A report from the Economist Intelligence Unit.

Enabling a more productive Nigeria: Powering SMEs

Commissioned by:

Towers of strength

Contents

About this research

Enabling a more productive Nigeria: Powering SMEs is an Economist Intelligence Unit report. The findings are based on desk research, interviews and fieldwork in Nigeria conducted by The Economist Intelligence Unit. This research was commissioned by IHS Towers, the largest provider of mobile communications towers in Africa. The Economist Intelligence Unit would like to thank the following experts and SMEs who participated in the interview programme:

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- **Nnenna Egbuche**, founder, Nenny's Kitchen
- **Paul Jackson**, managing director for South Africa, Grey Group
- **Yemi Kale,** statistician-general, National Bureau of Statistics, Nigeria
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- **Honey Ogundeyi,** CEO, Fashpa.com.
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- **Adamu Waziri,** creator, Bino and Fino

The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor. Gillian Parker was the author of the report. Tolu Ogunlesi and Eleanor Whitehead contributed reporting and fieldwork. The editor was Adam Green.

Executive summary

Nigeria is now Africa's leading economy, overtaking South Africa last year to become the continent's largest nation in terms of GDP. Its commercial capital, the mega-city of Lagos, has surpassed the Egyptian capital, Cairo, to become Africa's biggest city in terms of population. Combined with favourable demographics and a rising middle class, the country is now an investment hotspot for some of the world's largest brands, from General Electric to Unilever, and its creative industries—most notably the film industry, Nollywood—are the continent's most significant success story since the mobile money revolution.

Yet to take its rightful place among the world's top emerging markets, the country must overcome a series of obstacles. Most pressing are economic diversification, job creation and a more effective conversion of growth into what matters most: rising incomes for the country's 173m citizens. One change-maker for all three goals will be the country's vast network of micro, small and medium-sized enterprises (SMEs). Famed for their entrepreneurism, Nigeria's SMEs span everything from hairdressers to app developers, from welders to film production houses.

Despite being the provider of livelihoods for most of the population, surprisingly little is known about this universe of entrepreneurs: their productivity rates, the forces enabling them, and the obstacles holding them back. This study, combining qualitative interviews with SMEs, insights from opinion leaders, and country fieldwork, seeks to address this shortfall. It does so by identifying the primary enablers and constraints shaping productivity—spanning policy, infrastructure, technology, energy and finance—and by providing ideas to support SME productivity, enabling Nigeria to reach its development goals.

Key findings

To support SME productivity, Nigeria's government must stabilise macroeconomic policy and install a more transparent tax and customs system. Nigeria's government has shown strong interest in nurturing SMEs, launching funding tools, lowering business registration costs by 60% and adopting pioneering technologies in agriculture and financial services. To support greater productivity gains, attention must now turn to simplifying the tax system, reducing import barriers, stabilising macroeconomic policy and building a more transparent customs system.

Light-rail infrastructure and port development are critical to support Nigeria's commercial ecosystem, and should be prioritised at a time of fiscal consolidation. Nigeria's road and rail system remains insufficient, but landmark transport projects are already delivering benefits for SMEs and new projects could herald significant gains in facilitating the movement of people and goods. However, in an era of low oil prices, fiscal consolidation is expected to hit capital spending and the government faces tough choices on what to prioritise. Investments should continue to be directed towards light rail transit to enable faster commuting for city workers, and towards infrastructures feeding the country's vital port systems.

Information and communication technologies (ICTs) are at the heart of SME businesses—stimulating productivity, helping overcome tough operating environments and opening up new markets. ICTs are enabling SMEs to emerge across Nigeria by helping them overcome infrastructure shortages, lowering operating costs and creating new business opportunities in areas like the creative industries, retail and services. Rural businesses, long isolated from the biggest market opportunities, are now able to operate over larger geographies. The next productivity boost will come from increasing broadband penetration and improving mobile network quality. Reducing costs and fees levied on broadband providers and quickening the processes for spectrum auctions could yield major gains for SME productivity.

Nigeria has the ingredients for a vibrant solar energy market, including a sunny climate and unmet consumer need. Nigeria's privatisation of the power sector holds promise for fixing the country's energy supply, but its impact will not be felt in the near term. In the meanwhile, solar energy is an affordable and effective energy source for SMEs. Based on positive experiences in other emerging markets, and an existing investment pipeline, there is a productive role for government and donors to play in stimulating the market through grants, incentives and concessional support.

To boost formal financing, SMEs must improve their book-keeping and corporate structures, and banks need to hire more SME business experts to inform lending decisions. SMEs have little access to bank finance, relying on savings, loans from friends, families, or "angel investors" and venture capital. Government funding schemes are helping, but not all SMEs are aware of public funds or how to access them. SME access to finance is also held back by the decision of many to remain informal and unregistered. Reducing the bureaucracy facing formal businesses could encourage more to register, boosting their access to bank finance. For their part, SMEs must improve book-keeping, accounting and corporate governance structures to access credit. The final stakeholders—banks—need to address shortfalls in their processes to avoid missing out on opportunities to support successful home-grown companies. They need to increase in-house expertise in SME business models and review some outdated terms and conditions that needlessly prevent SMEs from accessing finance.

Introduction

The Nigerian paradox

As Africa's most populous country, and largest economy, Nigeria is at the heart of the continent's economic renaissance. It has grown by an average of 7% over the past decade, and non-oil sectors have averaged 6.5% growth over the last three years, suggesting dynamism far beyond the country's historical mainstay of oil and gas.[1] Foreign investment from the world's largest brands, along with a growing roster of home-grown success stories and a rising middle class, mark Nigeria as one of Africa's most exciting growth drivers.

To take its place among the world's top emerging markets, and realise its potential, the country needs to move to a new growth path. The economy is producing too few jobs for the 173m-strong population and the poverty rate declined by just 2% between 2009 and 2012, even increasing by 3.1% in some regions[2]. The state coffers are too reliant on oil revenue, which accounts for two-thirds of government income[3]. When oil prices dropped last year, Nigeria's currency, the naira, fell by 18% against the US dollar over a six-month period, underscoring the need for diversification.

Small and medium sized businesses[4] are perhaps the most vital part of Nigeria's real economy and their ability to flourish will largely define whether the country can achieve these goals of sustainable growth, job creation and diversification. "Anywhere in the world, SMEs are the biggest contributor to growth," says Oludare Ogunlade, country general manager for Nigeria at Cisco Systems, speaking from the company's Victoria Island office overlooking the Lagos lagoon. This is even more the case in Nigeria, where SMEs constitute over 90% of businesses[5].

SMEs constitute over 90% of businesses[5]

From street-side hairdressers and welders through to app developers and film companies, SMEs span a dizzying array of products and services. Yet despite their dominance in Nigeria's real economy, remarkably little is known about this universe of entrepreneurs, most of whom are informal and unregistered. Academic studies and surveys provide details in specific locations, while the government's efforts to gather statistics give national-level snapshots. In between macro and micro, there is a large gap in our understanding about Nigerian SMEs, and a need for a greater insight into their productivity rates and their daily existence, how obstacles manifest themselves and how they overcome them (or fail

[1] Nigeria: Selected Issues Paper, IMF Country Report Number 15/85.

[2] The national poverty rate fell from 35.2% to 33.1% during this period, according to World Bank General Household Survey (GHS).

[3] "To the victor the toils", *The Economist*, April 4th.

