



# Financial System Strategy 2020



FSS 2020 International Conference  
“DEVELOPING AN ENABLING ENVIRONMENT AND  
CONDUCTIVE INVESTMENT CLIMATE FOR SME’S”

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- **Background**
  - Definition**
  - Characteristics of SME**
  - Why SME's**
  
- **Challenges**
  
- **Issues arising from the challenges**
  
- **Closing comments**



## ▪ **SME** – Small Medium Enterprise

### ➤ **No uniform acceptable definition**

✓ Each country defines it based on particular need or public policy

UK:-	TurnOver	GBP20m; 200 employees
Japan:	Industrial Sector:	Y100m; 300 employees
	Trade Sector:	Y30m; 100 employees

Nigeria:	Total Investment	<u>1988</u>	<u>1990....</u>
	Turn Over	N0.5m	N5.0m
		N5.0m	N25.0m

Different limits by FMI,  
NEFUND, even SMIEIS

### ➤ **All based on common indicators**

- ✓ *Size of Capital invested*
- ✓ *Value of Turn-Over*
- ✓ *Number of Employees*
- ✓ *And in some countries, Sector variations (Manufacturing Vs Merchandising)*

➤ **So many definitions cause potential problems in extension of facilities and incentives**

➤ **Even definitions based on financial criteria suffer from inherent related inflation and currency translations.**



## What is common in SME's?

- **It is not a scaled down version of Large enterprises**
  - ⇒ **They are fundamentally different from large enterprises**
  - ⇒ **Their challenges and approach to business are so different from those of Large enterprises, so much so, for micro, small or medium.**
  - ⇒ **They have**
    - **Peculiar approach to risk and uncertainty**
    - **Usually short of cash**
    - **Low collateral based**
    - **Offer limited range of products and services**
    - **Lack economics of scale**
    - **Most are managed in an informal personalized way where the character preoccupation of the manager significantly impacts on decision making.**



### Why SME's

- ✓ Enhance value added to domestic production
- ✓ Facilitate the development of a broader base indigenous entrepreneurial culture
- ✓ Jobs creation
- ✓ Facilitate industrial dispersion in rural areas, enhancing regional economic balance
- ✓ Moderate rural-urban drift
- ✓ Enhance effective domestic resource utilization
- ✓ Facilitate the development of management, skilled and unskilled labour
- ✓ Produce intermediate goods and services for large enterprises.



# Challenges

- ❖ **Access to land**
- ❖ **Inadequate Infrastructure**
- ❖ **Absence and/or lack of Basic Heavy Industries**
- ❖ **Finance and Funding gap**
- ❖ **Access to market and unfair competition**
- ❖ **Inadequate institutional and legal framework**
- ❖ **Government policy inconsistency**
- ❖ **Inadequate human Capital development**
- ❖ **Inadequate security, Law and Order**
- ❖ **Etc**



## ❑ Access to land:

- **Cost**
- **Multi-tier concession approvals**
  - **Local community**
  - **Government**
  - **Others**
- **Registration and documentation of property rights**

**Reforms in Land Use Act**



## ➤ **Utilities**

- **Power**
- **Water**

## ➤ **Transportation**

- ✓ **Roads**
- ✓ **Rails**
- ✓ **Aviation**
- ✓ **Water ways (including Sea ports)**

## ➤ **Telecommucations**

- ✓ ***Vast improvement, more work needs to be done on data transmission***

**Perhaps we may need to accelerate the pace of PPP in the utilities and transportation sectors to enact some of the gains experienced in the telecomms sector.**





# Basic Heavy industries

## ❖ Fundamental building blocks for SME's

- **Caustic Soda Plants**

- **Petrochemical Plants**

  - ✓ **PE, PP**

  - × **PVC, Polystyrene etc**

- **Heavy Chemical Plants**

  - ⇒ **Dyes, resins, Acids, Soda Ash etc**

- **Cement**

- **Ore Beneficiation Plants**

  - ⇒ **Aluminum, Lead/Zinc, Iron (billets, flat sheets etc)**

- **Paper Mills**

- **Glass**

  - ⇒ **Flat sheets etc**

**Perhaps again like with infrastructure, we may also need to apply the PPP concept to accelerate the establishment of these vital building blocks for SME's**



