve (from 8.4% to 4.6%) between 1980 and 2005. The SME sector in Nigeria is much smaller than in other developing countries, with MSME (including microenterprises) accounting for close to 50 percent of GDP (compared to 80% for many developing countries).

The World Bank Investment Climate Assessment (ICA) study (2008) identifies low access to finance as the second most important constraint for Nigerian SMEs, ranking after the electricity shortage. Only 5 percent of SMEs have a loan, despite the fact that 80 percent of them seek financing. Financing constraints depend on the size of the firm. About 59 percent of small firms report difficulties in accessing finance compared to 35 percent of medium firms and 11 percent of large SME firms

The 2008 ICA study notes 80 percent of SMEs that did not apply for financing would actually like to have a loan/line of credit. The main reasons Nigerian MSMEs give for not applying for loans are: short loan maturities, inaccessible collateral requirements, high interest rates and cumbersome application procedures. Nigeria has the shortest average loan maturity (21 months) among comparison countries, such as Kenya, Brazil, China and India. Shortage of suitable collateral is also a deterrent, since every loan of over NGN 10 million (US$ 86,000) must be collateralized with land or buildings22. However, evidence shows that, despite firms' perceptions, the cost of finance compares favorably with that of the aforementioned countries.

Consequently, most Nigerian SMEs tend to rely heavily on their own funds. Most MSMEs use retained earnings and their own funds (70% of firms) for financing, while bank lending is very low (1% of firms). Supplier credit is also low, accounting for only a quarter of SME financing. According to the World Bank, access to credit also varies by economic sector. The firms with the highest access are those in the food industry, while the garment sector attracts the lowest volume of credit (World Bank, 2008). Nigerian financial institutions would seem to have a clear preference for lending to sectors with shorter turnaround times.

Figure 2: Percentage of SMEs in Nigeria by Geo-zones



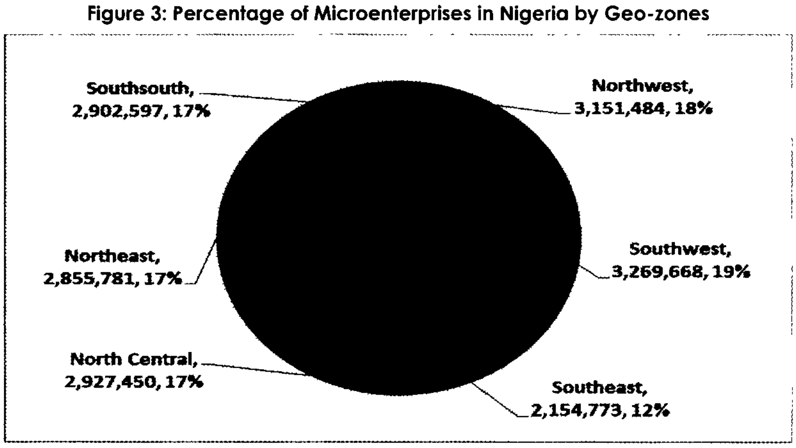
Source. SMEDAN (2010) *National MSME Collaborative Survey*

Table 3: Number of Microenterprises in Nigeria by Geo-zones

Geo-zone	Number of Small Enterprises	Percentage
Northwest	3,151,484	18.26
Southwest	3,269,668	18.94
Southeast	2,154,773	12.48
North Central	2,927,450	16.96
Northeast	2,855,781	16.54
Southsouth	2,902,597	16.82
Total	**17,261,753**	100

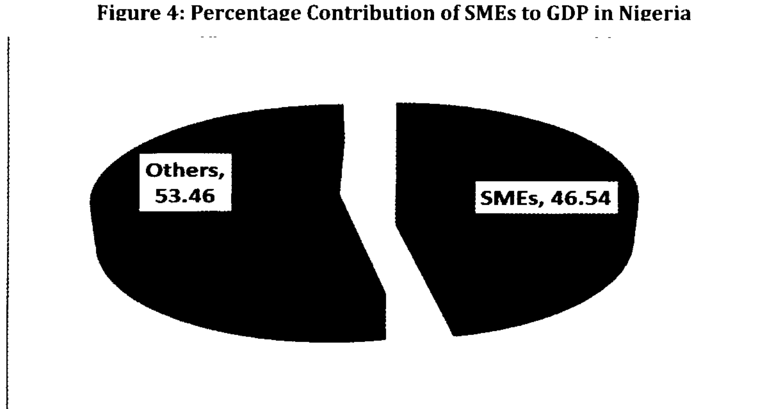
Source: SMEDAN (2010). *National MSME Collaborative Survey.*