[4] Ministries, research institutes, agencies and private sector institutions use different definitions of SMEs—this report defines the sector as enterprises with fewer than 100 employees and below N50m in assets. It includes micro-enterprises, such as sole-owner entities, which make up a large portion of commercial activity.

[5] Data from 'YouWin SME Growth Fund', established by the Federal Ministry of Finance of Nigeria and Nigeria Sovereign Investment Authority

to). There is also a need for credible ideas to help SMEs improve their productivity.

The list of challenges facing SMEs is long—access to finance, rickety infrastructure, patchy energy supplies and security concerns. SMEs are also affected by problems beyond national borders, such as the flood of illegal textile imports that has devastated a once-flourishing indigenous industry, for instance, or the Ebola outbreak, which led to many citizens steering clear of public markets. Yet they are also benefiting from welcome forces—the falling costs of ICT, improved communications networks, the easing of business registration costs, and a rising consumer class. Across five productivity categories—policy, infrastructure, ICT, energy and finance—this report seeks to provide an authoritative insight into the drivers of SME productivity, the obstacles that they face, and the ideas that could enable them to flourish.

1 Chapter 1: SME support policies

Nigeria's government has long recognised the importance of SMEs. The country is heavily dependent on oil and natural gas, which generates 70% of government revenue. The tax base is narrow and poverty is not declining in tandem with GDP growth, with too few jobs for the population. A flourishing SME sector would solve many of these problems.

The government's history of supporting SMEs is mixed. Back in the 1970s a range of targeted support programmes were launched but failed, marred by poor administration, repayment defaults and the insolvency of key institutions[6]. In recent years, the government, Central Bank, Bank of Industry and private or philanthropic actors have launched a range of targeted funding mechanisms (see Table 1, appendix). These funds have been welcome, and several billion naira have been disbursed to a range of SMEs—including many isolated from mainstream financing, such as companies owned by women. Yet improvements are needed. Adamu Waziri, creator of a popular Nigerian animation series, Bino and Fino, sought access to a range of dedicated grants and funding schemes for the entertainment sector, but decision makers "do not understand the sector" and tended to prefer safe investments (such as cinema chains). There is also a communication problem: SMEs are not always aware of government lending schemes and SMEs say that there is a lack of clear information about funding processes and opportunities.

One of the more operational funds is the Micro, Small and Medium-Sized Enterprises (MSME) Development Fund, a US$1.1bn facility launched in August 2013 that allocated 60% to female-led businesses and 20% to those led by people with disabilities. After lukewarm initial involvement from banks, the Central Bank disbursed funds to banks and private finance institutions at 2% interest—down from an initial 3%—for onward lending to SMEs at a maximum of 9% interest. In February 2015, in an attempt to encourage further participation, the government reduced the security requirement from 75% to 50%. Greater utilisation of the Fund is still needed, according to Babatunde Ogunrinde, from the CBN's Department of Development Financing, speaking at a workshop in December 2014. Of the fund's N220m (US$1.1bn) pledged, only N769m (US$3.8m) has been disbursed since its launch by six institutions and five banks[7].

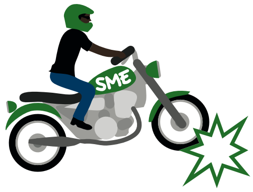
Beyond funds, the government has also helped SMEs by easing the business environment. The Corporate Affairs Commission (CAC) reduced business registration costs by 60% in 2013 and streamlined processes, making it no longer necessary to hire a lawyer to register. There are also clear instructions on the CAC website. For business owners unfamiliar with the more formal aspects of running a company, such online guidance is extremely helpful. In addition, the CBN's "cashless policy" has facilitated e-commerce, the use of point-of-sales machines and online banking, all of which have contributed to financial deepening.

Other aspects of the business environment need to be addressed. Across the full set of 'Doing Business' indicators measured by the World Bank, Nigeria's performance on tax procedures is very

[6] In 1971 the federal military government launched a Small Industries Development Programme and shortly after, a Small Scale Industries Credit Scheme (SSICS) was included in the country's third National Development Plan (1975-80). It failed, because of poor administration culminating in massive repayment default. The Nigerian Bank for Commerce and Industry (NBCI), set up in 1973, sought to direct finance to indigenous businesses and especially SMEs, but became insolvent in 1989.

[7] United Bank for Africa, Skye Bank, Fidelity Bank, Guarantee Trust Bank and Zenith Bank.

The average company in Lagos expends 956 hours per year in paying their taxes



low (see Table 2). The average company in Lagos expends 956 hours per year in paying their taxes—compared with the Sub-Saharan African average of 310 hours, and the OECD average of 175 hours. The government urgently needs to broaden its tax base, which means deriving more revenue from SMEs. But the time involved in tax administration is one reason why so many SMEs remain unregistered. A simpler system with fewer processes, and limited opportunities for tax officials to exercise discretion on fees, could bring more SMEs into the tax net.

There are a number of good performers on the continent that Nigeria could look to for tax reform ideas. The South African Revenue Service (SARS) is hailed as one of Africa's top tax institutions. Since the introduction of e-filing in 2003, the time taken for companies to file tax returns has decreased significantly, to 200 hours. Smaller economies have also made gains; Rwanda, for example, is now regarded as one of the most efficient economies for tax compliance in East Africa. In 2012 it introduced e-filing for corporate income tax, value added tax (VAT) and labour contributions. Time taken to comply stands at 113 hours due to improvements to electronic filing, according to research by professional services network, PwC. Kenya also adopted an online filing system in 2009 and, with software improvements, the time taken to comply has fallen from 432 hours in 2005/06 to 308 hours in 2012. The introduction of an electronic Integrated Tax Administration System in Nigeria could slash compliance time significantly and cut corruption. Companies in Nigeria complain about the multiple taxation system, which is difficult to navigate and open to abuse. Evidence suggests that countries with fewer payments tend to have a higher rate of compliance. While the number of tax payments in Africa averages around 36.1, South Africa requires seven payments. In Rwanda, it is 17, while Nigeria has 47 payments, according to PwC.

Table 2: Time taken on tax procedures (hrs per year)

Lagos	Sub-Saharan Africa average	OECD average
956	310	175.4

Source: World Bank; Doing Business Index 2015.

Then, there are broader policy questions for the government to address: while funding facilities and business reforms show political will, their impact can be outweighed by broader policy problems. Poor planning and policy volatility have had a huge impact on SMEs: the most notable is the fuel subsidy reform of 2012, which saw fuel prices rise rapidly overnight, hitting consumers and stoking inflation. The government did not communicate sufficiently with the public, and failed to build in safeguards to protect the poor, ultimately partially reversing the policy when Nigerians poured into the streets in protest. This contrasts with a range of other African countries, the fuel subsidy reform efforts of which—also difficult and politically contentious—have been more orderly, consultative and well-crafted, such as in nearby Ghana.

A second example of policy volatility and miscommunication concerns random and inexplicable decision-making by public officials, such as the sudden closing of two crucial ports in Lagos for a month in December 2014. This shut down a jugular vein of the Nigerian economy and prevented goods getting to businesses for the Christmas period. "We had predicted our numbers for December, we had planned ahead, we had invested, then the goods could not get to us. Many of the goods were left in the open air, getting destroyed," says Honey Ogundeyi, founder and CEO of online fashion retail site, Fashpa.com. "A business can die because of something unforeseen or unplanned, and you do not have any power or leverage to do anything about it," she says. Such volatilities affect all businesses, but especially those without buffers. "The hardest thing for SMEs is that you cannot predict anything. If you are a big company you have more of a financial cushion to absorb some of the volatility in the system. As an SME you feel everything. It is the difference between driving an SUV and riding an okada [motorbike]. You feel every bump," says Ms Ogundeyi.

