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The National Economic Reconstruction Fund (NERFUND): achievements, constraints and prospects.

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THE NATIONAL ECONOMIC RECONSTRUCTION FUND NERFUND: ACHIEVEMENTS, CONSTRAINTS AND PROSPECTS

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This paper reviews and appraises the National Economic Reconstruction Fund (NERFUND) which is one of the specialised financing facilities for promoting small and medium scale enterprises (SMEs). The study notes that given the importance of SMEs in the industrialisation process, particularly in the areas of employment generation and development of indigenous technology, evaluating the effectiveness of the scheme is of major interest especially to inform policy analysis and choices. The paper examines the objectives and the operational modalities of NERFUND, analyses the implementation problems of the scheme and assesses the achievements so far and the prospects of the scheme.

The study showed that NERFUND's major role of providing soft medium to long-term funds to SMEs through participating banks (PBs) had been achieved to some extent despite some initial constraints. The major constraints have been the reluctance by banks to participate in the scheme, due to high risks associated with credit operations of SMEs, and the apparent silence of policy on risk burden sharing strategies.

The study revealed that NERFUND had approved by end-May 1991 120 projects worth ₦504 million while disbursements totalled over ₦100 million. Approvals covered a wide range of projects nationwide although disbursements lagged far behind approval. Approved projects were estimated to have the potential of boosting employment by more than 6,000 people. Despite these achievements, the problems which remain outstanding include; the issue of risk-sharing, tying of credit facilities to conditions of the multilateral support agencies; conflict over definition of qualifying project beneficiaries, lack of flexibility in the enabling Decree, and lack of appropriate modalities for managing NERFUND.

Given the commitment of the Federal Government to the promotion of SMEs and the support of international financial institutions such as the ADB and the World Bank, NERFUND is expected to play a lead role in the financing of SMEs.

NERFUND's impact could, however, be grossly undermined if its management is politicised, and if the criteria for project selection de-emphasize economic considerations.

INTRODUCTION

The Federal Government in the past few years, has put in place, some specialised financing facilities or schemes primarily to boost small and medium scale enterprises (SMEs). The focus on SME's is predicated on their impact and contribution to a diversified productive base as well as their catalytic effect in achieving macro objectives such as employment generation, diffusion of economic power and promotion of indigenous technology. Small and medium scale enterprises are particularly more conducive to the creation of more jobs per unit of naira investment, than large enterprises. Through a network of intricate linkages with large-scale enterprises, they are capable of enhancing a broad production base. As important as they are

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in the development process, their actual contribution has been less than adequate, owing to various institutional constraints as well as problems inherent in them.

In particular, SMEs are characterised by problems of undercapitalisation, high rate of business failure, shortage of skill, poor accounting stardards and restricted access to big markets. These problems in turn, restrict their access to institutionalised credit. To alleviate the problems of SMEs, the Federal Government, since the early 1960s has introduced various measures to encourage their proliferation. Measures to boost SMEs have been stepped up over the years, with increased emphasis placed on them by the present Administration. The President, in his 1988 Budget Address stated that not only are SMEs "capable of generating more employment per unit of capital input, they provide the best chance of industrialising our rural areas". In recognition of their potential benefits as well as problems encountered by them, the government has played a lead role in encouraging their proliferation. Facilities or schemes set up by the government to promote SMEs include the World Bank - Assisted Small and Medium Scale Enterprises (SME) Apex Unit Loan Scheme, the Export Stimulation Loan (ESL) Scheme, some of the programmes of the National Directorate of Employment (NDE), Central Bank of Nigeria's guidelines to banks on minimum credit to be granted to small-scale enterprises, CBN Rediscounting and Refinancing Facility (RRF) for exporters and the National Economic Reconstruction Fund (NERFUND)[1]. Each of these facilities or schemes has a great potential for promoting SMEs and indeed many SMEs have been able to utilise them. The focus of this paper is the National Economic Reconstruction Fund (NERFUND), which has been in the news frequently, but whose operational modality is not well understood. The objective of this paper therefore is to examine the achievements, constraints and prospects of the NERFUND. The rest of the paper is thus divided into four parts. Part I discusses the objectives and operational modality of NERFUND. Part II examines the constraints experienced in implementing the scheme. Part III considers the achievements so far, as well as prospects for the future, while part IV provides the summary and concluding remarks.

PART I
THE OBJECTIVES AND OPERATIONAL MODALITY OF NERFUND

The Rationale For Setting Up the NERFUND

In spite of the recognition of the role of small and medium scale enterprises (SMEs) in fostering economic development through the promotion of indigenous technology, employment-generating activities and broadening of the production base, the impact of Nigerian SMEs on economic development has been less than desirable. A major reason for this is their restricted access to institutionalised credit as a result of banks' perception of SMEs as high-risk ventures. Indeed, despite the directive of the Central Bank of Nigeria that banks grant not less than 16 per cent (up till end 1989) and later a minimum of 20 per cent (from January 1990) of their total loans and advances outstanding to small enterprises, the banks granted less than 10 per cent of their loans and advances outstanding to small enterprises during the period

1 See for example, PHILLIPS, 'Toyin (1991), in Reference (5)

1980-1986. With the introduction of the Structural Adjustment Programme (SAP) in 1986 and the inevitable devaluation of the naira, many SMEs found it very difficult to cope with the attendant high production costs as a result of high cost of imported inputs, and high rates of interest. In addition, banks' loans to SMEs tended to be short-term in nature as a result of their portfolio structure. SMEs therefore tended to borrow short for some of their long term financing requirements. They also experienced restricted access to foreign exchange.