Figure 3: Percentage of Microenterprises in Nigeria by Geo-zones



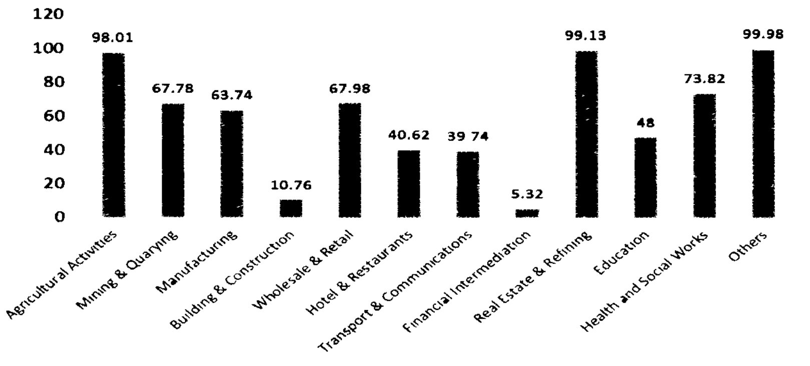
Source: SMEDAN (2010). *National MSME Collaborative Survey*

Figure 4: Percentage Contribution of SMEs to GDP in Nigeria



Source: SMEDAN (2010). National MSME Collaborative Survey

Figure 5: Percentage Contribution of SMEs to GDP of Individual Sectors



Source SMEDAN (2010) National MSME Collaborative Survey

Table 4: Percentage of financing from: Total Small Med. Large

	Sources	Percentage			
1	Own Funds/Retained Earnings	70%	70%	71%	61%
2	Borrowed from banks and other financial Institutions	1%	1%	2%	2%
3	Purchases on credit from suppliers and advances from Customers	25%	25%	25%	35%
4	Borrowed from family, friends and other informal sources	4%	4%	2%	1%

Source World Bank ICA Survey (2008)

Table 5: Sources of Short Term Financing: International Comparison

	Sources of Short Term Financing	Nigeria	Brazil	China	India	Indonesia	Kenya	S. Africa
1	Internal Funds/Retained Earnings	70%	44%	13%	47%	38%	73%	66%
2	Borrowed from banks/financial Institutions	1%	30%	27%	32%	16%	7%	17%
3	Purchases on credit from suppliers/advances from customers	25%	15%	2%	9%	4%	17%	12%
4	Borrowed from family, friends and other informal sources	4%	5%	8%	9%	20%	3%	1%
5	Issued new equity/debt	-	4%	12%	2%	2%	-	1%

Source World Bank ICA Survey (2008)

4.0 COUNTRY EXPERIENCE

According to Malhotra et al. (2007), one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. To this end various jurisdictions adopt different models of channeling credit to the MSME sector over the years.

In Europe, as early as the 13th century, government enacted legislation to help rural and urban dwellers combat poverty. The Bank of England has a department or unit that administers its small and medium enterprises financing. In the United States, the Federal Reserve Bank identifies and addresses a broad spectrum of challenges confronting low and moderate income communities by developing their capacity through its Community Affairs Department, which is responsible for supporting economic growth at the lower end of the market. The Bank of Brazil is active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion. Its Financial System Organization Department is responsible for the financial inclusion programme.

In Asia, central banks play vital intermediation roles. For instance, Bank Indonesia is currently involved in promoting priority sector lending primarily in favor of MSMEs, micro-credit project for the poor and self-help group linkage to banks. The Philippine Central Bank, promotes appropriate financial market policies, implements specialized microfinance schemes, capacity building and other initiatives (rediscounting facility, Credit Bureau, rating agencies). The State Bank of Pakistan's Agricultural Credit and Microfinance Department is responsible for meeting the credit needs of the agricultural sector, a major foreign exchange earner. The Central Bank of Bangladesh is entrusted with the responsibilities of formulating and implementing national agricultural credit policy. It maintains two Departments, namely: Agricultural Credit and Financial Institutions Department and SME and Special Programmes Department to perform these roles.