A third policy problem concerns the regulations and costs of imports. Nigeria is an import-dependent economy and the costs are high. Import tariff policies appear to be serving no development strategy. In 2014, a 62.5% tariff was levied on imported books. Intended to protect local printing companies, it also threatened to destroy flourishing publishing businesses that had been forced to import books due to the low quality of domestically produced ones (Bibi Bakare-Yusuf, founder of publishing house Cassava Republic, based in Abuja, recalls having to dispose of 20,000 books printed in Nigeria because of their poor quality). "Thankfully, with lobbying and contestation, they have now reversed this back to the previous zero duty on books," Ms Bakare-Yusuf says.

If policymakers wish to nurture their home-grown industries by protecting them from import competition, a far better option would be to crackdown on illegal smuggling and pirating of goods from abroad—a far greater threat. Ms Bakare-Yusuf claims that pirated books from India and China are entering Nigeria through a vast distribution network.

An even bigger threat are illegally imported Chinese-made fabrics imitating Nigeria's signature prints, which some customs officials are turning a blind eye to. Imports of these comprise 85% of the market, despite the fact that importing such textiles is illegal[8]. Dilapidated textile factories in the country's northern city of Kaduna[9] are what remain of Nigeria's most important manufacturing industry, which in its heyday employed 350,000 people. The World Bank estimates that textiles smuggled into Nigeria through Benin are worth US$2.2bn a year, compared with local Nigerian production, which has dropped to US$40m annually[10]. Installing more effective checks to keep out illegal imports would provide a major boon to local industries.

The Nigerian government could also crack down on petty corruption among customs officials in the country's airports, some of whom extort SME owners that—unable to import technologies—bring them into the country in their luggage only to be charged random fees. Jason Njoku, founder of iRoko Partners, one of the largest online distributors of African movies and music, attempted to bring IT equipment into Lagos International Airport from London, whereupon a customs official sought to impose a US$4,000 spot customs fee. There was no online resource through which Mr Njoku could establish the actual duty and customs charges owed, and the official made an exchange-rate calculation on a mobile phone. Such events are a serious burden for a company that is now one of Nigeria's SME success stories, in the heart of its most exciting sector: the creative industry. "At the moment, we are growing our video editing team and I am trying to think about how to bring 20 of these machines into Nigeria. It is a nightmare to think about how to do that. The availability of technical equipment is non-existent here".

The Nigerian government has shown it can tackle deep-seated corruption when there is sufficient political will. The banking clean-up after 2009 was unprecedented in boldness and scale. The reform to the agricultural fertiliser subsidy scheme, which distributed vital subsidies direct

The World Bank estimates that textiles smuggled into Nigeria through Benin are worth US$2.2bn a year

[8] Section 18 of Nigeria's Import Prohibition List stipulates that the importing of African print [Printed Fabrics] such as Nigeria wax, Hollandaise, English Wax, Ankara and similar Fabrics, is prohibited.

[9] Gillian Parker, author of field research into the Kaduna textile industry.

[10] "Import Bans in Nigeria Create Poverty", World Bank Policy Note No. 28, by Volker Treichel, Mombert Hoppe, Olivier Cadot, and Julien Gourdon.

to farmers through their mobiles, hit back at powerful vested interests that had abused the system and siphoned off subsidies for decades.[11]

This gives reason to believe that the new administration could take on the petty corruption and poor governance that are holding back SMEs.

Steps forward

- *Reducing import barriers and tightening border controls would provide protection to SMEs without limiting their access to inputs. Rules that ban the importing of items not readily available in Nigeria do not serve a development purpose and can adversely affect SMEs.*
- *Install checks and balances to prevent sudden shock decisions such as port closures.*
- *Reducing and formalising the number of taxes, charges and levies affecting small businesses would encourage more to pay, and streamline the process. Duplicate taxes levied by one or more tiers of government need to be removed. Professionalising tax collection is an urgent priority—nuisance tax through extortion runs high in Nigeria due to opaque tax codes and regulations at the state and local government levels. The Federal Inland Revenue Service (FIRS) could issue public notices online and in communities that clearly outline the rates that taxpayers are expected to pay. Stringent regulatory oversight and an aggressive anti-corruption campaign whereby businesses can report the illicit collection of taxes would help cut corruption.*
- *A larger rollout of point-of-sale technology that issues taxpayers with receipts as proof of payment will limit multiple taxation. A broader rollout of Pay Direct, which allows taxpayers to walk into any bank and pay taxes directly into the local government authority account, will also reduce leakages and duplicate taxation.*

[11] Nigeria: Selected Issues Paper, IMF Country Report Number 15/85.

2 Chapter 2: Getting Nigeria moving

If policies are the soft infrastructure of a commercial ecosystem, then transport systems are the hard stuff: the nuts and bolts. In Nigeria's case, the machinery needs repair to support the country's growth. A decrepit and overpopulated road network makes the distribution of goods costly and reduces the productivity of staff spending several hours a day commuting. Lagos is the world's only mega-city without a rail network, and while its GDP may be larger than some countries in West Africa, its growth rate - a more telling proxy for dynamism - is only the 10th fastest in Africa[12] (see Table 3).

Table 3 GDP growth of African cities; Top 10, %

Dar es Salaam	20
Kinshasa	19
Abidjan	18
Addis Ababa	17
Lusaka	16
Douala	15
Kampala	14
Kigali	13
Maputo	12
Lagos	11

Source: PwC; based on 20 cities.

Landmark projects over recent years have certainly helped. Port reforms under previous governments successfully improved the efficiency of Apapa container terminal and Onne port. The revival of the Lagos-Kano freight and passenger train in 2013 eased congestion between the country's two major cities. A rail line connecting Makurdi in central Benue state to Port Harcourt was completed in January 2015.

Current projects underway could yield big gains. A railway from Rivers Port Complex in Port Harcourt to Kaduna would support imports and ease the Lagos bottleneck. A proposed train network connecting Lagos, Kano, Kaduna, Warri, Bauchi, Abuja and Port Harcourt would allow businesses to transact with different parts of the country and reduce road maintenance costs by lessening the quantity of heavy freight rumbling along Nigeria's roads. And light rail projects in Abuja and Lagos will reduce commuting time for thousands of workerss.

Yet, falling oil prices mean that the federal government's capital expenditure is projected to decline from N582bn in 2014 to N381bn in 2015, according to the Medium-Term Expenditure Framework, raising questions about the status of projects. The country's National Infrastructure Investment Plan (NIIP) requires N5trn-8.4trn (US$30bn-50bn) a year. As most fiscal consolidation this year is expected to come from capital expenditure, the IMF recently suggested that the NIIP should be "carefully prioritised"[13].

Deteriorating fiscal conditions, caused by falling oil prices, "have had a huge effect because the government has had to revise the budget based on the new realities. As a result, capital expenditure was cut to 9% of government spending when the oil price started to slide, which is very low and means that 91% of the budget is being used to service salaries," says Wale Shonibare, managing-director of Lagos-based United Capital.

The government will have to increase borrowing to maintain spending, he says. The expectation

[12] "Into Africa: The continent's Cities of Opportunity", PwC, March 2015.

