

African Research Review

An International Multidisciplinary Journal, Ethiopia

Vol. 6 (1), Serial No. 24, January, 2012

ISSN 1994-9057 (Print)

ISSN 2070--0083 (Online)

DOI: <http://dx.doi.org/10.4314/afrrrev.v6i1.8>

Project Finance for Small and Medium Scale Enterprises (SMEs) in Nigeria

(Pp. 91-100)

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Abstract

Project financing is one of the best methods of seeking to acquire capitals Funds and other tools to finance a planned business activity which will yields profit in order to liquidate the procured fund. Financing project for SMES is carried out by Federal, States and some development Institutions. In Nigeria, project financing can be secured in Central bank of Nigeria, state governments, money deposits, and micro finance institutions. Provisions of basic infrastructure and increased funding of institutions meant to assist SMES will improve their conditions.

Introduction

Project financing is one of the best methods of seeking to acquire capital fund and other related tools for financing some planned business activities which will yield profit in order to liquidate the procured fund (*Encyclopaedia of business, 2000*). Majority of individuals, business units, and corporate organizations have new ideas or planned activities to carry out. It can be in form of implementing a systematic change such as constructing a factory building, installing new factories that will need many machines, making a move for mergers, starting with a new agricultural production unit, developing a new product and consolidation of businesses. These changes can be undertaken or carried out in form of project. A project is an investment activity wherein we spend the capital resources to create a

productive asset for realizing benefit over time. A project is an activity on which we spend money in expectation of returns, which lends itself to planning, financing and implementation as a unit. It also refers to specific activity, with specific starting point to achieve a specific objective. It should be measured in costs and returns. It must have priorities for area development and reach specific clients group. (Eddy et al. 2004). A project is expected to produce a specific result subject to limitation of people, time and money. It requires coordinated knowledge, work from multiply groups of people, existing for a limited implementation time and have goals of improving living condition or environments.

This paper tends to explain in brief the process of acquiring fund needed in Nigeria to carry out business activities and development projects. Projects financing in Nigeria is carried out by different arms of government-federal states and local governments and other development institutions. It can be financed in Nigeria by the Federal Government of Nigeria through its institutions like the Central Bank of Nigeria, ministries and parastatals. State governments also finance projects for different sectors of the economy either solely or jointly or in combination with developmental organizations, Non-governmental organization (NGOs) and others.

World Bank which comprises many international development associations, the International Financial Corporation, The International Center for the Settlement of Investment Dispute, and the Multi-lateral Investment Guarantee Agency can finance a project in Nigeria (ugwu Anyi, 1997). The International Monetary Fund (I.M.F) is a similar body of World Bank that is in charge of short term project financing in the world like balance of payment problems, Short financing provision for developing as well as developed nations. Project financing is an integrated part of modern business.

Definition of small medium scale enterprise

The extract definition of small and medium scale enterprises depend from country to country as well as which economic scheme is involved. In Nigeria, the definition of small and medium scale enterprise are taken from the meeting of the Nigerian Council of industry held on Jul 2001 in Markudi Benue State (Ositayo 2001).

Micro / Cottage Industries: Any industry with a labour size not more than 10 workers or total cost of not more than N 1.5 million excluding cost of land.

Small scale industry: Any industry with a labour size of 11- 100 workers or a total cost of not more than 50 million, including working capital excluding cost of land.

Medium scale industry: An industry with a labour size between 101 – 300 or a total cost of over N50 million but not more than N250 million excluding cost of land.

Large scale industries/enterprises: An industry with a labour size of over 3003 workers or a total cost of over N200 million working capital but excluding the cost of land.

For purposes of the small and medium enterprise equity and investment scheme, a small and medium enterprise is defined as any enterprise with a maximum asset base of N1.5 billion excluding land and working capital and with no lower or upper limit of staff (CBN, 2006).

Problems facing the small and medium scale enterprises (SMES)

The problems of SMEs are twofold as shown in diagram 1. They are the one faced by the enterprise in the course of their daily operation and the one constraining the institutions established to provide credit facilities to SMEs enterprises.

The problems faced by the SMES during the course of their daily operation

One of the problems, faced by SMEs is inadequate infrastructural facilities.