In order to bridge the observed gap in banks' lending to SMEs, the Federal Government set up the National Economic Reconstruction Fund (NERFUND) through the NERFUND Decree No. 2 of 9th January, 1989.

Objectives

NERFUND is aimed at providing soft, medium to long term funds for wholly Nigerian - owned small and medium scale enterprises. SMEs are defined as those with cost of new investment up to, but not exceeding ₦10 million. SMEs through NERFUND, have access to local and foreign loans over a period of five to ten years. Specifically, the aims and objectives of NERFUND are to :

(i) correct any observed inadequacies in the provision of medium or long-term financing to small and medium scale industrial enterprises (SMEs), especially manufacturing and agro-allied enterprises, mining, quarrying, industrial support services, equipment leasing and other ancillary projects.

(ii) provide medium to long term loans to participating commercial and merchant banks (PBs) for on-lending to SMEs;

(iii) facilitate the provision of loans with 5-10 years maturity including a grace period of 1-3 years, depending on the nature of the enterprises or project; and

(iv) provide loan in local and/or foreign currency depending on the funds available to NERFUND and the project being funded.

Eligibility

The provision for eligible enterprises according to section 2 of the Decree are that:

(i) SMEs be 100 per cent owned by Nigerians;

(ii) SMEs are regarded as those with fixed assets plus cost of new investment (land excluded) not exceeding ₦10 million (an upward review of this ceiling is currently under consideration);

(iii) In the case of a manufacturing project, not less than 40 per cent of the raw materials are locally sourced;

and

(iv) A participating Bank (PB) has accepted on behalf of the SME to assume credit risk.

Once the management of NERFUND is satisfied that the eligibility criteria are met and that an acceptable loan agreement between an SME and the PB has been drawn up and deposited with NERFUND, funds are expected to be released at the agreed intervals and consequent on a written request by the PB for funds disbursement.

Geographic Spread of NERFUND Projects

Projects located in the rural areas are to be accorded priority. Accordingly, the dissemination of information on NERFUND resources and activities is expected to be carried out at the local government level, while states' Commissioners of Finance are expected to coordinate activities pertaining to the utilisation of NERFUND's resources. Beneficiaries of NERFUND are NOT expected to be considered on a quota basis.

Administration and management of NERFUND

The NERFUND secretariat is responsible for the disbursement to and recovery from PBs of all loans made to PBs for on-lending to enterprises and projects approved. Unless a PB has pre-paid all the amounts due on a loan before the scheduled repayment date, NERFUND shall notify the Central Bank of Nigeria of the amounts outstanding and the account(s) of the bank(s) involved shall be debited. Exceptions are where the NERFUND agrees to rescheduling a particular loan to a PB. To ensure that loans are promptly and effectively disbursed and managed, NERFUND's resources are managed by a committee, which initially comprised of:

(i) The Federal Minister of Finance & Econ. Development or his representative – Chairman

(ii) The Governor of the Central Bank of Nigeria or his representative – Member

(iii) The General Manager/Chief Executive of NERFUND – Member

(iv) A representative of the Commercial Banks – Member

(v) A representative of the Merchant Banks – Member

(vi) A representative of the Development Banks – Member

and

(vii) A representative of the Fed. Minister of Fin. & Econ. Development. – Secretary.

The three representatives of the banks were to be appointed by the President on the recommendation of the Minister of Finance.

Recently however, the board composition was restructured to provide for greater flexibility in management. The use of banks' representatives is being de-emphasised with the inauguration in February 1991, by the Minister of Finance and Economic Development, of a six-man board, with members drawn from varied background and with different areas of interests and specialisation. The board is headed by a Chairman (not a government official) whilst a managing director is the chief executive of NERFUND. Other board members are mainly from the private sector.

A NERFUND Monitoring Office headed by the chief executive, overseas the day-to-day operation of the NERFUND.

NERFUND's Funding Sources

According to section 8 of NERFUND Decree No. 2 of 1989, the sources of fund are: (1) The Federal Government of Nigeria – ₦200 million; (2) The Central Bank of Nigeria – ₦100 million; and (3) Counterpart funding from the World Bank, the African Development Bank, export credit agencies, governments, banks and other organisations acceptable to the NERFUND Committee.

Currently, NERFUND's resource base comprises of three components:

(i) ₦300 million from the Federal Government of Nigeria (including Central Bank's contribution) as stated in the enabling decree, of which ₦140 million has been paid up;

(ii) $230 million from the African Development Bank (ADB) of which $130 million was recently approved;

and

(iii) $50 million from the government of Czechoslovakia.

In order to meet foreign obligations promptly, the chief executive of NERFUND is expected to procure the foreign exchange required to service NERFUND's foreign currency loans. NERFUND is also expected to hold such foreign exchange acquired in income-bearing securities and repay loans, as and when due. NERFUND, as stipulated in the enabling decree, shall not receive any government subventions except as provided by those responsible for the funding. Accordingly, the scheme is expected to be self-financing. NERFUND is to service its loans and meet all expenditure from its own resources.

Disbursements of funds are subject to compliance with the rules and regulations attached to a particular source of fund. For example, the African Development Bank (ADB) non-oil export-stimulation loan (ESL) is for funding foreign exchange requirements for imported inputs for non-oil export production. The Czechoslovakian line of credit is primarily for funding capital goods import from Czechoslovakia, with the beneficiary paying upfront 15 per cent of the f.o.b. value of each contract amount. The naira component is to fund SMEs geared towards local sourcing of inputs.