[13] "Nigeria: Selected Issues Paper", IMF Country Report Number 15/85.

is that projects such as the Lagos light rail will continue as planned as funding is coming from state coffers and Lagos has been able to generate enough revenue internally through taxation and issuing bonds. More broadly, the government will need to look at broadening its domestic revenue base to fund capital spending. "The government is proposing an increase in taxes and VAT as well as tax collection. The tax collection rate is at 12%, which is one of the lowest in Africa. There is a lot of improvement required in that area," says Mr Shonibare. Yet the government must balance this with the bureaucratic burdens that tax processes are already having on SMEs.

Steps forward

- *Public-private partnerships (PPP) for landmark infrastructure projects would reduce the reliance on the federal government. Strengthening the PPP environment—improving transparency, eliminating closed-door bidding processes and harmonising rules across states and sectors—would help.*
- *Public investment should be funnelled towards building roads and improving the infrastructure that feeds the country's ports. An organised system would decrease delays, cut the cost of transport and reduce export and import times.*
- *The government should prioritise improving infrastructure around the ports in Port Harcourt and Calabar to relieve the pressure on Lagos. A concerted effort is needed to attract private investment to enhance these ports.*

3 Chapter 3: ICTs: the leapfrog technologies

While Nigeria's transport deficits are intimidating, they are partly offset by the increasing ubiquity of technology. ICT penetration has been on an impressive upward curve. At the turn of the century Nigeria had fewer than 500,000 telephone lines, and no broadband Internet capacity, for a population in excess of 120m. In 2001 the government licensed the country's first set of mobile phone companies, breaking the near-monopoly of NITEL, the state-owned company[14]. By 2007 the first 3G services were launched. Today there are 140m mobile subscribers, making Nigeria one of the world's largest mobile subscriber markets[15]. Internet penetration is estimated at 50-60% and ICT is growing at an annual rate of 35%[16].

Mobile ubiquity has been a game-changer for SMEs. Mobile phones allow users to overcome some of the country's infrastructure gaps by making it easier to transfer money, pay bills, check and calculate prices, and communicate with colleagues from any location. South Africa's Standard Bank reckons that Nigeria, alongside Kenya, was the top country in adopting m-payment technology in Africa in 2014. E-commerce is providing SMEs with access to consumers across larger geographies and with lower direct marketing costs.

ICTs are also creating entirely new markets for SMEs. "People can afford to buy a mobile phone that, for about US$50, has decent memory, and you have access to thousands of apps. Before, that was not the case. This is really good for game developers, because you know that your content has more chance of being seen," says Hugo Obi, the young, British-educated entrepreneur who founded Maliyo Games in 2012.

SMEs can now reach consumers cheaply, eschewing conventional media advertising on billboards or newspapers. Digital platforms including Facebook, Twitter and WhatsApp have allowed smaller businesses to advertise to, and interact with, their customers for free, moving away from the traditional and more expensive mediums such as print and television. "The phenomenon of mobile is just explosive. It is giving access to the markets and bringing various consumers a world of information. It is the obvious medium to leapfrog to," says Paul Jackson, South Africa managing director of pan-African advertising agency, Grey Group.

Improved app technology to reduce data-usage costs could overcome one remaining barrier to mobile shopping. While mobile operators are offering a range of value-added services in entertainment and social media platforms such as Facebook and WhatsApp, there is an opportunity for investors to leverage m-payment technology and shopping apps for SMEs to increase purchasing power for physical and virtual goods via mobile. All told, the mobile sector is making a sizeable contribution to the Central Bank's "cashless economy" campaign.

To grow the mobile sector further, network quality—currently inadequate—will be essential. It is not unusual to find an individual with several handsets subscribing to various operators in the event that one network should fail. One solution is the dual-SIM phone, whereby one device can access different mobile networks by using multiple SIM cards within the device.

In an effort to overcome erratic network coverage, two-thirds of Nigerians now have

[14] Price competition among providers has brought down the cost of handsets and led to ever-lower tariff packages. Tariffs fell from N34.2 (US$0.17) in 2007 to N15 (US$.0.07) in 2012. Improved regulatory oversight, including fines for poor quality service, has also strengthened performance.

[15] For data on Nigeria's tele-density, see Nigerian Communications Commission dataset. Available at: www.ncc.gov.ng

[16] Economist Intelligence Unit interviews; Cisco.

one or more SIM cards linked to their devices, according to OpenSignal, a networks analytics company. The mobile culture in Nigeria is predominantly pay-as-you-go and SIM cards are usually free or purchased for a nominal sum, boosting the dual-SIM market.

Regulators are taking action to strengthen mobile network quality. They have issued fines against operators who provide substandard service in terms of connection quality, dropped calls and congestions. However the problem is broader than just mobile companies. Power supply is pushing up operator costs, eating into expenditure that they could otherwise allocate to core service. This is driving a trend towards operators outsourcing their tower portfolios to professional tower companies. In Nigeria,

The digital SME

Combined with the global rise of open-source web-building tools, SMEs can now have a digital platform for a low cost. "You can accelerate anything with technology," says Bankole Oluwafemi, a technology journalist who has partnered with Nnenna Egbuche, who runs Nenny's Kitchen, a soup-making business that caters to the needs of Lagos's busy middle-class. Until recently, customers placed orders over the phone. Seeing the existing model as inefficient, Mr Bankole Oluwafemi partnered with Ms Egbuche to experiment with online-only orders, limiting deliveries to Sundays, when the city's notorious traffic is reduced. Mr Bankole set up the website, souptoyourdoor.com, which he advertised by sending out messages through WhatsApp. The first Sunday following the site launch, Mr Bankole crisscrossed Lagos fulfilling seven orders, receiving feedback from new customers by text.

For SMEs in knowledge-based industries, Internet tools are similarly fostering greater agility. Cloud computing allows them to work remotely and share large files, thereby overcoming transport deficits and local skills shortages. "Everything is cloud-based now," says Oludare Ogunlade at Cisco Systems. "So all SMEs have to worry about is their cloud provider and the Internet. I am seeing customers with just three or four members of staff using cloud technology."

Employees at Maliyo Games now manage and share large files remotely, says founder Hugo Obi. As he speaks from a small space rented in the Lagos Water Corporation building, on the commercial capital's busy mainland, he is plugged in with a laptop, tablet, and two mobile phones, with his team mostly working from their homes. The faster processing speeds now available enable quicker work. "We are no longer in the days where you have to wait four hours for the download to finish. Now it is minutes so you can offer feedback almost instantly," he says.

"The technology now available enables us to work differently compared with five or six years ago when we started," says Adamu Waziri. "Our ability to produce the product has changed. Before, we would not have been able to run the office like we do now. We have faster Internet. It is still expensive, but it enables us to talk to people around the world, to hire in other markets. We can look at having a pan-African workforce. That was not possible when we started". Mr Ogunlade at Cisco says that cloud computing is also useful for law companies who need access to information and contacts overseas. "There are a lot of lawyers wanting to collaborate with their peers abroad, and a lot of data that used to be in books is now in digital archives, and you need to have technology to access that".

Cloud computing means that, by spreading staff out, companies rely less on single servers in a main office that must be backed up by diesel generators to ensure uninterrupted service. "Everybody wants a smarter, leaner organisation," says Cisco's Mr Ogunlade. "Capital expenditure and operational expenditure is a big concern, so some mid-sized companies would not want to be powered by a generator all day, because by 5 or 6 pm there are still people at work who need to access the server. So instead they can just have those people on laptops access the same data on the cloud".

the majority of the network is now run by tower companies which supply power to the operator's base transceiver stations predominantly using diesel generators consuming millions of dollars a year in costs. To counter the expense and environmental impact, investments are being made by the tower companies in alternative power solutions such as batteries, solar and even wind power.

