

SME: Issues, Challenges & Prospects

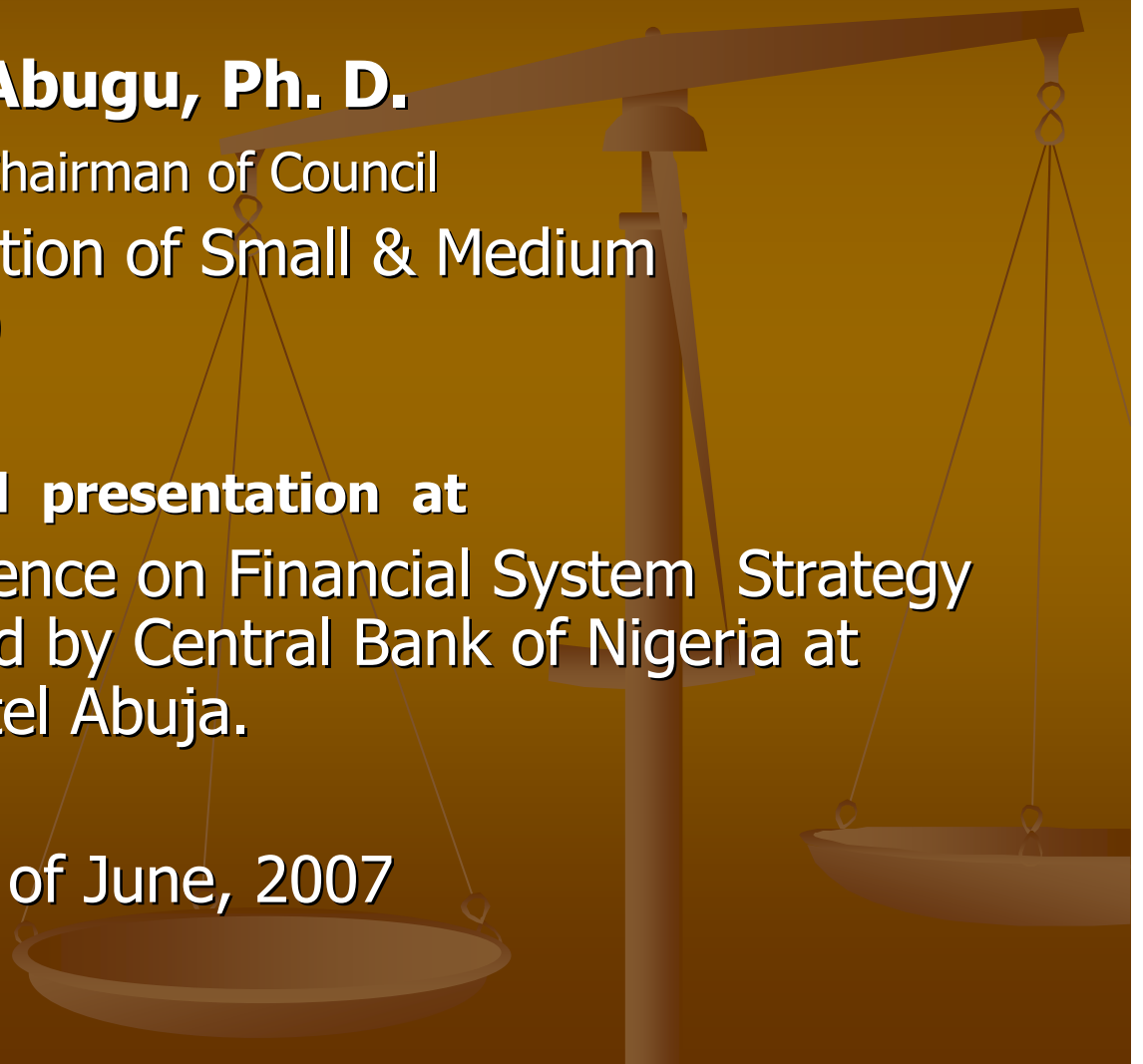
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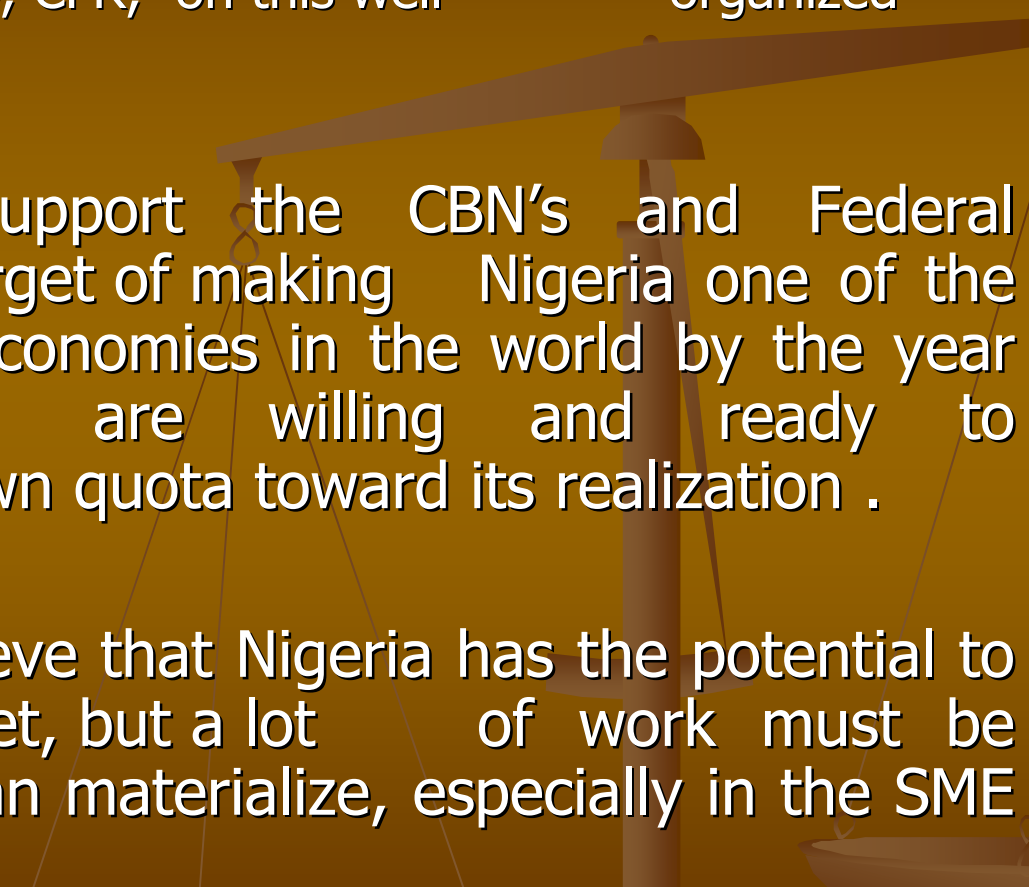
An Invited presentation at
International Conference on Financial System Strategy
(FSS) 2020 organized by Central Bank of Nigeria at
Transcorp Hilton Hotel Abuja.