The barrier to starting and maintaining an SME comes down to simple yet insurmountable factor such as lack of tarred roads, electricity, phone lines and others. Another problem is inadequate credit facilities. The banks ask for collateral before they can offer credit facilities to the SMEs but sometimes they cannot afford it due to small properties. Lacking of managerial expertise is another factor that the SMEs face. Hiring experienced managers are expensive for the SMEs. Graduates and experienced professionals are expensive although available in Nigeria. The SMEs cannot compete in domestic and international market. They cannot compete in the domestic and international market because of the quality of their product. They cannot compete favourably in the globalization market and cannot compete with imported goods. The imported goods are sometimes superior due to better technology from developed countries. The

demands for their products are limited at both markets. Lastly, the SMEs have inadequate access to new production techniques. The SMEs have less capital to buy modern production techniques.

Other problems facing the SMEs are those that face the institutions established to help the SMEs. They are poor funding and under capitalization, high rate of loan default, lack of experienced and adequate professional staff and overlapping functions. Some of the institutions for finance of project for SMEs are itemized below.

Financing of projects for SMEs

Many institutions and organization are in charge of project financing for SMEs in Nigeria. Those institutions have devised different programmes for helping projects.

Examples of such institutions are the Central Bank of Nigeria, the World Bank, ADB money deposit bank, Micro-Finance banks, and some state governments as shown in diagrams 2.

Central Bank Nigeria (CBN): The CBN through its department of development finances had worked out different programmes to make low-interest loan available for key operator in the SMEs branches of the economy and in the agricultural value chain. One of such programmes is the improvement of bank lending to real sector. The CBN has since inception involved itself in the improvement of bank lending to the real sector of the economy. The Central Bank of Nigeria (CBN) also empowers small scale business enterprise through credit guarantee scheme (SMECGS) by provision of guarantee as well as training for providing entrepreneurs in specialized centres in different locations in the country. The objectives being to promote access to credit by SMEs in Nigeria, setting pace for industrialization of the Nigerian economy and to increase access to credit by promoting SMEs and manufacturers.

Money deposit bank

The money deposit bank is in the position of financing project for SMEs like purchase of new machineries and plant. They can source loans from the bank on depositing collateral. The bank have department in charge of project financing. In Union Bank PLC for example their financing possibility covers different sectors of the ECONOMY LIKE Agribusiness, Commercial real estate, communication, energy, entertainment, technology, retail, wine

industry services, public work contractor ESCRON industry services and others.

State governments

Different state governments have a department that helps in financing the Agricultural sector, industrial sector and others. The ADP in Anambra State helps in carrying out and financing small proceeds for SMEs.

Micro finance institutions

The micro finance institutions/banks are financing small projects for SMEs. They facilitate these by giving loans to manufacturers. They work hand in hand with the Federal and state government to finance many project for small business

African development bank

African development Bank (ADB) was establishment on 4th August 1963 in Khartoum, Sudan after the meeting of 23 political independent African state (Uganyi 2002).

The ADB group consists of:

- ❖ African Development Bank (ADB)
- ❖ African Development Fund
- ❖ Nigeria Trist Fund

The objectives of the ADB group are to mobilize resources for economic and social development in African; again to use resources at its disposal for the financing of investment project and programmes.

They finance project in Agricultural Industry, transportation, education and health etc.

World Bank

The World Bank was created along with its sister institution the international monetary fund (I.M.F) at Bretton Wood, New Hampshire in 1944. One of the bodies or organization of the World Bank, the International Development Association, was established in 1960 to mainly finance economic development in members' countries. Most World Bank projects are in conjunction with Federal and state government of Nigeria especially through equity financing.

Recommendations

After reviewing the different business as especially the SMEs, and the possibilities of financing their projects and improvement, it is important to adopt a comprehensive approach in resolving their problems as shown in diagram 3.

Provision of adequate infrastructure

The provision of basic infrastructure like power, education, water, roads, and transportation is the minimum requirement for SMEs to flourish.

Capital markets, banks, Non Government organizations provide a financial gate way by enabling the SMEs to raise finance for their business.

Improvement of management capabilities

Through appropriate financing of SMEs, their management capabilities will be effectively meets. This will help them to prepare profitable business plan and effectively manage their businesses.

In addition, employing professional will help the SMEs to prepare timely, transparent, and acceptable financial reports of their companies which would be acceptable to regulators, investors, other stake holders.

Harmonization of supporting initiatives

Harmonization of the supporting initiatives for the SMEs is very essential for their progress. This is very important because there are sometimes duplication of the efforts in this direction.

This was the case in Nigeria until the Federal Government merged three different agencies (NBC, NIDB AND NERFUND) into Bank of Industrial (BOI).

Harmonizing effort could lead to an improvement their supportive capacity.