Expenditure stands at 80% for power generation in Nigeria compared with 5% in Malawi where power from the grid is stable, according to the Association of Telecommunications Companies of Nigeria (ATCON). Equipment at these stations is regularly stolen or vandalised, disrupting service. A second issue to address is multiple taxation and complex regulations. Streamlining the current multiple procedures would allow operators to build infrastructure at a faster rate, improving the quality of service and coverage.

Beyond mobile technology, Internet penetration is the second substantial potential contributor to SME productivity. Cisco's Mr Ogunlade identifies a direct correlation between Internet penetration and the rate of SME formation. "With the proliferation of the Internet over the past couple of years, we are seeing a lot of SMEs spring up in Nigeria. I think there are a lot of linkages between how SMEs develop and also how data explodes, and now the cost of bandwidth is cheaper people can work from home. We are also seeing the regulators try to force Internet within cities now—they have awarded licences for some companies in Lagos and Abuja and that should deepen the opportunity for businesses to thrive".

Raising ICT penetration

While ICT has made a substantial contribution to productivity and agility, there is scope for such technologies to make a far greater contribution. The first problem to overcome is the concern about online fraud and insufficient Internet security. While online retail is partly held back by a preference for open-air markets, where people can see products and barter, worries

Electronic banking fraud cost the banking industry N159bn (US$798m) between 2000 and 2013

about payment security are also a constraining factor. Electronic banking fraud cost the banking industry N159bn (US$798m) between 2000 and 2013, according to data from the Nigeria Inter-Bank Settlement System (NIBSS). In 2014 there were attempted thefts amounting to N7.8bn with actual losses of N6.216bn, according to the NIBSS.

Internet and automated teller machines (ATMs) remain the most popular channels for e-fraud, while point-of-sales (PoS) terminals are the preferred channel for instant cash for fraudsters, according to Olufemi Fadairo, head of information system security at NIBSS.[17] The Central Bank formed the Nigerian Electronic Fraud Forum (NeFF) in 2013 to deal with electronic fraud, but the agency remains of limited effectiveness.

Such concerns mean cash on delivery remains the preferred payment method, but as with other markets, trust grows with use. "For their first orders, 70% of people choose to pay cash on delivery, and 30% choose to either pay into our account or pay online," says Ms Ogundeyi. "When we get to the door, 60% will still choose to pay cash and 40% will choose to use the PoS machine system. We see that start to decrease by the second and third order." While large delivery firms DHL and UPS refuse to collect cash-on-delivery on a company's behalf, this allows smaller logistics companies tailored to the needs of Nigeria's e-commerce market to flourish.

Another ICT challenge to be overcome is the high cost of broadband[18], which is vital for the data and memory-intensive operations that knowledge-based industries, and larger firms, rely on. Before broadband was accessible,

[17] "Nigeria: Financial Institutions and Challenges of Cyber Crime" Published by Guardian, Lagos, 1 April 2015

[18] Broadband is defined by the Nigerian government as an "Internet experience where the user can access the most demanding content in real time at a minimum speed of 1.5 Mbit/s".

SMEs had to go to extreme lengths to carry out operations. For 18 months after launching in 2010, Jason Njoku of iROKO Partners sent hard drives with large video files on planes to London, UK, where they could be uploaded directly. Now there is fixed broadband access, but it comes at a price: Mr Njoku spends US$12,000-15,000 a month. "We go directly to the wholesalers. We are in significant six-figure dollar agreements with them to give us Internet," says Mr Njoku. "Even then it is not great. We have clients to whom we still need to send a hard drive on planes or via DHL." For Nigeria's creative industries to prosper, downloads and massively compressed files and offline capability needs to feature in the market, he says.

Broadband penetration is currently low, estimated at between 4% and 6%

Broadband penetration is currently low, estimated at between 4% and 6%,[19] because of its high cost. The quality and cost of broadband are largely the result of insufficient supporting infrastructure. Wireless technology is the primary delivery medium, meaning the "last mile" infrastructure to deliver broadband to homes and offices is dependent on wireless technology—base stations deploying microwave radio technology—as opposed to the more reliable door-to-door fibre-optic cabling. Nigeria does have significant raw broadband capacity (in excess of 11 terabytes[20]), which is delivered through undersea cables berthed in Lagos. Much of this capacity, though, is stranded at the landing points because of the absence of any infrastructure wired to deliver it reliably to homes and offices.

The government recognises the need to deepen broadband penetration. In September 2012 a presidential committee outlined a plan to "pursue, by the end of 2017, a five-fold increase in broadband penetration over the 2012 penetration rate", taking it from 6% to 30%. Cisco's Mr Ogunlade believes that the regulators are doing a good job overall. "I think they are on the right track with the broadband rollout they have done for Lagos and Abuja. What we could do better is advising the public on what is possible, because there are still a lot of knowledge gaps".

The physical challenges facing broadband expansion include many of the same problems affecting other parts of the commercial ecosystem: bureaucracy and cost (high "right of way" fees that the federal states charge the companies laying the fibre-optic cables, and multiple government taxes, along with electricity shortages and policy vacillation such as the lengthy delays surrounding frequency spectrum auctions[21]).

The third challenge for ICT penetration growth in Nigeria is the emerging urban-rural divide. Regional disparities are already acute. The national average poverty rate in 2012/2013 varied from 16% in the southwest to 50.2% in northeast[22]. The infrastructures relevant for ICTs are weaker in rural regions. Challenging physical terrain and a lack of roads and access to power is a daily challenge for telecoms companies. Operators also face vandalism and theft. Mobile operators reported over 70 physical cuts a month to their nationwide fibre networks, a large proportion of which were caused by road construction and wilful damage, according to the Ministry of Communications. This blend of issues affects the operators' revenue and connectivity, which hits customers who are already on lower incomes than their urban counterparts.

One way to lessen the urban-rural digital divide is to deepen the application of mobile to agriculture, the sector in which the majority of Nigeria's rural dwellers work. Technologies are already being applied to a range of agriculture-related processes, from online veterinary and crop advice to price checking and climate-risk information services. Combined with improved mobile network quality in rural regions, this

[19] "Nigeria's National Broadband Plan 2013-18".

[20] Nigerian Communications Commission data.

[21] Delay relates to the auction of two frequency spectrums critical to the achievement of the broadband vision: 2.3 GHz and 2.6 GHz. The 2.3 has been successfully auctioned (early 2014, to Bitflux Consortium), while the 2.6 auction was last month postponed indefinitely. Part of the broadband plan also involves the licensing of seven regional Infrastructure Companies (InfraCos) that will invest in last-mile infrastructure. Licences were awarded to two companies in January 2015. The Nigerian Communications Commission plans to give out the remaining five licences before the end of the year.

[22] "Nigeria: Selected Issues Paper", IMF Country Report Number.

penetration of ICT across wider geographies can significantly support favourable income distribution trends in the country.

One of the most powerful interventions for boosting rural incomes in Nigeria has been a nationwide fertiliser subsidy programme, with farmers receiving subsidy vouchers directly to mobiles and using these to pay dealers. The scheme allows farmers to get a 50% subsidy on a maximum of two bags of fertiliser. Farmers can pay either using a mobile-phone platform called the "e-wallet", or by paper vouchers for those who cannot access the mobile-phone platform. The paper voucher system was in turn modified into a smart-card system, with powerful effects. In the six-month period between March and August 2014, data on over 492,000 farmers in two states, Federal Capital Territory and Sokoto, had been collected. More than 75% of those farmers redeemed the vouchers they were offered, purchasing in excess of US$19m-worth of fertiliser and seed from 100 agro-dealer shops or redemption centres.