Similarly, in Africa, the Central Bank of Mauritius sponsors credit scheme for sugar farmers who are the major foreign exchange earners in the country. The Bank of Uganda manages various lines of development programmes in form of credit and term loans in collaboration with accredited financial development institutions. The Central Bank of the Gambia operates microfinance supervisory department to take care of the peculiarities of its rural credit market. The National Bank of Ethiopia undertakes development finance activities by providing technical assistance and investment in micro financing businesses. The Bank of Ghana has been involved in rural credit support through its rural/community banking system and has Rural Finance Department that formulates and monitors rural banking policies. The Bank of Sierra Leone Development Finance Division supervises the rural banking and rural export credit guarantee scheme of the country, while the Bank of Liberia actively participates in rural financing, manages a credit guarantee scheme and performs other developmental functions for the country.

5.0 WHY NIGERIAN BANKS ARE NOT FINANCING MSMES

Chowdhury and Ahmed (2011) reported that non availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements, paucity of working capital, non availability of skilled work force; poor salary structure, lack of coordination among SME related organizations, lack of appropriate marketing strategies etc. are the major hindrances to the development of the SMEs. In another research effort Mazanai and Fatoki (2012) reported that Banks advance four main reasons for their reluctance to extend credit to small enterprises viz, high administrative costs of small-scale lending, asymmetric information, high risk perception and lack of collateral. Although the reasons apply to industrial as well as developing and emerging economies, they tend to be more significant in the latter.

In Nigeria, the World Bank (2009) reported that only 5 percent of firms have a loan, despite the fact that 80 percent of SMEs seek financing. These numbers place Nigeria among the bottom ranking developing countries for access to finance. For example, total credit to private sector was N16,963 billion in 2014 (CBN 2014) while total lending to MSMEs stood at N468 billion. The end result is that Nigeria is foregoing important opportunities for growth and poverty reduction

Some of the reasons why Banks hardly Lend to Nigerian MSMEs are as follows:

I. **Perception:** This is the uncertainty banks have when processing loans for SMEs. Green (2003) argued that Commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. They in this case, entertain doubts about the possible defaults which clouds objective assessment of the project. This therefore may lead to poor processing and disqualification of a loan request by an MSME operator especially when the loan amount is high.

ii. **Poor Understanding of the Sector:-** A good number of relationship managers and credit officers have a poor understanding of the MSME sector. This limits their capacity to package loans as they are not equipped with the right technical know how for the exercise. Worse still many Nigerian Banks do not have MSME desks that are manned by experts thus unable to access and price the risk elements.

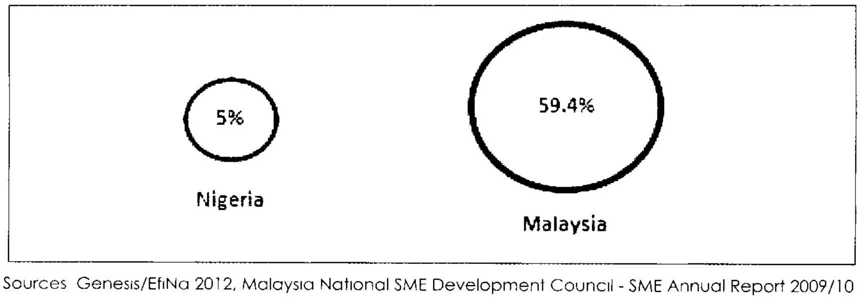
iii. **High default rates from government-driven lending programs:-** Many SME operators who have participated in Government sponsored programmes did not repay their loans as and when due. This has made banks to be wary about lending to them as they might make loan default a habit.

iv. Information Asymmetry:- This exist where one party has more or better information than the other. This creates an imbalance of power in transactions between the MSME operators and the banks, which can sometimes lead to failed or unsuccessful transactions.

v. **Lack of Collaterals:-** Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. This is an important prerequisite for credit in Nigeria. Unfortunately, many MSME operators lack collaterals to tender to enable them assess bank loans.

vii. **Poor Business Plans/Feasibility Studies:** - A business plan is a formal statement of business goals, reasons they are attainable, and plans for reaching them. It is a key ingredient for a successful business. Unfortunately a good number of loan seekers cannot package a good business plan and cannot afford the services of financial consultants.