Funding through the capital market

It is essential to find way if casing the process and costs of SMEs sourcing of funds from the capital market as well as getting listed. Creation of such an initiative where SMEs should source their fund is essential. This alternative investment market (AIM) is ready operational in many countries. For example, Nigeria has a second tier security market. It is meant for companies to acquire capital already operational when there.

Stronger allocation to the institutions meant to support SMES

The allocation of more funds to the institution not support SMEs is institution not support SMEs in essential. If they have more funds, it means they support for SMEs will be stronger and the institution itself will be stronger in terms of fulfilling their functions.

Policy change

The policies of the different tiers of government should gear towards modernization of small scale and medium scale industries by providing them with the necessary equipments, plants, machines and tools at substance prices.

It can also be on high purchase. This will lead to high standard of their product which will make them to compete favourable at local and intentional market.

This will lead to earning of dearly needed foreign exchange for the country. Another aspect of modernization is the establishment of a department to handle the affairs of the small and medium scale industries.

This department in the ministry of industry should have three strong functions. The first will be financial supervision which will involve advising them on financial matters like raising fund repayment and proper book keeping.

Administration supervision will involve the recruitment and training of personal and their welfare.

Technical supervisor include offering technical advice on the machines, their installation and also on the Job training of how the machine works. It also has to do with the servicing of machines and replacement of the spare part of the machine.

This alternative investment market (AIM) is already operational in many countries.

For example, Nigeria has a second tire securities market. It is meant for companies to acquire capital although in not yet operational.

Conclusion

Project financing in Nigeria is carried out by different arms of government like federal, state and local government and other development organizations. The project can be co-financed by international agencies it ie World Bank assisted projects, African development bank assisted project.

The project can be for small and medium business enterprise which is merit to increase their profitability. Most often there SMEs have series of problems which there projects financing are merit solving.

As at now in Nigeria, project can be financed by central bank of Nigeria, money deposit banks, state governments, microfinance banks, World Bank and African development bank. Improving the business environment of SMEs involves provision of basic infrastructure like provision electricity and good transportation network harmonization of supporting initiation that assist SMEs, and policy change charge.

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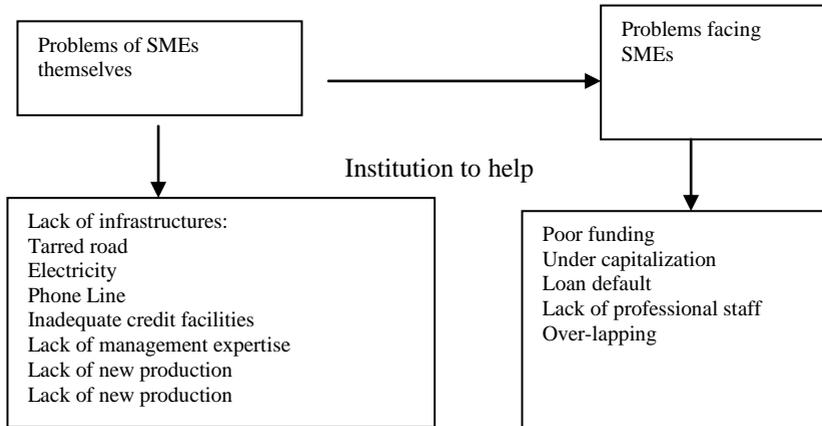
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Diagram 1: SMEs problems in Nigeria



Diagrams 2: Financing project for SMEs

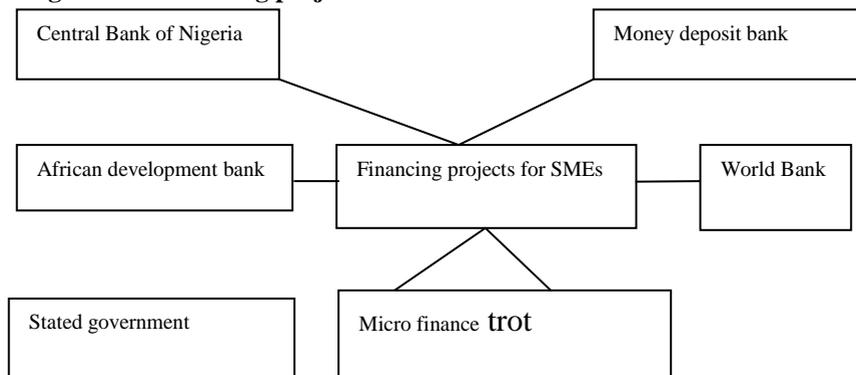


Diagram 3: Recommendation for improving SMEs