All told, around 70% of farmers now receive subsidised fertiliser, compared with 11% before. This has cut out the middlemen, many of whom siphoned off the majority of the subsidies meant for farmers. Using mobile and ICT technologies, this programme has been a game changer in promoting the productivity of agricultural SMEs, a key constituent of the Nigerian economy—and a crucial mechanism for broad-based economic growth and poverty reduction. "Technology is key to closing loopholes in fertiliser procurement in Nigeria," says Scott Wallace, a representative for the African Fertiliser and Agribusiness Partnership (AFAP).

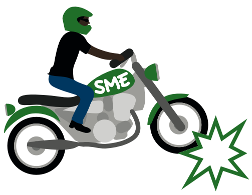
ICT technology may even help to reduce the rural-to-urban migration that is leading to overcrowded cities and a loss of skills and talents from rural regions. "In almost every state capital we have SMEs springing up. If you look at data on urban migration in Nigeria, you see that people in rural areas are migrating to cities, and certain cities in particular, because of the perception that you need to be in those cities. But I believe that the role of the regulator in pushing connectivity into all the major cities of the country should discourage that migration, because now why should I be in a particular city that has high rents, when I can be in another city where rent is cheaper and I can still serve the main market?" says Mr Ogunlade.

Steps forward

- *Lowering the costs and streamlining the process for right-of-way permits for broadband providers and ensuring that they are fairly allocated would foster competition and strengthen broadband infrastructure.*
- *SMEs importing ICT equipment solely to build their capacity and capability (ie, not for onward sale) should be exempt from import tax.*
- *The government needs to fast-track the release of spectrum for mobile and fixed broadband operators. The cost of spectrum also needs to be reduced if broadband is to be expanded nationwide.*

Chapter 4: Power to the people

Energy supply is one of the most dominant business concerns in Nigeria. Less than half the population has access to electricity and those who can afford it tend to supplement a stuttering national grid with their own expensive generators. Despite US$40bn having been assigned over two decades to fix aged power stations and a dilapidated grid, chronic shortages are still an accepted fact of everyday life.



Fuel accounts for up to 40% of overheads for some SMEs.

While multinational companies have the financial resources to absorb some of these challenges, and very small enterprises may have low energy requirements, SMEs in the "middle" are hard hit by the shortfall, with fuel accounting for up to 40% of overheads for some businesses. "Power is unreliable so you depend on some kind of generator. It is not [for] marginal [use]. It is literally 60-70% of the time. When you are calculating power costs, you do that based on running the diesel generator, not the cost from the power companies," says Mr Obi of Maliyo Games. Mr Njoku, of iROKO Partners, spent US$100,000 on power-generating equipment, including installing a transformer at a cost of around US$30,000-US$40,000.

A power privatisation plan is underway, with most assets—both generation and distribution—having been sold to private providers. If successful, this could deliver a huge boost to the Nigerian economy and early signs are positive. "The power privatisation process has started to have an impact in terms of knock-on effects such as the local manufacturing of power-generating equipment. This is leading to foreign and local investment," says Mr Shonibare of United Capital.

However, it is too early to know how and when this will make a significant difference to the country's power supply and few expect the situation to improve in the near term. Some forward-thinking SMEs are turning to small scale renewable solutions as a stopgap. Imported solar lamps, costing around US$15, or a light and phone charger combination system costing US$60, are among the more common uses. Some SMEs are investing in full solar systems to power their businesses. Mr Waziri, creator of Bino and Fino, invested in solar, spending US$8,500 on photovoltaic panels. "The generator just did not make any sense any more. So we invested last year and that was one of the best investments that we could do," he says.

Nigeria has the ingredients for a vibrant solar energy market—including sunny weather and a growing consumer need. Investment is flowing. Solar energy is increasingly powering mobile infrastructure systems, reducing diesel consumption in mobile towers by up to 60%. SolarNigeria, launched in 2014, expects to produce more than 40 MW of installed photovoltaic capacity for 2.8m people in Lagos. Light Africa, a joint initiative between the International Finance Corporation (IFC) and the World Bank was launched in March 2015 and aims to provide solar energy by 2017 for 5m people not connected to the grid. There are other sizeable schemes in development including Pan Africa Solar and the Gigawatt Global scheme, which has partnered with Industry Capital, a Californian private-equity firm, and Nigeria Solar Capital Partners, but all are struggling with finance and regulatory issues, says an industry source.

One obstacle to growth in demand for solar power is the high upfront capital cost of a full solar-power system, which deters many SMEs. Partial risk guarantee schemes could encourage more solar developers to enter the market and improve competition and therefore prices. While the cost of solar energy has halved globally, in Nigeria it is twice as expensive as in Kenya because of the weak infrastructure, lack of expertise and an underdeveloped market. Importing panels is also difficult and a powerful generator lobby infringes the customs certification process. Batteries that can withstand Nigeria's heavy rains or fine *harmattan* dust[23] need to be readily available, which again depends on easy importation. A lack of expertise in designing and maintaining systems is also problematic. A large donor-funded solar technology system in Makoko, the slum on stilts in Lagos, was redundant two years after installation because of lack of maintenance.

Steps forward

- *Solar power could provide a vital energy source for SMEs and warrants donor and government intervention. Off-grid solar markets in other countries such as Bangladesh, India and Sri Lanka have shown that the use of grants, incentives and concessional support can help to scale up the adoption of photovoltaic systems.*
- *Financial institutions need technical assistance to help them appraise credit requests from solar companies, which they currently lack. Greater credit flows would substantially boost the solar technology market.*
- *Education programmes are needed to help train citizens to design, install and maintain solar technology and grid electricity.*

[23] A fine, sandy trade wind that blows across West Africa.

5 Chapter 5: Fuel for growth

Finance is the fuel that allows SMEs to grow. In its absence, they risk failure or stagnation. Yet SME access to bank loans is limited. Only 2%[24] of Nigeria's adult population received loans from a financial institution in the past year, according to Findex[25] and only 14% of SMEs have access to a loan or overdraft account according to World Bank data from 2015[26].

Banks have shown limited interest in SMEs. From 2011 to 2014 the rejection rate for SME loan applications by commercial banks was greater than 50% in nine banks (out of a total of 18 banks) and as high as 90% in three banks according to a survey by professional services company, KPMG[27]. In the absence of loans, SMEs finance themselves through savings and reinvested profits, or through capital from friends, family, private contacts or "angel investors" and venture capital sources. One study of 1,829 SMEs in the city of Kano[28] showed that capital investment was predominantly from personal savings, at 42.9%[29].

Banks have reasons not to lend. The majority of SMEs are not formally registered, usually to avoid taxation or bureaucratic interference. One consequence is that they cannot access formal finance. Greater transparency over SME tax rates and cracking down on whimsical tax enforcement could give SMEs the confidence they need to register and thereby reassure banks of their status as a formal enterprise.

Some tax and levy collectors are considered exploitative. Few businesses have the capital to employ accountants to navigate the multiple tax systems, leaving many bewildered and at the mercy of random enforcement[31] (see Table 2).