Modalities

The NERFUND reserves the right to disburse funds on behalf of PBs and the banks' customers, directly to the suppliers of machinery and/or equipment. The payment for machinery imports by NERFUND counts as part of the loan. Payments include port handling charges, port development charges and import duties. The purpose is to ensure that imported machinery are brought in on a timely basis, since some letters of credit take up to eight months before they become effective. NERFUND usually undertakes machinery imports so that there would be no room for funds diversion by SMEs, with regards to imported machinery, nor would machinery be left unattended at ports, because funds were not released on a timely basis by the PBs or because of other real or imagined bottlenecks.

Accessing NERFUND Loans

Accessing NERFUND loans is fairly straightforward. A project promoter applies to a bank of his/her choice and indicates interest in obtaining NERFUND loans. SMEs are not expected to approach NERFUND directly. The applicant bank would evaluate eligible enterprises and projects and approve loans in accordance with its regular practice. Banks are responsible for disbursements, monitoring and recovery of loans. The banks determine with the project sponsors, the amounts required in the various currencies. Also, the supplier(s) must be identified. Thereafter, approval-in-principle of NERFUND is obtained by the participating bank.

NERFUND is expected to release funds at the agreed intervals and on the written request of a participating bank (PB) to the machinery/equipment supplier(s), or in some cases, to the PB for onward lending to the SME. The PBs on their part are expected to ensure prompt loan repayments on or before the due dates. Commercial or market risks involved in any loan granted under the programme are to be borne by PBs.

It is the primary responsibility of the PBs to ensure the adequacy of working capital by SMEs throughout the life of the NERFUND loan. In cases where NERFUND did not disburse directly to the machinery and equipment suppliers, each PB shall disburse funds to approved enterprises or projects <u>not later than three working days</u> of release of the funds by NERFUND to the PB.

Each PB is expected to set up a unit or section, specially for SMEs to provide credit extension services. Such a unit is expected to be staffed by financial analysts, engineers, economists and other experts. Copies of loan agreements showing disbursement and repayment schedules are expected to be deposited by each PB, with the NERFUND.

Interest Rates Payable

The interest rates chargeable on funds obtained from NERFUND are expected to be relatively lower than commercial rates in order to ease SMEs access to credit. The rates chargeable on naira loans shall be slightly lower than the market rates prevailing in the country and shall be fixed during the duration of the loan. The rates chargeable by NERFUND to PBs are limited to 1 per cent above NERFUND's cost of borrowing the particular fund. PBs are allowed a spread of not more than 4 per cent over their cost of fund. Foreign currency loans are to carry variable interest rates depending on the source of the foreign loan and the terms of agreement concluded with NERFUND. Specifically, the cost of NERFUND's foreign loans is currently 9.5 per cent and it charges PBs 10.5 per cent for such loans. For naira - denominated loans, NERFUND charges Central Bank's minimum rediscount rate (MRR) plus 1 per cent margin. Up till the end of 1990, a beneficiary obtained NERFUND naira loans at 23.5 per cent. With the downward revision in interest rates since January 1991, beneficiaries of NERFUND loans pay between 19.0 and 19.5 per cent. The naira interest rate for each loan is expected to be fixed for the duration of the loan. For loans disbursed in foreign currency, payments of interest and principal instalments due, shall be the naira equivalent at the prevailing (selling) rate at the FEM unless otherwise stipulated. The SMEs however bear the foreign exchange risks.

In general, NERFUND monitors banks' interest rate spread on the loans to ensure that they comply with the rules and regulations on making credit accessible to SMEs.

NERFUND's Funds and Credit Ceiling

Loans granted under the NERFUND scheme with NERFUND's funds are exempted from credit ceiling stipulated by the CBN. NERFUND's funds are also exempted from deposit reserve requirements.

PART II
CONSTRAINTS IN THE IMPLEMENTATION OF THE NERFUND SCHEME

The NERFUND Scheme was relatively slow in taking off due to a number of constraints that emerged shortly after the scheme was introduced. The problematic issues centre on (1) risk-sharing (2) access to individual sources of fund within NERFUND, (3) definition of qualifying projects, (4) problems inherent in SMEs themselves, (5) confusion/disagreement over the modalities and management of NERFUND by various pressure groups and (6) rigidities in the enabling decree.

(1) Risk-Sharing

The banks are generally displeased at having to bear all the credit risk involved in financing SMEs. As loans fall due, a participating bank (PB) is expected to repay NERFUND, failing which the Central Bank would automatically debit the PB's account with it, irrespective of the ability of a beneficiary to pay maturing obligations. The banks maintain that there is nowhere in the world where 100 per cent debt recovery by banks is attained. They claim that the perceived socio-economic benefits of funding SMEs are far less than the credit risks they might inevitably have to bear. They also argue that since the government is committed to promoting SMEs, the risk-taking should be the joint responsibility on the part of the banks and the government. The overall result is that because the banks are the primary obligors, they were over-cautious initially in granting NERFUND loans to SMEs, particularly because of the short term nature of their portofolio structure. The PBs were thus relatively slow at the onset in tapping NERFUND's resources.

(2) Restricted Access

SMEs sourcing funds from the ADB's component of NERFUND are required to source their input from the 76-member countries of the ADB. Even though the technologies of many of these countries are basically high standard, this restriction limits the scope of an SME that requires imports from non-member countries of the ADB such as Taiwan.

(3) Conflicts Over Definition of Qualifying Projects

The $50 million line of credit from the Czechoslovakian government is technically inaccessible to Nigerian SMEs, because the Czechoslovakian Government defined an SME as one with a *minimum* project cost of US$3.0 million, whereas the NERFUND Decree puts ₦10 million (about $1 million) as the upper limit for the project cost of an SME. Moreover, an SME is required to source its machinery from Czechoslovakia as well as make a 15 per cent down-payment for import.