18th -20th of June, 2007



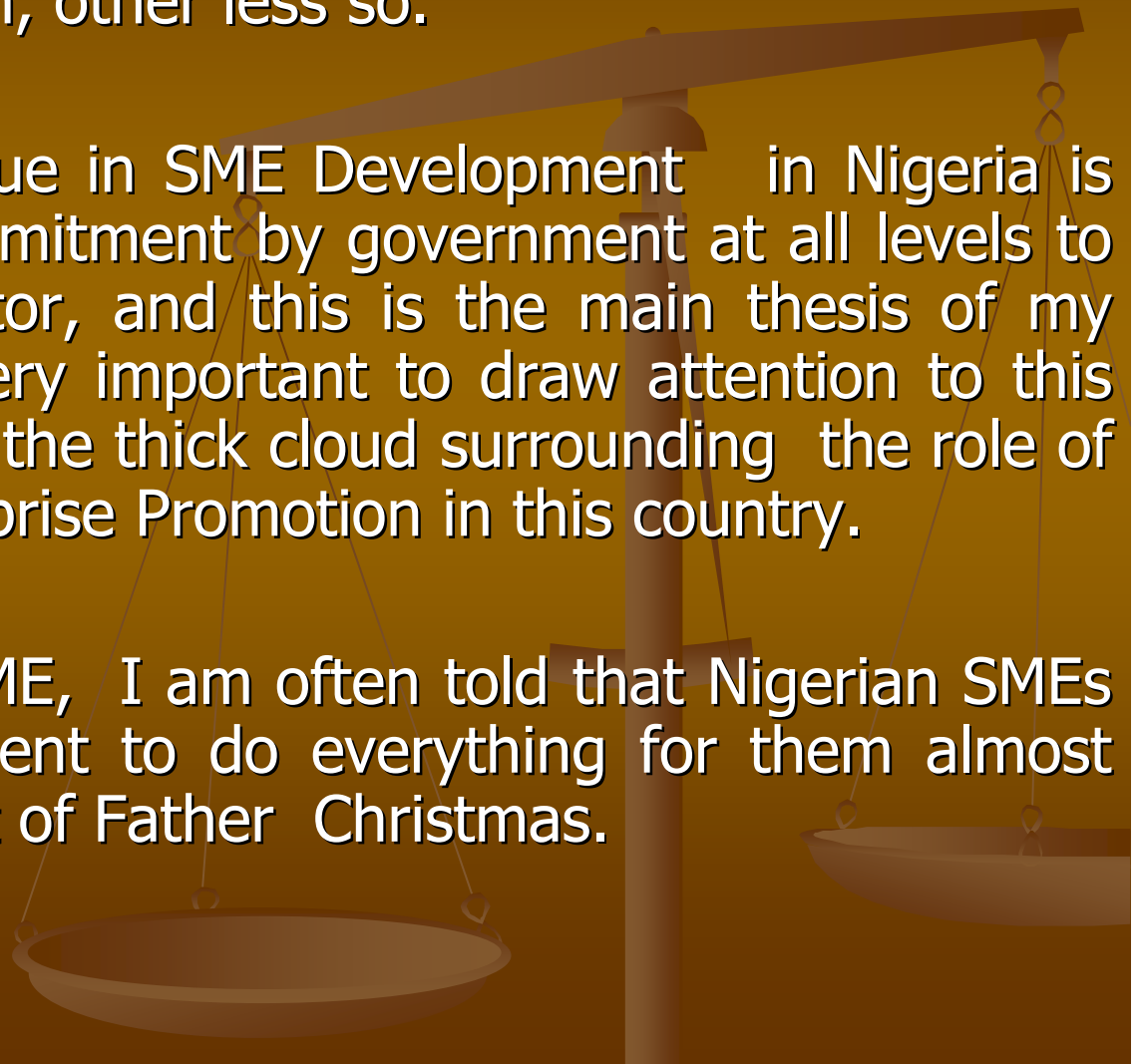
1.0 Introduction

- Protocols
- NASME appreciates the invitation extended to her to express the voice of Small and Medium Enterprises (SMEs) at such an important international forum; we note with satisfaction that the organizers of this International conference have earmarked a whole day for discussion of SME-related issues. This is an indication that the CBN, and indeed, the Federal Government, appreciate the role of Small and Medium Enterprises as the real engine of growth