Figure 6: Percentage Bank lending to MSMEs by Banks in Nigeria and Malaysia



Sources Genesis/EfiNa 2012, Malaysia National SME Development Council - SME Annual Report 2009/10

6.0 JUSTIFICATION FOR CBN INTERVENTIONS

The core mandates of the Central Bank of Nigeria (CBN) as provided in Section 2 of the CBN Act 2007 covers: monetary and price stability, issuance of legal tender currency, maintenance of external reserves to safeguard the international value of the legal tender currency, promotion of sound financial system in Nigeria and acts as banker and provides economic and financial advice to the Federal Government. In pursuance of this mandate and in recognition of the peculiar developmental challenges of Nigeria, the CBN is further empowered by Section 31 to ensure a seamless transmission of financial resources to critical sectors of the economy. It is against this background and in response to the impact of the global financial crisis that the CBN identified and administered some priority interventions in such areas as agriculture, aviation, power and SMEs.

Section 31 of the Central Bank of Nigeria Act No. 7 of 2007 vests statutory powers on the CBN to engage in developmental functions. These functions are broadly:

- o Promoting development of money and capital markets in Nigeria; and
- o Stimulating financial or economic development
- o Stimulating financial or economic development entails:
- o Stimulating flow of finance to the real sector; and to the financially excluded

7.0 CBN INTERVENTIONS TOWARDS STIMULATING THE MSME SECTOR

The history of CBN efforts towards economic growth and development in Nigeria are replete with efforts towards MSMEs growth. This is because the MSMEs sub-sector has been identified as one of the critical elements to the achievement of the country's vision 20-2020. The sub-sector has been globally acknowledged as the engine that drives the socioeconomic transformation of both the developing and developed countries. A nurtured and well-structured MSME sector contributes significantly to employment generation, wealth creation, poverty reduction and sustainable economic growth and development.

Various attempts have been made by CBN to stimulate the growth and development of the MSME sector in Nigeria. These include:

i. The Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.

The Government through the Central Bank of Nigeria (CBN) launched the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in 2005. The policy provided the legal and regulatory framework for microfinance banking in Nigeria. The objective is to create a sustainable and credible microfinance banks capable of mobilizing and channelization funds to the MSME sub-sector. The policy, however, resulted in the establishment of new microfinance banks and the conversion of some existing community banks to microfinance banks. Today, the microfinance banks have provided the financing widow to address the inadequate access to finance confronting the micro and small enterprises in Nigeria.

ii. The Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The SMEEIS initiative was established in 2001 in response to the Federal Government's concerns and policy measure towards the aggressive and radical transformation of the sub-sector through the provision of adequate and cheaper funding. All the commercial banks operating in Nigeria were required to set aside 10% of their profit after tax (PAT) for equity investment in small and medium enterprises in Nigeria. The cumulative sum set aside by the banks under the scheme as at December, 2009 was N42 billion. However, the scheme did not achieve the desired impact as most SMEs were not interested in the equity participation for fear of losing control of their enterprises. Even then, most of them lack the 60% equity contribution which resulted in delay disbursement as the borrowers were deemed to be uncooperative. Also, most SMEs lack proper bankable business plan, marketing strategy, no sound accounting systems and do not run their transactions through the banking system.

iii. The N200 billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS)

The scheme was established in 2010 to fast track the development of the sector, set the pace for the industrialization of the economy and increase access to credit by small and medium enterprises and entrepreneurs. The scheme provided guarantees on loans by banks to the sector in order to absorb the risks that had inhibited banks from lending to the sector. The beneficiaries of the scheme are small and medium enterprises with total assets not exceeding N500 million and a labour force of 11 to 300 staff. A maximum amount of N100 million would be guaranteed which could be in form of working capital, term loan for refurbishment or equipment upgrade or expansion and overdraft. The total number of projects guaranteed from inception to October 2014 is 81 (Eighty One), valued N3.77 billion.

