Abstract—This study empirically evaluates the performance of the Small and Medium Scale Enterprises (SMEs) Equity Investment Scheme in Nigeria (SMEEIS), using Benue and Nassarawa States as case study. Secondary data of total credit to SMEs as percentage of banks total credit for a period from 1993–2008 were made available. Paired sample t-test was used as a technique to test the significance of bank loans before and after the introduction of SMEEIS. Mean scores and standard deviation was used to present and analyze the primary data obtained via questionnaires. The result shows that there was no significance difference between the loans disbursed by banks to SMEs before and after the introduction of SMEEIS and the conditions for accessing SMEEIS funds was beyond the reach of the predominant SMEs in Nigeria. This shows that SMEEIS, as a formal financing option, has not made any significant impact towards SMEs growth in Nigeria. The major recommendation is that both the government and the banking sector should mutually agree on a credit guaranteed scheme strategy that will incorporate a risk-sharing arrangement as a way of encouraging the banks to channel funds to the SMEs sub sector for their growth and development which would translate into the national economic growth and sustainable economic development of Nigeria.

Key words: Small and Medium Enterprises, Equity Investment Scheme, Formal Financing, Risk-sharing, Sustainable Economic Development

I. INTRODUCTION

SMEEIS is the current sector driven economic policy thrust of government involving banks. It is an equity financing initiated by the Federal Government aimed at formalizing SMEs source of financing. There is a noticeable steady decrease in the percentage of banks loans to SMEs from 1992 throughout the period of the operation of SMEEIS. What then is responsible for this unchallenged decrease of bank loans to SMEs and to what extent has SMEEIS been of help to SMEs? The need to assess the operational effectiveness of SMEEIS in Nigeria is, therefore, pertinent.

The aim of this paper is to assess the impact of SMEEIS on SMEs and to examine the factors militating against accessing the SMEEIS funds by SMEs in Nigeria. The hypotheses tested in the study are stated in the null form as follows: HO₁: There is no significant difference in the loans to SMEs before and after SMEEIS by Nigerian banks. HO₂: Conditions for accessing SMEEIS funds are beyond the reach of most SMEs in Nigeria.

II. LITERATURE REVIEW

In Nigeria, the formal financial institutions have been organised to finance SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the Federal government’s desire to promote SMEs as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. Venture capital financing supplements or takes the place of credit facilities that the conventional banks are unwilling to give. The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk. Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998).
The Nigerian government’s version of venture capital financing of SMEs -SMIEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and to promotion of small and medium-scale enterprises. The goal is to reduce interest rate burden and other financial service charges imposed under normal bank lending. The reason for the inability of the SMEs to avail themselves of this fund is yet unconfirmed. The apparent lack of investment in the micro-enterprises sub-sector could be informed by the absence of approved guidelines which is still being finalized (Mambula, 2002).

According to Sanusi (2004), a breakdown of the SMIEIS fund investment by sectoral distribution shows that 68.82% went to the real sector while service related investment accounted for 31.18%. This, he noted, is a sharp reversal from the initial trend recorded under the scheme. The Bankers Committee have allocated the investment of banks with respect to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. Analyzing the geographical spread of the SMIEIS fund, Sanusi (2004) reported that Lagos-based investments have gulped 56.63% of the fund, and Abuja and 18 states received the balance 43.47%.

The point is about the model of growth of SMEs and financing options available. Golis (1998) submit that venture capitalists do not seek enterprises on the start-up and survival stage of Nigeria's dominant SMEs; it is difficult for them to provide regular returns to the appropriate authorities (Bankers Committee have allocated the investment of banks with respect to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. According to Sanusi (2004), a breakdown of the SMIEIS fund investment by sectoral distribution shows that 68.82% went to the real sector while service related investment accounted for 31.18%. This, he noted, is a sharp reversal from the initial trend recorded under the scheme. The Bankers Committee have allocated the investment of banks with respect to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. Analyzing the geographical spread of the SMIEIS fund, Sanusi (2004) reported that Lagos-based investments have gulped 56.63% of the fund, and Abuja and 18 states received the balance 43.47%.

To be eligible for equity funding under the scheme, a prospective beneficiary shall: i). Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filling of annual returns, including audited financial statements; ii). Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities (Bankers Committee Revised, 2005).

Aruwa (2005) laments that, given the developmental stage of Nigeria’s dominant SMEs; it is difficult for them to meet any of these requirements. Consequently, SMEs in Nigeria do not have the capacity to access funds from SMEEIS.