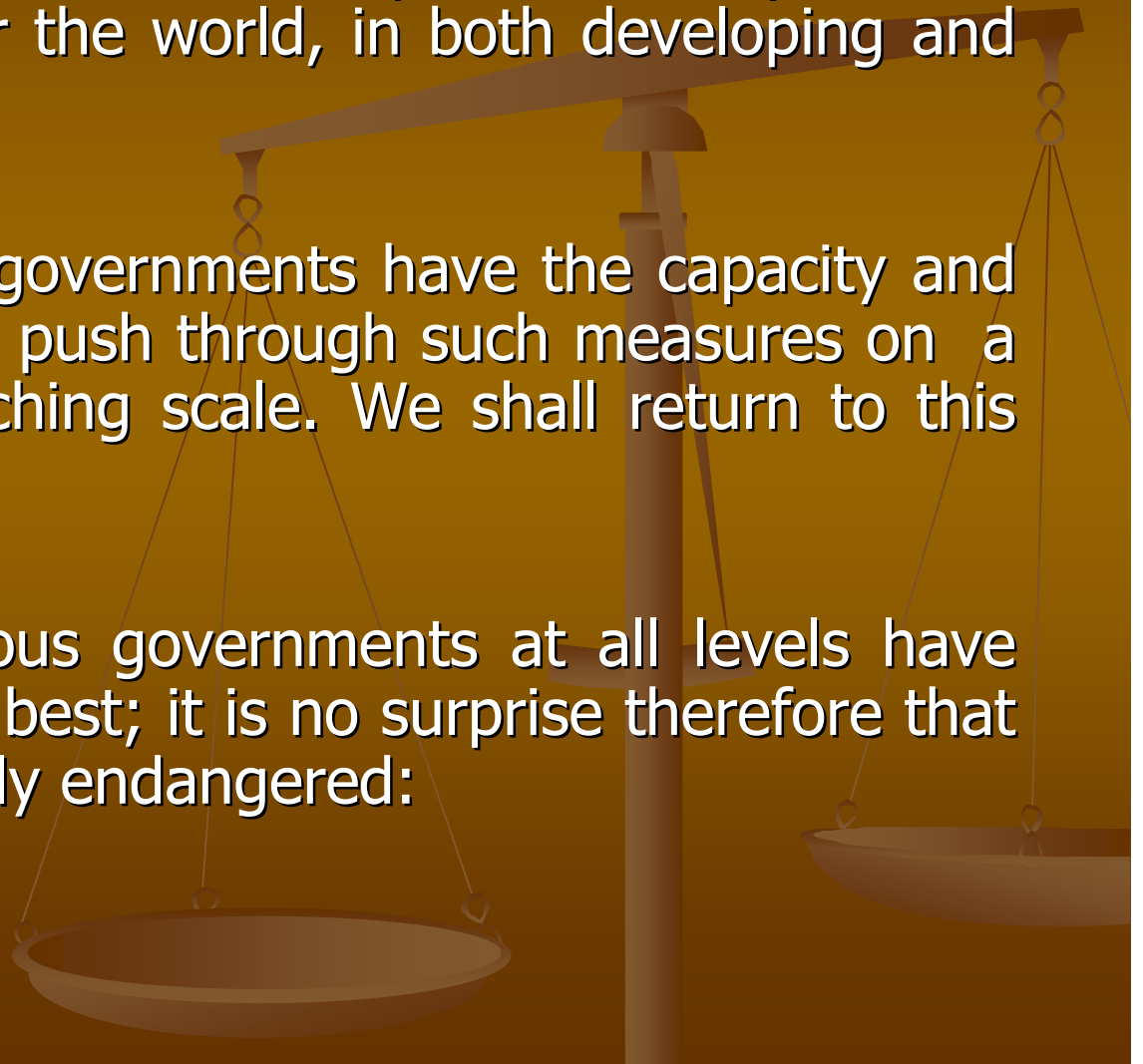
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- - We congratulate the Central Bank of Nigeria (CBN) especially its Governor Prof. Chukwuma Soludo, CFR, on this well-organized conference.
 - We strongly support the CBN's and Federal Government's target of making Nigeria one of the twenty largest economies in the world by the year 2020 and we are willing and ready to contribute our own quota toward its realization .
 - - We strongly believe that Nigeria has the potential to achieve this target, but a lot of work must be done before it can materialize, especially in the SME sub-sector.