Although recently, the Czechoslovakian government yielded to redefine an SME within the Nigerian context, using $3 million as the upper limit instead the minimum earlier stipulated, the Czechoslovakian line of credit is still untapped because of the condition that upfront, some downpayment should be made.

(4) Problems of the SMEs

Derivation of maximum benefits from NERFUND is constrained by the problems experienced by SMEs themselves. Many of them are unable to put forward the minimum requirement of twenty five per cent of the cost of the projects. The result is that even when a project has been approved, disbursement fails to take place on a timely basis, while the cost of the project could have escalated in an inflationary environment.

Also, SMEs are beset by other problems such as aversion to ownership dilution and hence undercapitalisation, aversion to information disclosure, poor accounting standards, shortage of skill, badly prepared feasibility reports on projects to be embarked upon, inadequate collateral and restricted access to the export market. These problems restrict SMEs access to NERFUND and to some other schemes set out to promote them.

(5) Confusion/Disagreement over the Modalities and Management of NERFUND

Misleading information through some of the news media presented NERFUND as another cake-sharing programme. When it appeared that this was not to be, criticisms were rife at the early state of implementing the scheme because many small and medium scale entrepreneurs were reported to be disenchanted by banks' relatively slow response to their credit needs, as well as by the high rates of interest. Some entrepreneurs anticipated a "free-for-all" soft loan package. When it became clear that the SMEs had to access NERFUND through banks, various protests against the modality of the scheme surfaced. Some of these protests were organised, others were not.

One of the major critics of the NERFUND has been the National Association of Small Scale Industrialists (NASSI), whose spokesmen argued that NASSI should be represented on NERFUND's board of directors, since NASSI, according to them, understands the problems of small scale industrialists best. Other critics (until the board was recently reconstituted) blamed the government for entrusting the management of NERFUND to a "group of civil servants". It is not the purpose of this paper to suggest who should be on the board of NERFUND. The important thing is that competent people (whether from the public or private sector) direct the implementation of the scheme and such persons should not be saddled with conflicts of interest. The issue of NASSI's representation on NERFUND's board implies that a beneficiary, NASSI in this case, decides how much it obtains from the fund and in what form. Would NASSI's representation on the board yield overall, net benefit for the implementatuion of the scheme? There appears no easy answer to this question because whatever arguments one puts forward here, they could only be conjectural.

NASSI and some others also disagree with NERFUND's definition of an SME. The current upper limit of ₦10 million on project cost (not size of enterprise) implies that many "medium-to-large" scale enterprises can benefit from the scheme thereby crowding out the very small industrialists. A counter argument however is that the scheme was set up for "small" as well as "medium" scale enterprises and since a clear cut definition between small and medium is not given under the NERFUND funding arrangements, the NERFUND's secretariat and the PBs have a free hand to decide which enterprises qualify. Since the provision of some collateral is a prerequisite for most PBs before they sponsor a project qualified for NERFUND's support, it is not difficult to surmise that more "medium", than "small scale" businesses would be financed from NERFUND's resources.

Other criticisms focus on the modality of NERFUND. Some argue that the NERFUND should have been set up as a bank and not just a funding mechanism. While this may be an attractive proposition, there are the cost implications of setting up such a bank with branches established on a nation-wide basis. Apart from the fact that there are already some specialised banks for small and medium scale enterprises – the Nigerian Bank for Commerce and Industry (NBCI) for example, the cost implications on a nation- wide basis may not justify such a demand. Another issue is small scale industrialists' disenchantment with some banks. At the inception of the scheme, it was mooted by some of them that the NERFUND should blacklist banks that had "frustrated" small and medium scale industrialists in the past. Proposals on how this could be effected however, were not specified.

(6) Rigidities In the Enabling Decree

There are what appears to be unnecessary details in the enabling decree. Such details include (a) specification of the number of days a PB would disburse funds on a project, (b) definition of eligible projects without a provision for inflationary factors over the years, (c) specification of interest rate spread and numerous other details. Although these regidities have not seriously hindered the operation of the scheme, it is believed that many of the details should be expunged from the decree. The detailed operational modalities should be in the guidelines of the NERFUND Management, while the decree should provide mainly the regulatory framework and broad guidelines for the sucessful implementation of the scheme.

By and large, the NERFUND scheme has continued to be criticised by some small-scale industrialists, because the operational modalities are at variance with their own perception of how the scheme should be managed. Indeed, the NASSI would want a scheme managed by them and for them.

The numerous criticisms contributed to the slow pace with which the scheme commenced, as they were uncertainties as to whether some changes would be effected in the operational modalities of the scheme in line with some of the criticisms. Although some changes have since been introduced such as reconstitution of the board to de-emphasize banks' representation, and redefinition of qualifying projects with regards to the Czechoslovakian line of credit, a review of the enabling decree to provide greater flexibility, is yet to be carried out. This and other issues notwithstanding, the objectives for setting up the NERFUND remain as valid as when the scheme was first conceptualised.

PART III
ACHIEVEMENTS AND PROSPECTS

Owing to the constraints highlighted in the preceding section, NERFUND received on the average, only 3 project applications per month between September 1989 (when it commenced its activities) and January 1990. With a growing awareness about the potentials of the scheme in promoting SMEs, and realising that certain components of the NERFUND were readily accessible, the SMEs and the banks stepped up their recourse to NERFUND's facilities. Between January and july 1990 therefore, PBs submitted on the average, not less thant 12 applications per month for project funding. Since then, the number of application per month has steadily increased.