"Businesses feel that they are at the mercy of the people collecting the money. If the process is more transparent and streamlined, you are more likely to get people in the tax net," says Peter Bankole, a professor at Lagos Business School. Tax reform is already having an impact in some areas of the country. In Kano, a city hosting about 875,000 businesses, the number of rates and levies on companies was reduced from over 200 to just 17; a policy legislated by the governor in January 2014. New payment mechanisms and clearer tax forms were introduced, including direct-to-bank payments, which reduced corruption and saved businesses money. Along

Access to finance

- Only 2%of Nigeria's adult population received loans from a financial institution in the past year.[30]
- The rejection rate of SME loan applications by nine commercial banks during 2011-14 stood at 50%.
- Some 95% of SMEs do not have financial statements.
- Only 14% of SMEs have access to a loan or overdraft account according to World Bank data from 2015.

Sources: KPMG, Findex, IMF

[24] "Nigeria: Selected Issues Paper", IMF Country Report Number 15/85. This is far below the world average of 9% (Kenya and South Africa also stand at 9%).

[25] Given the large number of Nigerian enterprises which are self-run micro enterprises rather than registered corporate structures, this figure suggests low financial access for SMEs generally.

[26] Available at: http://www.worldbank.org/content/dam/Worldbank/Feature%20Story/japan/pdf/event/2014/Africa-Business-Seminar-100314.pdf

[27] "Strengthening Access to Finance for Micro, Small and Medium Enterprises (MSMEs) in Nigeria", KPMG.

[28] "The Impact of Business Environment on SME Performance in Nigeria", International Journal of Management Sciences Vol. 3, No. 8, 2014, 582-592.

[29] Partnership source of capital investment represented 30.6%. Capital from friends stood at 8.3%, followed by bank loans as a source of capital at 13.6%. Capital investment by family represented 4.7%.

[30] "Nigeria: Selected Issues Paper", IMF Country Report Number 15/85. This is far below the global average of 9% (Kenya and South Africa also stand at 9%).

[31] *Doing Business, Nigeria*, World Bank.

with SMEs' usually informal status, a second reason for bank conservatism is the slowness of the judicial system. "If you cannot go through the courts because you find it difficult to foreclose and seize their assets, then you have no leverage. That is part of the reason why it is such a tortuous process," says Mr Shonibare.

There is also a wider conservatism in the industry. After the near-collapse of the banking system in 2009, lenders are nervous about non-performing loans and a wave of consolidation led to a preference for government securities and treasury bonds. The Central Bank has sought to bridge the gap between banks and SMEs, establishing a guarantee scheme in 2010 to underwrite 75% of defaulted loans, but the terms were not sufficient. "You needed to wait three years after the loan had gone bad to redeem your capital, that was too long, so banks would not touch it," says Akin Oyebode, head of SME banking at Standard Bank Nigeria.

The Central Bank has introduced credit bureaus to help form an organised database of loans granted, and the government has also taken two steps to improve lending to SMEs. The first is the national electronic (e-ID) pilot programme launched August 2014. The first centralised National Identity Database has 13 applications, including a prepaid payment technology that could increase the access to electronic payment and banking services for previously unbanked Nigerians. The Central Bank's Bank Verification Number project should help to cut down on identity theft and reduce the number of duplicated identities in various financial institutions.

The second, more specific, outreach is the launch of funds targeted at SMEs mentioned earlier (see Chapter 1: The Nigerian paradox). While these could give banks confidence in the viability of SME applicants who have access to other sources of finance, the funds still have to be subsidised and are not "free money" warns Mr Shonibare. In a context of fiscal retrenchment, banks may doubt whether the funds will last.

While banks have their reasons not to lend, they could still review some aspects of their processes. While they are not under an obligation to lend to uncompetitive SMEs, they are missing opportunities to fund successful ventures. Jason Njoku explained that when he applied for an overdraft of US$100,000, a Nigerian bank asked to freeze the equivalent amount in a UK account, despite his business bringing US$3m-4m through the bank the previous year. "The terms literally did not make any sense. I have found the Nigerian banks, in terms of being attractive to SMEs and people in general, a very challenging, inhospitable environment," he says.

iROKO Partners is a good example of a great opportunity that local banks missed and foreign investors seized. It started out with a personal investment of US$200,000. Good press coverage and a strong market response helped them raise US$8m from private equity group Tiger Global Management, venture firm Rise Capital and Sweden-based Kinnevik. There appears to be a capacity gap in the banking sector, and Nigeria does not have sufficient diversity of financial institutions or the expertise in banks to help SMEs develop their business ideas.

As well as registering as formal enterprises, SMEs wishing to access bank financing may also need to think about the quality of their bookkeeping and financial accounting. Mr Oyebode from Standard Bank says that 95% of SMEs do not have financial statements and will often put fictitious numbers in application forms in an attempt to avoid paying pensions or personal income tax. Loan applications are often poorly packaged and business plans are unviable, according to statements in local press reports made by Rasheed Olaoluwa, managing-director of the Bank of Industry. A lack of corporate structure is another deterrent for banks. Most MSMEs do not have a functional board of directors or advisors, often operating as sole proprietary firms, which raises questions about the checks and balances that could ensure enterprises stay profitable.[32]

Recognising the need for better bookkeeping and management, some SMEs are choosing to outsource. Ms Ogundeyi, of online retail company, Fashpa.com, outsourced business registration and a third-party deals with customs and taxation. “I think the information is not very clear and readily available. I’ve done the easy solution and outsourced it,” she says.

Indeed, bookkeeping is one of the first things that some companies are investing their profits in. iROKO Partners outsourced business services as soon as they were on an upward trend. “I suspect if I had not had so much capital it would have been one of the key things that would have held the company back. I was able to hire people from PwC and other auditors, as well as human resources consultants, to come and solve all those issues,” says Mr Njoku. For SMEs without that start-up financing, however, a vicious circle presents itself: too little capital to hire expert accountants and services firms, meaning inadequate bookkeeping to gain the favour of banks so as to raise capital.

Steps forward

- *Government should consolidate SME lending funds and improve communication flows to SMEs about availability and processes—especially through functional online resources. Public funds should also target the ambitious domestic businesses rather than safer investments, which are best left to private investors.*
- *Reducing the burdens of being a formal enterprise—especially the convoluted tax system—would encourage more SMEs to register and strengthen their ability to access finance.*
- *SMEs must invest in stronger bookkeeping, install corporate governance structures and develop business plans to reassure banks that it is safe to lend. There may be a role for external donors to support training academies and courses for business management.*
- *Banks need to increase in-house expertise in SME lending, mentoring programmes and review terms and conditions, which needlessly prevent SMEs from accessing formal finance.*

[32] According to one survey by KPMG, 80% of the MSME respondents did not have a functional board of directors or advisors.

Conclusion

Nigeria is rightly hailed as a leading light in Africa—it has a massive economy, an entrepreneurial culture, a reform-minded government and a high growth rate. The non-oil economy is vibrant, especially in the culture, entertainment and knowledge-based industries. To realise its full potential, the country now needs to achieve broad-based growth across sectors and regions, to create more jobs for its people.

As the dominant form of enterprise in the country, SMEs will be essential agents in converting the country's potential into tangible results.

As the dominant form of enterprise in the country, SMEs will be essential agents in converting the country's potential into tangible results. SMEs are operating with near-boundless energy, but that is often in spite of their environment rather than because of it. If SMEs can overcome the obstacles they face, ranging from inadequate transport systems and patchy power supply to corruption or bureaucratic obstacles, there is no doubting their potential to transform Nigeria. The productivity gains they have achieved from use of ICTs alone, even at a relatively low penetration rate, shows how quickly SMEs respond to enablers in their environment.