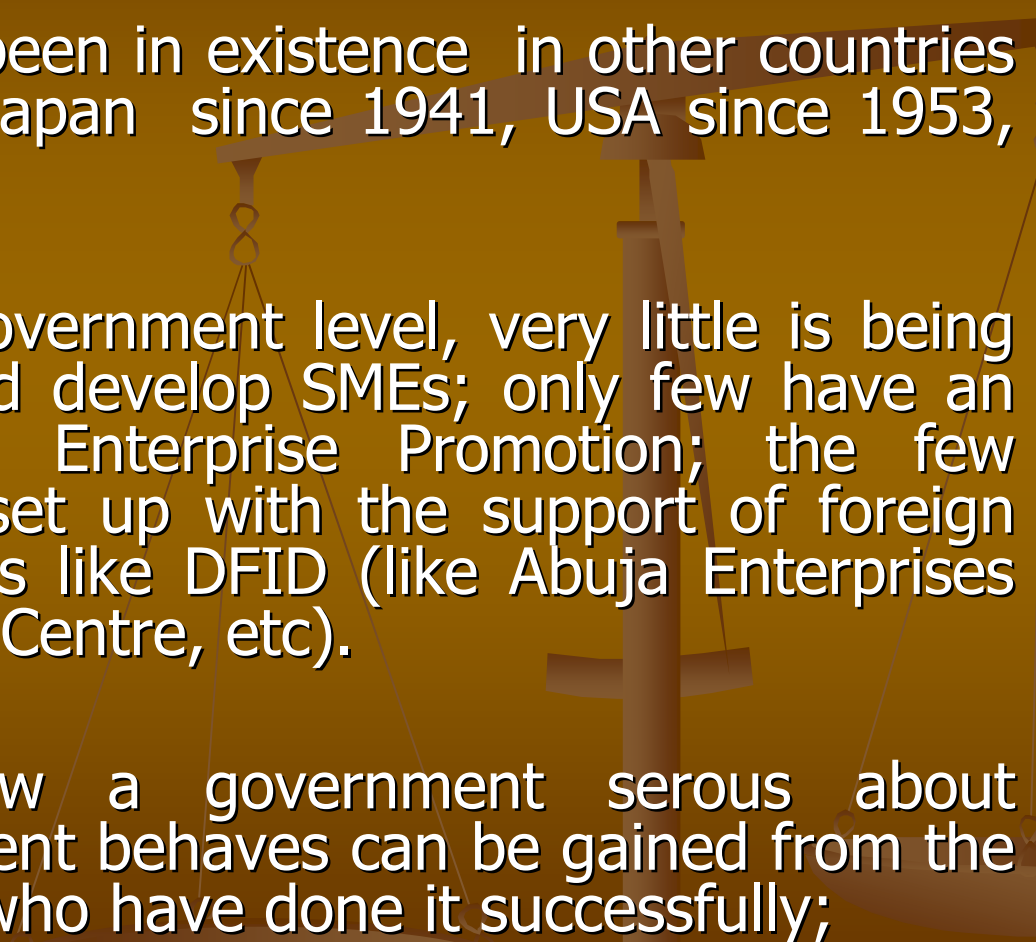
2.0 SME ISSUES I: The Role Of Government

- There are many serious and urgent SME issues, some of which are well-known, other less so.
- The fundamental issue in SME Development in Nigeria is the lack of total commitment by government at all levels to developing the sector, and this is the main thesis of my presentation. It is very important to draw attention to this problem because of the thick cloud surrounding the role of government in Enterprise Promotion in this country.
- As President of NASME, I am often told that Nigerian SMEs expect the Government to do everything for them almost free of charge, a sort of Father Christmas.