iv. The N200 billion SME Restructuring/Refinancing Fund

The Fund was established in 2010 by the Central Bank of Nigeria. The purpose of the Fund was for refinancing or re-structuring of bank's existing loan portfolios to the sector. The Fund was sourced from the N500 billion debenture stock issued by the Bank of Industry. However, the main objective of the Fund is to enhance access to credit by the small and medium enterprises and improve the financial position of the commercial banks. The scheme is managed by the Bank of Industry who disburses the Fund to the Participating banks for restructuring of their loan portfolio. The total sum of N335.725 billion had been released to BOI, and disbursed to 601 projects from inception to October 2014.

v. Agricultural Credit Guarantee Scheme (ACGSF)

The Agricultural Credit Guarantee Scheme was launched in 1977 to reduce the risk borne by commercial banks in extending credit to farmers. Under this scheme, the Central Bank of Nigeria guaranteed up to about 75% of the value of the principal and interest on loans granted to farmers by any commercial bank up to a maximum of N20, 000.00 for individuals without tangible collateral, N1,000,000.00 to individuals with adequate and realisable collateral and N10 million for loan to cooperatives and corporate bodies with adequate and realisable collateral. Borrowers also enjoy a rebate of 40 per cent of the interest paid after repayment as and when due. The total loans guaranteed from inception in 1978 to October, 2014 is 919,862 valued N82.141 billion.

vi. Agricultural Credit Support Scheme (ACSS)

The scheme was established in 2006 with a prescribed fund N50.0 billion. Under ACSS, banks lend at a maximum of 14% interest rate, farmers pay only 8% while CBN provides 6% rebate to banks. The Scheme had been rather inactive after 8 years in operation having processed and paid rebate to only 46 projects valued N876.79 million as at April 2014 as at end October 2014.

vii. Entrepreneurship Development Centres (EDCS)

The Entrepreneurship Development Centers were initiated by the CBN in 2006 to unleash the entrepreneurial spirit of youths to own/set up their businesses, create employment and reduce poverty. The existing EDCs located in North-East (Maiduguri), North-Central (Makurdi) and South-South (Calabar) trained 1,519 out of a target of 1,500 within the 3rd quarter, 2014. This represents 101.27% of the target (60.89% male and 39.1% female). Cumulatively from inception; 8,807 were trained; 2,113 accessed a total of N195.348 million as loan to their businesses; and 5,243 jobs were created from inception.

viii. Micro, Small and Medium Enterprises Development Fund (MSMEDF)

The Central Bank of Nigeria launched the Micro, Small and Medium Enterprises Development Fund (MSMEDF) on August 15, 2013. The Fund was introduced to channel low interest funds to the MSME sub-sector of the Nigerian economy through Participating Financial Institutions (PFIs). It also sought to enhance access by MSMEs to financial services, increase productivity and output of microenterprises and increase employment and wealth among others. The Fund allows the indirect participation of State Governments/FCT. The sum of N1.412 billion was approved and disbursed to four (4) PFI/States under the MSMEDF Commercial Component in October 2014, bringing the wholesale amount disbursed to N1.422 billion in respect of five (5) PFI/States under the MSMEDF Commercial Component since inception.

8.0 CONCLUSION AND RECOMMENDATIONS ON HOW MSMES CAN LEVERAGE ON VARIOUS CBN INTERVENTIONS

The future of the Nigerian SME sector will rest on its ability to turn the challenges of supporting the expanding Nigerian economy into profitable opportunities. However, this does not rest on access to finance alone but includes fixing a gamut of issues ranging from finance, infrastructure, fiscal (tax) etc. However, the following are some recommended ways of what busineesses neeed to put in place for easier access to the various CBN initiatives that have been specially designed to finance projects in the MSMEs subsector.

I. Approaching the Right Financial Institution

The CBN does not deal directly with MSME operators but channel its interventions via participating Financial Institutions (PFIs). These PFIs include Deposit Money Banks, Development Finance Intuitions and Microfinance Banks. The choice of the PFI is contingent on the specification of the Guideline of the particular Intervention in question. It is therefpre essential for an intending MSME operator to study the guidelines of the Scheme of his/her interest and approach the specified PFI for the credit facility he or she wants to access.

ii. Having Bankable Business Plan/Feasibility Studies

The primary value of a business plan will be to create a written outline that evaluates all aspects of the economic viability of the business venture including a description and analysis of all business prospects. Preparing and maintaining a business plan is important for any business regardless of its size or nature. If a project promoter maintains a correct assessment of the changing economics of his business, the plan will provide a useful roadmap as well as a financing tool. This is why banks emphasize a detailed business plan among requirements for loans. MSME operators planning to participate in CBN intervention programmes will require sound business plans to convince the banks to package their loans.