Owing to the relative newness of the scheme it is perhaps too early to make pronouncements on projects funded and their perceived impact on the economy. Indeed, due to the grace period of 1-3 years, most NERFUND loans are not yet due for repayment. The achievements of NERFUND therefore can only be ascertained at this stage, by the information on the number of participating banks, approved and commissioned projects and disbursements by NERFUND.

NERFUND represents a major break-through in the provision of funds for SMEs. Its major focus of facilitating the rehabilitation of viable but ailing manufacturing enterprises caught in the throes of some of the unintended side effects of the Structural Adjustment Programme (SAP) is to be highly commended. This is because prospective investors are bound to use existing enterprises as their yardstick, before they venture into new investments. The existence of many ailing firms is bound to be a disincentive to prospective investors. Hence, the resuscitation of viable but termporarily troubled manufacturing firms by NERFUND is a vital contribution to the process of economic recovery. The provision of concessionary long term loans in both local and foreign currency to such enterprises marks a significant contribution by NERFUND to industrial development.

Participating Banks

The growing confidence in the scheme could be said to have influenced the growth in the number of participating banks from very few in the first six months of the commencement of the scheme to 96 as at May 1991. The active PBs however are less than half of those listed, even though the number of active banks has continued to grow.

Approvals and Disbursements

At the beginning of 1990 NERFUND projected that it would approve for funding, a total of 200 projects. By early August 1990 however, only 61 projects with ₦315 million had been approved for funding, out of which 13 had begun to draw on available funds. Total disbursments early in August 1990 comprised US$7.5 million plus ₦3.6 million. Judged by the actual number of projects approved as against what was planned for, NERFUND could be said to have performed below its target. One of the major reasons for this is the banks' role in NERFUND's programme. NERFUND cannot authorise the banks to accept projects. Hence NERFUND in this regard, is on the receiving end.

As at end May 1991 however, NERFUND's approvals and disbursements had increased substantially. Projects for which approvals were granted numbered 120. The total value of projects approved amounted to ₦504.87 million as at end May 1991 and the projects cut accross various categories including food and beverages, wood and wood products, rubber, textile, chemical products, glass and glass products, natural minerals, pharmaceuticals, paper, plastic and leather products. The projects span virtually all the states of the Federation and

Abuja, as indicated in Table 1, which provides a summary of the projects approved on state basis.

Employment generation is a major spin-off of NERFUND's activities. The projects approved as at the end May 1991 are expected to boost employment by 6,254 as indicated in Table 1.

NERFUND's disbursements in both local and foreign currency as at end May 1991 are presented in Table 2. Due to NERFUND's monitoring activities, the stage of implementation of the various projects are known, as stated in Table 2. This is crucial, particularly for effective assessment of NERFUND's activities as to how funds disbursed have been utilised and whether or not the projects have been commissioned.

At at the end of May 1991, disbursements had been made for only 41 out of the 120 projects approved. This indicates that disbursement was only in respect of 34 per cent of total projects approved. Also, only 20 banks were involved in the disbursements so far. The wide gap between approved projects and those for which disbursements were made is a major cause for concern. The inability of the banks to satisfy some of NERFUND's conditions has been adduced as one of the major reasons for the wide gap.

NERFUND's performance hinges critically on the banks' ability to discharge their obligations, which in turn depends on the beneficiaries' capability to meet minimum requirements. As a result, it is difficult to criticise NERFUND of certain shortcomings since it does not deal directly with the applicants.

As at the end of May 1991, applications for NERFUND's loans exceeded 3,000. While some of these may not be worth the paper on which they were written, there is no doubt that the demand for funds by SMEs is indeed very high. Going by the number of projects approved as at the end of May 1991 i.e. 120 compared with the target of 200 as at the end 1990, and judging by the value of approvals so far as indicated in Table 2, NERFUND's contribution to SME financing could be adjudged as quite substantial, though inadequate in the face of huge demand for financing, by many SMEs. Available information on similar scemes for financing SMEs however indiciates that the tempo of NERFUND's activities is relatively high given some of the initial constraints experienced in implementing the scheme.

There is no doubt that NERFUND has begun to achieve its primary objective of providing soft, long-term loans to SMEs.

Prospects

Not having a crystal ball, the prospects of NERFUND can only be based on its present achievements and what one perceives as its ability to reach many SMEs in the future.

It achievements as discussed in the preceding section demonstrate that the scheme has a great potential for accellerating the industrialisation process through SMEs. Although NERFUND funds are not distributed on a quota basis, the geographic spread is encouraging. The indications are that in the future, not only will all states of the Federation and Abuja benefit from the scheme, the scope will be much wider. The scheme is also expected to promote industrial linkage through industries heavily reliant on local inputs.

Limiting factors that may however stall the realisation of this objective are (1) a drying-up of funds for the scheme, (2) inability to reduce the 100 per cent risk currently borne by the banks and (3) lack of commitment on the part of the banks. The fear of shortage of funds may however not materialise, because the present Administration is committed to SME financing. Also, a number of international institutions have indicated their support for the scheme and may continue to provide such support until the economy fully rebounds. The ADB has recently approved US$130 million loan to NERFUND.

With respect to the problematic issue of risk-sharing, discussions have reached an advanced stage whereby an insurance package by NICON is expected to make PBs bear only about 75 per cent of the credit risk. The NICON-NERFUND Guarantee Scheme is expected to induce more banks to accomodate SMEs. Also arrangements are being worked out to use machinery imports as part of SMEs collateral requirements. Some banks are also expected to undertake equity interest in some of the SMEs.