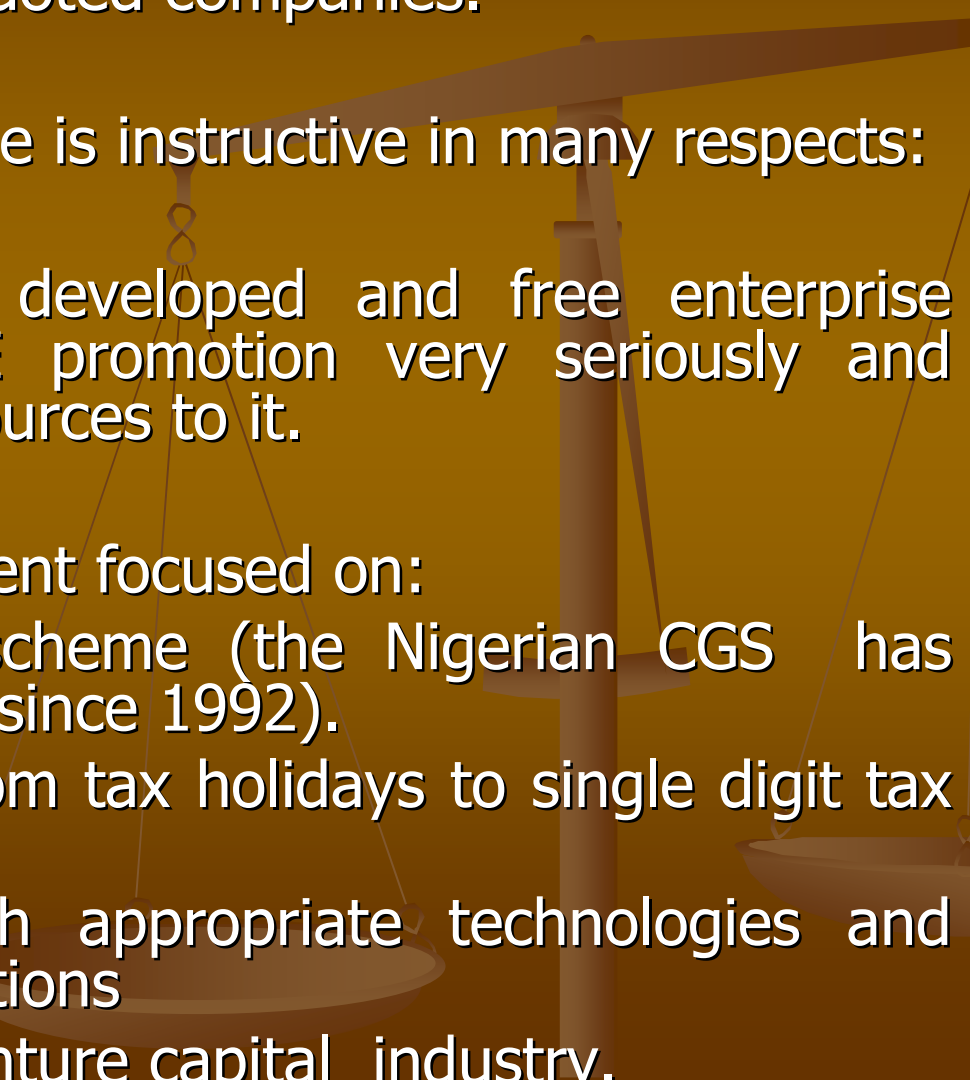


- But this distorts the reality. The reality is that there are certain measures and policies which only the government can initiate and execute; such measures and policies are initiated and implemented by serious governments all over the world, in both developing and developed countries.
- In most cases, only governments have the capacity and power to initiate and push through such measures on a massive and far-reaching scale. We shall return to this subject.
- The efforts of previous governments at all levels have been half-hearted at best; it is no surprise therefore that our SMEs are seriously endangered:



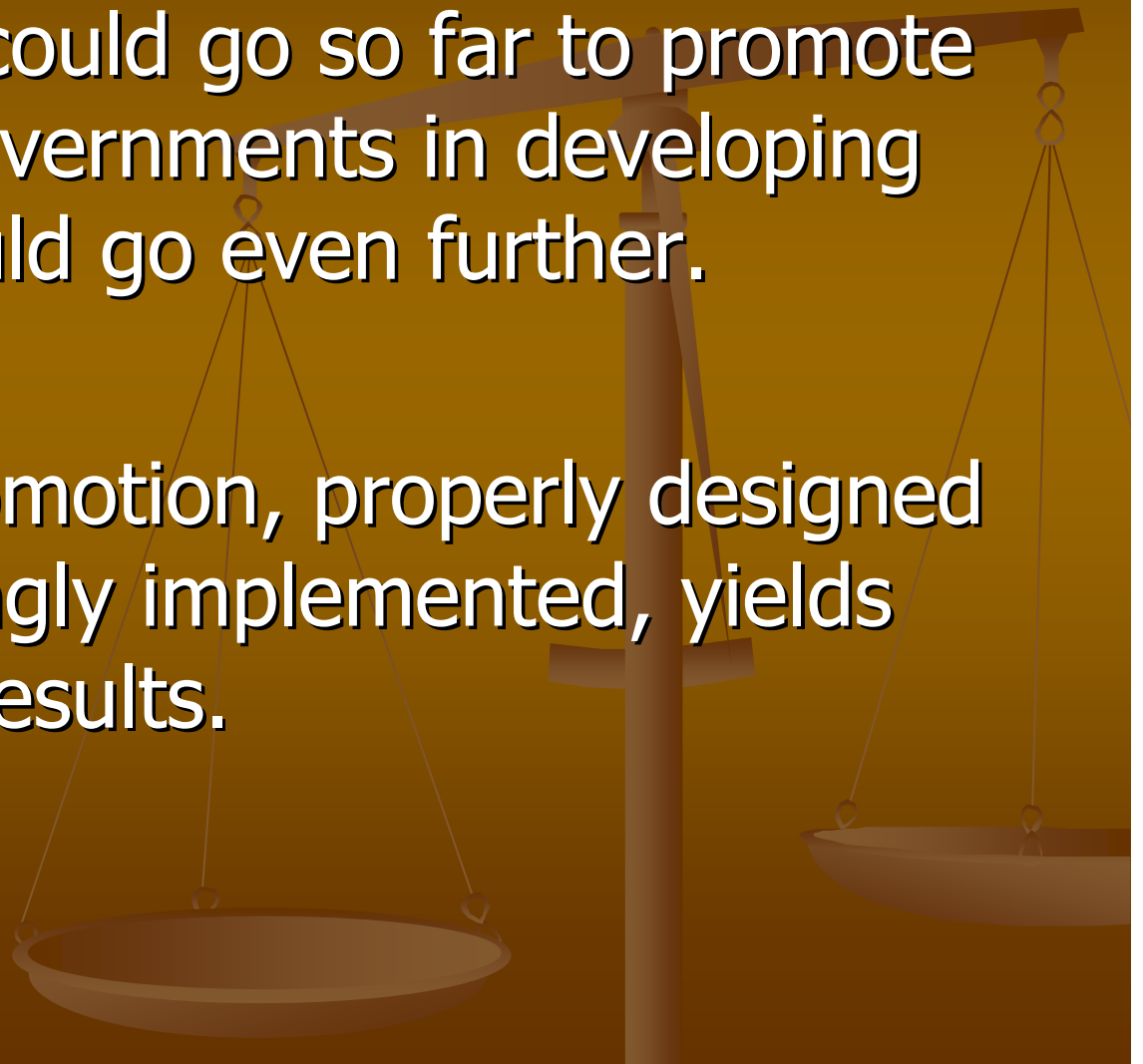
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- At federal level, a central coordinating agency for SMEs (SMEDAN) was only set up in year 2003 by the Obasanjo administration.
 - Similar bodies have been in existence in other countries for over 50 years; (Japan since 1941, USA since 1953, etc.).
 - At state and local government level, very little is being done to promote and develop SMEs; only few have an agency devoted to Enterprise Promotion; the few thriving ones were set up with the support of foreign development partners like DFID (like Abuja Enterprises Agency, Enugu SME Centre, etc).
 - An insight into how a government serious about Enterprise Development behaves can be gained from the experience of those who have done it successfully;