iii. Good Credit History/ Cashflow

A credit history is a record of a borrower's responsible repayment of debts. In many countries, when a customer fills out an application for credit from a bank, company, or a store, their information is forwarded to a credit bureau. The credit bureau matches the name, address and other identifying information on the credit applicant with information retained by the bureau in its files. The gathered records are then used by lenders to determine an individual or firm's credit worthiness; that is, determining an individual's ability and track record of repaying a debt. The willingness to repay a debt is indicated by how timely past payments have been made to other lenders. Lenders like to see consumer debt obligations paid regularly and on time, and therefore focus particularly on missed payments.

iv. Sufficient Cash assets (equity contribution) Where Necessary

An equity contribution is an owner's investment in an asset that represents an unencumbered ownership interest. The concept is used in various contexts, including with businesses ownership percentages and loan transactions. A person's equity contribution is used to calculate financial positions, such as whether or not an asset is heavily leveraged and to determine an asset's loan-to-value ratio. The part of an asset that a person owns free and clear is equity. If a person needs to take a loan out against the asset, the equity is the amount that can be put up to secure the loan. Many types of assets that can be obtained by acquiring a loan require the buyer to make an equity contribution so he has an unencumbered ownership interest in the asset. In other contexts, an equity contribution is required of a new asset owner so he has a proportionate ownership interest in the asset with other owners. It is important to mention that not all CBN schemes emphasize equity contribution as a requirement for accessing credit facilities. It is therefore necessary to peruse the guidelines for any Scheme of interest for specific details on the issue.

v. Possession of Adequate Collateral Security Where Necessary

Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Most Nigerian banks emphasize adequate collateral requirements for loans therefore making it a major determinant for many MAMSMEs to qualify for loans. It is necessary to state that not all CBN schemes emphasize collateral requirement especially for micro-enterprises. It is therefore necessary to peruse the guidelines for any Scheme of interest for specific requirements in respect of collateral requirements under CBN interventions.

vi. Must meet Individual Banks' due diligence criteria

This is an investigation of a business or person prior to signing a loan contract, or an act with a certain standard care. The theory behind due diligence holds that performing this type of investigation contributes significantly to informed decision making by enhancing the amount and quality of information available to decision makers and by ensuring that this information is systematically used to deliberate in a reflexive manner on the decision at hand and all its costs, benefits, and risks. Due diligence criteria vary for different financial institutions but a prospective lender must meet the due diligence criteria of his bank to qualify for credit facilities under CBN interventions.

REFERENCES

Ahmed, Kashfia and Chowdhury, Tanbir Ahmed, (2009), "Performance Evaluation of SMEs of Bangladesh", International Journal of Business and Management,vol.4, no.7

CBN (2014). Financial Stability Report, June 2014. Central Bank of Nigeria, Garki Abuja. 61pp

Chowdhury, Md. Shahnur Azad, Azam, Md Kazi Golam and Islam, Serajul.(2013). Problems and Prospects of SME Financing in Bangladesh. Asian Business Review, Volume 2.

Green, A. (2003). Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth? SME Technical Working Paper No. 10. Vienna: UNIDO. Retrieved from: http://www.unido.org/file-storage/download/ ? file-id = 18223, (Accessed on: 23 February 2010).

Malhotra, M., Y. Chen, A. Criscuolo, Q. Fan, I. Hamel, and Y. Savchenko, (2007). Expanding Access to Finance: Good Practices and Policies for Micro, Small and Medium Enterprises. Washington DC, World Bank

Mazanai, M. and Fatoki, O. (2012) Access to Finance in the SME Sector: A South African Perspective. Asian Journal of Business Management 4(1): 58-67, 2012

SMEDAN (2010). National MSME Collaborative Survey. Small and Medium Enterprises Development Agency, Abuja Nigeria.

World Bank (2014). Doing Business 2015: Going Beyond Efficiency. International Bank for Reconstruction and Development, Washington DC, USA

World Bank (2009). Making Finance Work for Nigeria. The World Bank, Washnigton DC, USA. 178pp