The Czechoslovakian line of credit however, is still untapped. It should be realised that the major objectives of providing the funds are to promote exports from Czechoslovakia and facilitate turn-key investments in Nigeria. These objectives imply relatively large-scale projects as earlier defined by the Czechoslovakian government. The issue of 15 per cent down-payment on machinery imports from Czechoslovakia is yet to be resolved.

NERFUND's future prospects depend on the banks' commitment to project Federal Government's aspirations of using SMEs as a tool for industrialisation. While some of the banks are fully committed, it is difficult to discern the nature of commitment of others. There is no doubt that the banks' profit maximisation motive may not always tally with Federal Governments' aspirations, hence the need to consider further incentives for the banks or else reduce their role in NERFUND's performance.

In order to whittle down some of the constraints of the SMEs, the management of NERFUND has begun to work out the modalities for assisting SMEs in their feasibility studies. Specifically, the plan is that NERFUND, in addition to banks' assessment would advise the banks about the suitability of projects. This would be a radical departure from the practice where the banks were the sole conduits through which approved proposals got to NERFUND.

There are also arrangements by NERFUND to beef up its "data bank" on raw materials availability and utilisation. It interacts closely with the Raw Materials Research and Development Council (RMRDC) in this regard.

The operation of the NERFUND scheme has demonstrated a great deal of flexibility in responding to the requirements of SMEs. For example, although its major focus is the provision of long term loans, the clamour by industrialists for working capital loans is now being accommodated by the NERFUND.

The potentials are enormous and the perceived benefits far-reaching for attaining macroeconomic objectives such as employment generation, development of indigenous technology and industrial development. The seemingly bright prospects however may be dimmed if projects are no longer appraised on strict, economic criteria.

Given the focus of the NERFUND, the flexibility in the implementation of the scheme and the support of international financial institution, NERFUND constitutes a critical channel in the promotion of SMEs and consequently in the industrialisation of the country.

The Role of the Central Bank of Nigeria

The role of the Central Bank of Nigeria is to ensure that NERFUND achieves it major objective of providing medium to long-term financing to SMEs effectively and efficiently. This would help in accelerating productive activities in agro-allied, manuafacturing and ancillary businesses.

In particular, The Central Bank of Nigeria has been active in encouraging other international institutions to beef up NERFUND's resources. There is a need however to monitor from time to time, the performance of NERFUND, banks' response to NERFUND and growth in credit arising from NERFUND's activities. Since the NERFUND credits are exempted from the overall credit ceiling, effective monitoring by the CBN would be imperative to ensure that credit expansion through NERFUND is streamlined with other bank credit in order to ascertain that overall credit expansion in the system does not exceed targets desirable to contain inflationary pressures.

Although NERFUND's projection of financing up to 200 projects in 1990 turned out to be unrealistic, the achievements so far, particularly the dynamism with which the scheme is being implemented are indicative that NERFUND would be a veritable engine of bridging substantially, the gap in the financing needs of SMEs. To attain the sucess rate recorded in countries such India however, may require outright subsidy of SMEs, by the Federal Government, particularly of those in the "small scale" category which NASSI represents. The implementation of NERFUND scheme however, would require some fine-tuning to ensure that the scheme accomplishes all the desired objectives.

PART IV
SUMMARY AND CONCLUSION

This paper examined the National Economic Reconstruction Fund (NERFUND), which is one of the specialised financing facilities for promoting SMEs. Given the importance of SMEs in the industrialisation process, particularly in the areas of employment generating activities and developement of indigenous technology, the effectiveness or otherwise of a scheme such as NERFUND is of major interest. The paper examined the objectives and the operational modality of NERFUND, the problems in implementing the scheme, the achievement so far and the prospects of the scheme.

NERFUND's major role was stated to be the provision of relatively soft, medium to long-tern funds to SMEs through participating banks (PBs). NERFUND was found to experience some initial constraints such as the reluctance by banks in participating in the scheme, owning to the issue of their bearing all the credit risk burden, conditionalities attached to some of NERFUND's funds and criticism on the composition of NERFUND's management. SMEs were also noted to have their own inherent problems, limiting their access to institutionalise credit.

These problems notwithstanding, NERFUND had approved by the end of May 1991, 120 projects worth ₦504 million and had made disbursements totalling over ₦100 million. NERFUND was found to have approved a wide range of projects nationwide although the disbursements lagged far behind the approvals. Approved projects were estimated to have the potential of boosting employment by more than 6,000 people. Given the commitment of the

Federal Government to the promotion of SMEs and confident of the support of international financial institutions such as the ADB and the world Bank, NERFUND is expected to play a lead role in the financing of SMEs.

NERFUND's impact could however be grossly undermined if its management is politicised, whereby the criteria for project selection may cease to be on economic grounds.

Concluding, in the words of the Nigerian head of state and Commander-in-Chief of the Armed Forces – President Ibrahim Babangida at the inception of the scheme, "NERFUND, is not another cake sharing exercise. It is designed to aid in the cake-baking process, and as such, fund disbursements by NERFUND will be based on competitive efficiency". Adherence to this principle should steer NERFUND along the desired path of economic reconstruction, recovery and growth. Streamlining NERFUND's activities with other similar schemes, such as the SME Apex Unit Loan Scheme should further consolidate activities aimed at promoting SMEs.