- Margaret Thatcher, who transformed the British economy, hinged her economic policies on Enterprise Development and Promotion, among others.
- In the decade between 1979 and 1989 the Conservative government of Thatcher drastically cut corporate tax, promoted competition in mergers policy, introduced loan guarantee scheme and many other schemes linking SMEs with technology-generating institutions.
- The result: an average net increase of between 500 and 900 new firms each week since 1979 after deducting closures. Secondly, there was a rise of about 1 million in the number of self-employed people during the 1980s to more than 3 million by late 1988, over six times the increase in the previous 30 years! There was also a great growth in the venture capital industry (from almost nothing in 1979 to more than £191 million!)

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- The government backed loan guarantee scheme helped 19,000 companies in 1981-7, and 3,000 companies raised £750 million in 1983-8 in the business expansion scheme, which offered tax relief to entrepreneurs in unquoted companies.
 - This Thatcher example is instructive in many respects:
 - (a) Britain, even as a developed and free enterprise economy, took SME promotion very seriously and devoted massive resources to it.
 - (b) The British Government focused on:
 - Loan guarantee scheme (the Nigerian CGS has been in the works since 1992).
 - Tax incentives (from tax holidays to single digit tax rates)
 - Linking SMEs with appropriate technologies and educational institutions
 - Developing the venture capital industry.

(c) If a conservative British government, which ordinarily would favour “small government” could go so far to promote SMEs, then governments in developing countries should go even further.

(d) Enterprise Promotion, properly designed and painstakingly implemented, yields “miraculous” results.