All stakeholders—government, financial institutions and SMEs themselves—can contribute to the effort. For government, cleaning up customs and tax processes, avoiding volatile macroeconomic policy making and simplifying burdensome regulations would be good targets for reform. So would a consolidated portfolio of state-backed SME lending instruments with better communication to businesses about availability and application processes. The government's good reform record in banking and agriculture shows a strong capability to enact quick and effective change. Banking institutions need to improve their knowledge of SME businesses for, while some of their conservatism is justified, they have also missed many opportunities to support successful businesses. Finally, SMEs can strengthen themselves, through better bookkeeping and business-management structures, which will help them to access more formal financing. Taken together, such measures could ensure Nigeria achieves its great promise.

Appendix

Table 1: Nigeria's SME Support Funds: Sizes and Sectors

Fund	Government level	Size		
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	Central Bank of Nigeria	N220bn (= $1.1bn)		Established: Aug 2013 Status: On-going
Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)	Central Bank of Nigeria	N200bn (= $1bn)		Established: 2010 Status: On-going
Small and Medium Enterprises Restructuring and Refinancing Facility (SMERRF)	Central Bank of Nigeria	N200bn (= $1bn)		Established: March 2010 Status: On-going / fund under review by CBN
Small And Medium Industries Equity Investment Scheme (SMIEIS)	Central Bank of Nigeria			Established: 2001 Status: Unclear
Real Sector Support Facility (RSSF)	Central Bank of Nigeria	N300bn (= $1.5bn)		Established: March 2015 Duration: 31 Dec 2030
CBN Intervention Fund	Central Bank of Nigeria	N235bn (= 1.18bn)	N229.18bn disbursed as of March 2013	Established: Status: On-going
Agricultural Credit Guarantee Scheme (ACGS)	Central Bank of Nigeria	N6.1bn share capital (= $30mn)		Established: 1977 Status: Likely to be folded into NIRSAL
Commercial Agriculture Credit Scheme (CACS)	Central Bank of Nigeria	N200bn (= $1bn)		Established: 2009 Status: Fund under review by CBN. Terminates Sep 30, 2025

Table 1: Nigeria's SME Support Funds: Sizes and Sectors

Fund	Government level	Size		
Nigeria Incentive-based Risk-Sharing System for Agricultural Lending (NIRSAL)	Central Bank of Nigeria	N75bn seed capital base (N45bn allocated to loans) (= $376mn)		Established: 2011 Status: On-going
YouWin	Ministry of Finance	N1m-10m (= $5,000 - $50,000)		Established: Oct 2011 Status: Ends 2015
Dangote MSME Bank of Industry Fund	Dangote Foundation/Bank of Industry** (managing agent)	N10bn (= $50.2mn)		Established: 2010 Status: On-going
Business Development Fund for Women (BUDFOW)	Bank of Industry/Ministry of Women Affairs and Social Development	N90m (= $451,920mn)		Established: Unclear Status: Unclear
Africa Development Bank Line of Credit	African Development Bank $500m to Bank of Industry $200m to NEXIM (tranches have been distributed as follows): $12m to LAPO $5m to AB Microfinance Bank $150m to Fidelity Bank $125m Zenith Bank	(N105bn) line of credit (= $527mn)		Established: Jan 2013 Status: Four-year programme. Ends 2017.
State MSME Fund	State/Bank of Industry	N19.8bn (= $994mn)		Established: Unknown Status: Unknown
Cotton Textile and Garment (CTG) Development Scheme	Ministry of Agriculture and Rural Development/Bank of Industry	N100bn (= $502mn)	60% committed to 52 companies as of March 2013	Established: 2010 Status: Unknown
Cottage Agro-Processing Fund (CAP)	Bank of Industry	N5bn (= $25.1mn)		Established: September 2014. Status: On-going
Cement Fund	Bank of Industry	N9.5bn (= $47mn)	N8,479,486.76 disbursed as of March 2013	Established: Unknown Status: Unknown
Rice Intervention Fund	Bank of Industry/Ministry of Agriculture and Rural Development	N10bn (= $50.2mn)		Established: September 2014 Status: On-going
Power and Aviation Fund (PIAF)	Bank of Industry/Central Bank of Nigeria	N300bn (= $1.5bn)	N208.21m disbursed as of March 2013	Established: 2012 Status: On-going / Fund under review by the CBN. Tenor refinancing should not exceed 31st July 2025
Sugar Development Fund	Bank of Agriculture/National Sugar Development Council (NSDC)—parastatal under Ministry of Trade and Investment	N2bn (= $10mn)		Established: August 2014 Status: On-going

Table 1: Nigeria's SME Support Funds: Sizes and Sectors

Fund	Government level	Size	
National Automotive Council's Fund: Local Automotive Component/ Parts Development Fund	Bank of Industry	N16.91bn (= $84mn)	Established: 2010 Status: Unknown
Bank of Industry Nollyfund	Bank of Industry	Unspecified	Established: April 2015 Status: Recently launched
Nollywood Entertainment Fund	Ministry of Finance/Ministry of Culture & Tourism.	N39.8bn (=US$200m)	Established: 2010
Project ACT Nollywood *Funds divided amongst Innovation Distribution Fund (IDF), Capacity Building Fund (CBF) and Film Production Fund (FPF)*	Ministry of Finance	N3bn ($15mn)	Established: May 2013 Status: IDF Fund to be disbursed. CBF & FPF now closed.
Innovation Distribution Fund / Project ACT Nollywood	Ministry of Finance	N2bn(= $10mn)	Established: January 2015 Status: Deadline for applications April 3, 2015
Capacity Building Fund /Project ACT Nollywood	Ministry of Finance	N300m (= $1.5mn)	Status: Now closed. Deadline - Dec 2013
Film Production Fund / Project ACT Nollywood	Ministry of Finance	N700m (= $3.5mn)	Status: Now closed. Deadline – Feb 2014
Nigerian Creative Arts and Entertainment Facility Loan	NEXIM***	N30bn (= $150mn)	Established: 2010 Status: Unclear
Direct Lending Facility	NEXIM		Established: Unknown Status: On-going
Export Credit Guarantee Facility	NEXIM		Established: Unknown Status: On-going
Stocking Facility	NEXIM		Established: Unknown Status: On-going
Rediscounting & Refinancing Facility	NEXIM		Established: Unknown Status: On-going
NDE Facility (Start Your Own Business—NDEF)	NEXIM		Established: Unknown Status: On-going
EXPORT Trade Support Facility	NEXIM		Established: Unknown Status: On-going

Table 1: Nigeria's SME Support Funds: Sizes and Sectors

Fund	Government level	Size	
Foreign Input Facility	NEXIM		Established: Unknown Status: On-going
Export Credit Insurance Facility	NEXIM		Established: Unknown Status: On-going
Nigerian Content Development Fund (NCDF)	Nigerian Content Development and Monitoring Board	N69.7bn (=US$350m as at end of 2014*)	Established: Status: On-going long-term initiative.

Source: Economist Intelligence Unit analysis.

* Projected to grow to $700m over next five years.
** Bank of Industry (BoI) is a managing agent of funds distributed by the CBN, and is responsible for the day-to-day administration of the funds.
*** NEXIM: the bank is 100% government-owned and has an authorised share capital of N50bn, equally subscribed to by the Ministry of Finance Incorporated (MOFI) and the Central Bank of Nigeria.

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