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Table 1

NERFUND: SUMMARY OF PROJECTS ON STATE BASIS AND EXPECTEDEMPLOYMENT GENERATION: MAY 1991

	States	No. of Projects	Projects' Estimate ₦	NERF's Contribution ₦	Projected Employment
1.	Abuja	1	10,700,000.00	5,800,000.00	33
2.	Akwa Ibom State	2	18,470,000.00	11,855,572.00	94
3.	Anambra State	18	141,543,002.00	84,797,319.00	1129
4.	Bauchi State	2	10,983,000.00	4,797,000.00	75
5.	Bendel State	10	85,504,907.00	42,792,752.00	555
6.	Benue State	1	8,714,600.00	5,656,600.00	64
7.	Borno State	6	28,564,995.60	17,134,000.00	310
8.	Cross River State	-	—	—	—
9.	Gongola State	2	8,386,000.00	5,260,000.00	72
10.	Imo State	11	80,792,084.00	47,295,790.00	658
11.	Kaduna State	4	29,620,765.00	18,614,569.00	152
12.	Kano State	5	54,803,887.00	29,441,853.00	300
13.	Katsina State	2	32,118,755.00	19,263,000.00	171
14.	Kwara State	3	12,959,000.00	7,839,000.00	149
15.	Lagos State	18	121,719,081.00	75,804,562.00	822
16.	Niger State	3	10,078,000.00	7,628,000.00	122
17.	Ogun State	13	103,390,505.00	57,061,558.00	715
18.	Ondo State	9	64,084,100.00	37,062,944.00	398
19.	Oyo State	3	20,893,773.00	5,622,810.00	84
20.	Plateau State	3	31,325,000.00	10,618,000.00	208
21.	River State	3	19,327,000.00	9,094,000.00	88
22.	Sokoto State	1	9,750,000.00	6,280,840,00	55
	TOTAL	120	903,728,454.00	504,871,576.90	6254

Source: The Natiional Economic Reconstruction Fund Secretariat.

Table 2

THE NATIONAL ECONOMIC RECONSTRUCTION FUND: SCHEDULE OF PROJECT ON WHICH DISBURSEMENTS WERE MADE AS AT END MAY 1991

No.	Project Title	Location	Product	Amount from NERFUND		Total	Disbursement to date		Remarks	Bank
				FC	LC		FC	LC		
1.	Cotton Ginning Company of Nigeria Ltd.	Kankara Katsina	Agro-Allied (Ginning)	US$1,668,459.00		12,263.459.00	US$1,668,459.00		All machines have been imported due be commissioned in May 1991	IMB
2.	Niger Garments Manu-facturing	Aba Imo	Agro-Allied (Garmenting)	DM 493,360.00 BP110,599.00 Y15,825,466.00	233,000.00	4,267,000.00	US$592,533.00		Commissioned	NIDB
3.	Noli Eterprises Limited	Onitsha	Agro-Allied (Maize Snack)	DM1,050,000.00	305,000.00	4,400,000.00	US$626,865.67	305,000.00	Commissioned	NIDB
4.	Betty Pride Limited	Isolo Lagos	Textile (Garmenting)	PB 168,850.00	473,131.00	2,918,556.00	US$293,361.28	473,131.00	Commissioned	Commerce Bank
5.	Fembo Nigeria Limited	Akure Ondo	Agro-Allied (Ethanol)	DM 660,918.46	1,614,000.00	3,902,000.00	US$394,578.51	803,000.00		NIDB
6.	Lapkob Nigeria Limited	Abeokuta Ogun	Minning	US$1,065,306.00	-	8,405,000.00	US$1,605,306.00	-	Reportedly commenced production first week of April, 1991.	NWMB
7.	His Stripes Shoes Component	Umule Imo	Chemical PVC Shoe Sole	US$242,200.00	740,000.00	2,564,540.00	US$242,200.00	197,768.00	Commsioned	UBA
8.	Nishan Transcontinental Services Limited	Woji, P.H. Rivers	Chemical Kaolin	$US486,602.20 4,262,750.00	2,484,000.00 7,252,750.00	6,214,000.00 4,252,750.00		4,252,750.00	Factory Building nearing completion.	Alpha
9.	Pilroad Nigeria Limited	Benin Bendel	Agro-Allied	PB183,470.0	448,000.00	3,200,000.00			Foreign currency disbursed but refunded	Union Bank
10.	Osipo Foods Limited	Agege Lagos	Agro-Allied V. Oil	US$177,051.00	4,167,165.00	5,583,573.00	US$177,051.00	3,875,775.95	Most machinery have loan disbursed on site and are being installed as of 9/12/90	MBA

No.	Project Title	Location	Product	Amount from NERFUND FC	Amount from NERFUND LC	Total	Disbursement to date FC	Disbursement to date LC	Remarks	Bank
11.	Savanna Exports	Ile-Oluji Ondo	Agro-Allied	US$868,630.00	1,336,000.00	8,258,000.00	US$868,630.00	-	Awaiting Machine	Commerce Bank
12.	Femsola Nigeria Limited	Igbotako	Agro-Allied Hot Water Cassava Starch		2,100,000.00	2,100,000.00		2,100,000.00	In Production	Premier C. Ban
13.	Kotiko Gold Nigeria Limited	Mainland Lagos	Textiles Garmenting		400,000.00	400,000.00		400,000.00	In Production	Nationwide Merchant Bank
14.	Oil & Allied Products Co. Ltd	Ijebu-Ode Ogun	Agro-Allied V. Oil		3,500,000.00	3,500,000.00		3,402,658.74	Some of the machineryhave been delivered on site as of inspection date 29-3-91. Partial production	Abacus MerchantBank
15.	Zanako Nigeria Limited	Gashua	Rice Milling	BP 68,887	862,691.00	1,783,000.00		1,422,692.00		Premier C. Ban
16.	Amariya Foods Limited	Lafia Plateau	Rice Milling	DM 422,000 (Naira Equivalent)	2,562,100.00	4,729,944.80		3,886,457.46 4,077,010.10	Machinery installed and awaiting trial run as of inspection date 22-11-90 ready for commissioning.	NIDB
17.	Ben-Reubens Nigeria Ltd	Ikeja Lagos	Chemical Mosquite Coils	US$342,500.00	2,430,000.00	5,143,000.00	US$342,500.00	1,991,471.00	Some of the machinery imported are being cleared at Wharf	Universal Trust Bank Ltd
18.	Benaplastic Industries	Lagos	Plastic	DM 1,333,000	2,197,500.00	8,862,500.00	US$871,694.41		Machinery still being fabricated. Factory site shifted from Lagos to Awka ,Anambra State	Savannah Bank Ltd
19.	AAT Chemical Industries Ltd	Ijebu-Ode Ogun	Chemical		5,000,000.00	5,000,000.00		4,310,000.00	Machineries installed and awaiting final run as of inspection date: 15-3-91	Continental Merchant Bank