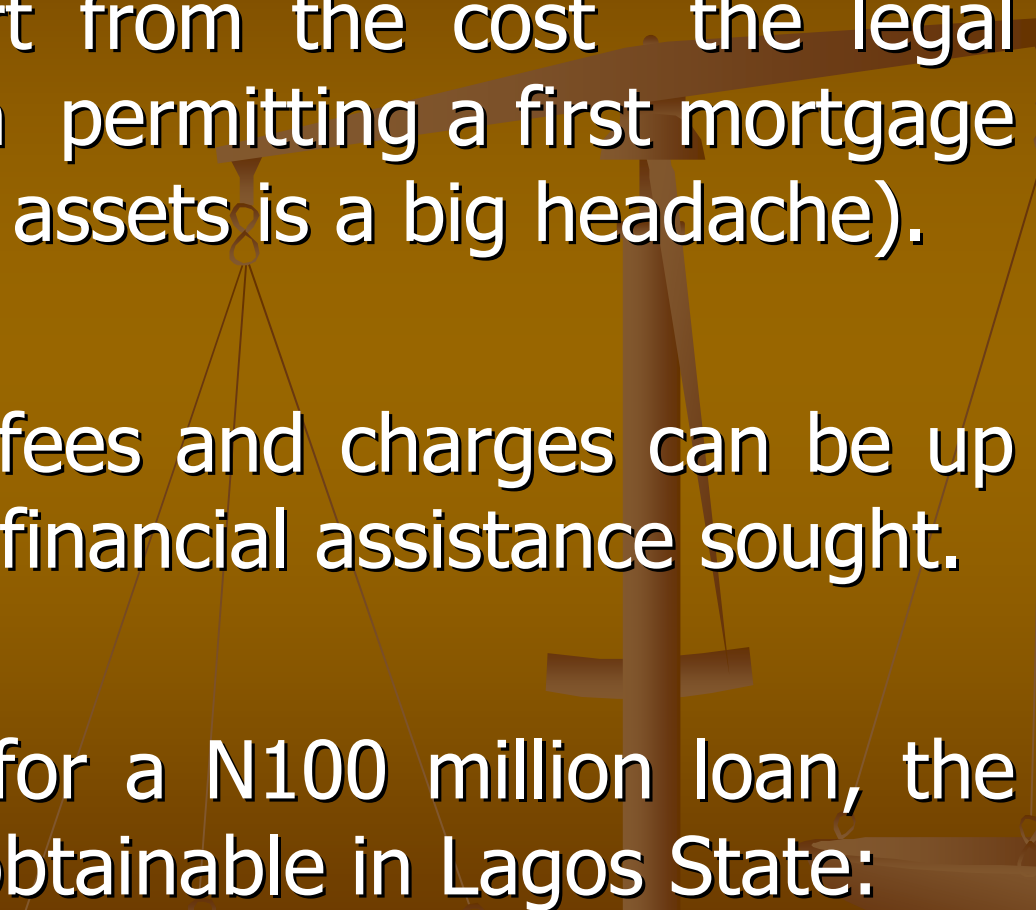


3.0 SME ISSUES II: Some Financial Issues

- Credit Guarantee Scheme (CGS)
 - Venture Capital Industry
 - Development Finance Institutions (DFIs)
 - Appropriate Taxation (we demand five years tax holiday for startups, and single digit tax rates for older ones)
 - Interest Rates (must be single digit)
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4.0 SME ISSUES III: Regulatory overkill

- Nigeria is ranked 105th and 117th out of 152 countries on business registration and business licensing respectively. (World Economic Forum/WB)
- The activities of NAFDAC and SON (their charges constitute a big disincentive, and there are no SME rates).
- The activities of other regulatory agencies (BON, NCC, CAC, etc)
- The activities of State and Local governments (multiplicity of taxes, high statutory fees like consent fee etc) one of my members running a crèche of 12 children was recently levied N100,000 for registration with LASG Ministry of Women Affairs. Last year it was N10,000).

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- In many states of the Federation, acquisition of an industrial plot is a major problem (apart from the cost the legal documentation permitting a first mortgage lien on project assets is a big headache).
 - The statutory fees and charges can be up to 20% of the financial assistance sought.
 - For example, for a N100 million loan, the following are obtainable in Lagos State:

- I (a) Land acquisition ?
- (b) Assignment fee (4% consideration) = 4m
- (c) Consent to Mortgage (6% consideration) =6m
- (d) Registration (Land) 1.5% = 1.5m
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11.5m

- II (a) FIR stamp duty (1.5%) 1.5m
- (b) CAC stamp Registration N10, 000/N1M 1.0M
- (c) Ground rent
- (d) Sundry Charge
- (e) Professional fees (27,000/m) 2.7
-

5.2 Million

III Bank charges

- (a) Appraisal fee 1%
- (b) Commitment fee 1%

N1m

N1m

N2 million

Total Charges = N18.7m (minimum)

5.0 CHALLENGES & PROSPECTS

- The challenge for the new administration of President Umaru Yar'Adua is to take the bull by the horns and go ahead to implement a series of radical measures and initiatives which previous administrations have been too squeamish to do
- if the new administration can muster the will to do this, the objectives of NEEDS will follow almost automatically: job growth in millions, wealth creation, poverty eradication, rapid GDP growth, etc.