III. METHODOLOGY

The population of this study is made up of 700 SMEs with a minimum of five year life span operating within Benue and Nasarawa States. The study’s sample size is 88 SMEs made up of 43 from Nassarawa state divided into 30 small-scale enterprises and 13 medium-scale enterprises. Similarly 45 SMEs were drawn from Benue State divided into 34 small-scale enterprises and 11 medium-scale enterprises. Unfortunately only 40 completed questionnaires were returned from Nasarawa made up of 28 small-scale enterprises and 12 medium-scale enterprises. Similarly, only 44 questionnaires were returned from Benue State made up of 33 small-scale enterprises and 11 medium-scale enterprises. The sample size was, therefore, limited to 84 SMEs.

The research sample was computed using the following formula, allowing 10% tolerable sample error. Sample Formula \( n = \frac{N}{1 + N \epsilon^2} \), where \( n \) is the required sample size, \( N \) is the research population, and \( \epsilon \) is the tolerable error in judging the population. Primary data were obtained using questionnaire designed for SMEs and financing institutions separately and structured interview instruments. The questionnaire employs likert-scale measures, a fifteen likert-like scale having four response categories labeled or weighted as strongly agree (4), agree (3) disagree (2) and strongly disagree (1).

IV. DISCUSSION OF FINDINGS

Table 7, as per Appendix One, shows that bank lending to small-scale enterprises in Nigeria was just four percent of the total finance of the sector during the period under review. This is at variance with the pecking order theory or hypothesis which implies that banks should lend to SMEEIS where they have exhausted their retained earnings to finance their investment. SMEs by their nature cannot raise substantial internal finance. It, therefore, becomes necessary for them to seek bank lending to bridge the gap between their retained earnings and their potential investment outlay.

Table 7 also shows that bank lending to medium-scale enterprises was 24% of the total finance of the sector, which is relatively higher than the figure for small-scale enterprises. This is also at variance with the pecking order theory. Going by the theory, it is to be expected that small-scale enterprises should get more bank loans than medium-scale enterprises since they can raise more internal finance than small-scale enterprises. It could, therefore, be inferred from the above that banks in Nigeria only lend to enterprises that have high potentials to repay loans. With this type of philosophy, they can hardly support small-scale enterprises. Since SMEEIS comprise banks, this behavior of banks can be rightly said to represent the behavior of SMEEIS.

The abolition of mandatory bank’s credit allocations of 20% of its total credit to SMEs wholly owned by Nigerians took effect from October 1, 1996. This was the genesis of the most remarkable dwindling effect of the banking sector overall credit to SMEs in Nigeria. The formal financing sector is still averse to funding SMEs in Nigeria. What is evident from this study is that without mandatory regulation, the banking sector will not take active part in funding the SME sector. Moral suasion has been ineffective. The key reason for this behavior has been the risky nature of the SMEs investment activities.

The SMEEIS initiative has not been popular with SMEs. Even those who know about the scheme have not been able to benefit from it. The result of the test of hypothesis two is that conditions for accessing SMEEIS funds were too stringent for owners of SMEs. Even from the definition of SMEs by the scheme it can be reasonably inferred that the predominant SMEs in the country were not captured or considered. It becomes worrisome that the SMEs in Nigeria
are not recognized and so the scheme cannot reach out to them.

V. CONCLUSIONS AND RECOMMENDATIONS

This study hereby reveals the following major findings:

- From 1993 – 2008, there is a steady decline in the ratio of loans to SMEs to total banks’ credit. The most remarkable decline was from 1996 when the abolition of 20 percent mandatory credit to SMEs took effect. It is, therefore, obvious that a legal framework plays an important role in the decline of financing to SMEs by banks.

- SMEEIS has been unable to make any significant positive impact on the financing of SMEs in Nigeria, and therefore of the growth of SMEs for them to make any significant impact to the economic growth and development of the country.

- The financing mix of SMEs is predominantly from informal sources of finance. This is shown by the use of this option more than the formal sources by the SMEs.

- A comparative analysis of the inherent problems of the formal and informal sources of finance to SMEs shows that the formal sources are inherently more problematic to SMEs in Nigeria than the informal sources. Most of the banks in the country do not pay sufficient attention to the development of SMEs via financing because of the inherent risk in them.

- Stringent conditions of SMEEIS prevent SMEs from accessing the funds under the scheme.

The following recommendations are hereby made in response to the above findings:

- The operational guidelines of SMEEIS should redefine SMEs in the country to take into account their predominant nature so that they can be more disposed to accessing SMEEIS funds.

- The government and the banks should mutually agree on a credit guarantee scheme that will incorporate a risk-sharing arrangement as a way of encouraging banks to channel funds to SMEs.

- Government should reintroduce the 20% mandatory loans by banks to SMEs as a way of improving their finances.

- Capacity building and sensitization programmes for SMEs should be put in place by government to empower them with ideas and information needed to grow the enterprises to the highest level possible for the benefit of the Nigerian economy as a whole.

- Diversification of financial support for start-ups, growing and successfully operating SMEs should be disbursed as follows: 50%, 30% and 20%, respectively of whatever financial support are available for SMEs.

REFERENCES