No.	Project Title	Location	Product	Amount from NERFUND FC	LC	Total	Disbursement to date FC	LC	Remarks	Bank
20.	Sarko Industries Limited	Ibadan Oyo	Garmenting			1,000,000.00	1,000,000.00	963,470.00		Devcon Merch Bank Limited
21.	Marban Limited	Lagos	Asphalt	BP 586,344		7,680,755.00	US$1,160,961.12		Production reportedly	UTB
22.	Nimco Concrete Roofing	Gurum	Chemical	PB 240,920	1,610,000.00	4,742,000.00	US$477,021	408,804.53	Machinery cleared	NIDB
23.	Mitchelson NigeriaLimited	Umuahia Imo	Corn Flour		2,635,000.00	5,980,000.00		5,182,848.10		Cooperative & Commerce Ba
24.	Silverbond Company Ltd	Agege	Beverage		600,000.00	600,000.00		600,000.00	Production	Nationwide Merchant Ban
25.	Fabest Industries Nig. Ltd	Bakale Oyo	Agro-Allied Starch		1,500,000.00	1,500,000.00		1,500,000.00		Continental Bank
26.	Hakane Nigeria Limited	P/Harcourt Rivers	Agro-Allied		1,350,000.00	1,350,000.00		1,350,000.00	Machinery imported and now being cleared	Continental Merchant Ban
27.	Sacco Nigeria Limited	Kuye Amuwo Lagos	Agro-Allied Prickly heat Powder &		1,350,000.00	1,350,000.00		1,350,000.00	Most assets financed have been delivered on site as of date of inspection	Universal Tru Bank
28.	Higenik Products Limited	Nasarawa Plateau	Chemical Soap Detergent Cosmetics		750,000.00	750,000.00		750,000.00	Some of the machinery delivered and production going on as of inspection date	NAL
29.	Invar Chemical & Enginerring Company Limited	Aba Imo	Agro-Allied Limestone (Ground)	US$494,671.00	423,000.00	5,709,000.00	US$494,671.00 BP 85,550.00			NIDB
30.	Cawaan (Nig,) Ltd	Odogun Ondo	Agro-Allied V. Oil	–	385,000.00	385,000.00	–	385,000.00	Production	NIDB
31.	O'Blue Bird United (W.A.) Limited	Orji-Uratta Imo	Toothpicks	US$363,750.00	125,00.000	3,035,000.00	US$363,750.00	–		CCB
32.	Deagbo Industries Limited	Ibadan Oyo	Agro-Allied	US$176,744.00	1,708,858.00	3122,810.00	US$76,744.00	–		Wema Bank
33.	Cosmos Nigeria Limited	Otta Ogun	Agro-Allied Starch	US$500,250.00	500,000.00	4,502,000.00	US$500,250.00			Commerce B

No.	Project Title	Location	Product	Amount from NERFUND FC	Amount from NERFUND LC	Total	Disbursement to date FC	Disbursement to date LC	Remarks	Bank
34.	Godwin Kris Industries Ltd	Umudim Anambra	Agro-Allied Innertube for car and light vehicle	US$940,00.00	807,480.00	8,337,000.00	US$941,190.00			CCB
35.	Forestville Industries Limited	Owo Ondo	Agro-Allied Wooden Flooring	BP 442,395.50	994,000.00	9,288,916.00	BP 413,090.00			NIDB
36.	Sarki Nigeria LImited	Maiduguri Borno	Furniture		300,000.00	300,000.00		300,000.00	All machines financed have been delivered and installed. Production in full swing as of inspection date 26/4/91.	Savannah
37.	Ben-Gill Company Limited	Abakalliki Anambra	Agro-Allied Rice	BP 311,117.00	525,000.00	5,568,198.00		4,683,235.49		NIDB
38.	Bizcontact Limited	Okpara Bendel	Agro-Allied Palm Kernel Oil	US$274,040.00	1,042,000.00	3,533,000.00	US$273,500.00			NIDB
39.	Highland Steel and Allied Industries	Jos Plateau	Welding Electronics	–	2,000,000.00	2,000,000.00	–	2,000,000.00		Continental Merchant Bank
40.	Max and Kelly Nigeria Ltd.	Obaile Akure Ondo	Crude Palm Kernel Oil	–	300,00.00	300,000.00	–	2,750,000.00		Abacus Mercha
41.	Osco Agro-Allied Industry	Umuahia	Vegetable Oil	–	4,901,000.00	4,901,000.00	–	2,661,000.00		Ivory Merchant Bank Limited.