# Finance and Funding Gap:

## Finance:

- **Debt (loans)**

- **Equity**

- **Combinations of both**

- ⇒ **Given the nature of SME's and the experience garnered from SMIEIS funding..... Financing needs of SME's in Nigeria might indeed be better served through Equity financing.**

- ⇒ **Secondly, given the structures of our SME's, complimentary debt financing will tilt towards cashflow based lending as against our current collateral based lending.**

- **Beyond these, we need to increase the available local equity funds**

- ✓ **Encouraging other non-bank sectors to replicate SMIEIS**

- ✓ **Generate Venture Capital funds for equity investments from bonds, pension funds etc**

- ✓ **Exploit other sources of equity funds (non interest bearing funds – Islamic banking etc)**

- ✓ **Accelerate the development of the 2nd and 3rd tier Stock Market to provide access to equity funds for SME's**

## Access to Market and unfair competition

⇒ Local market open to vagaries of world goods occasioned by smuggling, counterfeiting and dumping of goods

⇒ Unfair tariff.

⇒ Discrimination of local goods

### ● Dynamic tariff structure

- For adequate planning, we might incorporate a ratchetable threshold of maximum benefit to SME's over a fixed number of years.

### ● Deliberately create market for our local goods

⇒ Initiate special and deliberate policy programs to create local market for Nigerian goods

- Like "Buy Nigerian First" ie. Government and Nigerian will consciously chose to buy made in Nigeria first.

- This is not advocating outright ban on imports. All goods will come in as specified. However, the absence of the magnitude of enforced Government's purchase including our voluntary spending on imported goods will dampen the market for the goods and reduce the incentive to be imported **"Nigerian goods must control the Nigerian market"**.

### ● Ensure standardization to facilitate positive export thrust for our local goods



# Institutional and Legal Framework

## ⇒ Issues

- **Mechanism for enforcement and dispute resolution**

  - ⇒ **lengthy and cumbersome**

  - ⇒ **Costly**

- **Weak legal frame work**

  - ⇒ **Legal system must appreciate how a well functioning legal frame work can facilitate and stimulate investments**

- **Cumbersome legal documentation process**

- **Weak sanctity of contract.**

  - **Improvements in the legal system**

  - **Development of more fast track channels for business dispute arbitration (e.g Investment & Securities Tribunal)**

  - **Development of ADR channels**

  - **Simplify the legal proccedures for registration of licences, issuance of permits, and contract enforcements.**



# Local Investment Incentives

## Incentives

- Pioneer Status
- Local Raw material Utilization
- Labour intensive production mode
- Local value added
- In-plant training
- Export oriented industries
- Infrastructure development
- Investment in Economically disadvantage areas
- Research and development
- Re-investment allowance
- Investment tax allowances
- Tax relief on Interest income
- Capital assets depreciation allowance
- Abolition of Excise duty
- Import duty rebate

- Export development Fund
- Export expansion grant scheme EEGF
- Duty Draw back/suspension and manufacturer-in-bond scheme
- Export adjustment Fund scheme
- Cash flow lending
  
- Establishment of NEXIM
- Establishment of EPZ's scheme
- Establishment of NEPC to streamline procedure for export
  
- Define gestation periods for Agric loans/lending
- Creation of export prohibition list
- Liberalization of exportation of selected Raw materials and unprocessed goods and commodities.



# Local Investment Incentives

## Issues:

- ❑ **Knowledge and Information gap**
- ❑ **Access to these incentives**
- ❑ **Susceptibility of some of the incentives to Subjective interpretation might create rent seeking channels**
- ❑ **Effective co-ordination by executing institutions and the tax office.**

- ⇒ **Comprehensive and Adequate.**
- ⇒ **Given the age and time gaps in their enactments they Require comprehensive review/harmonization**
- ⇒ **Set up institutionalized feed back testing mechanism to ensure and verify not only the efficacies of these incentives but most of all, to test their transparency/workability.**



## Focus on:

### ● **Macro economic stability**

- **Stable and predictable policy environment**
- **Controlled inflation**
- **Low interest rates**
- **Stable exchange rates**

### ● **Lowering the cost of doing business**

### ● **Increasing the purchasing power of Nigerians**

### ● **Taxation**

#### ➤ **Numerous and multiple**

#### ➤ **Need:**

- ⇒ **harmonize Local, State and Federal Taxes**
- ⇒ **Address tactics and methods of collection**
- ⇒ **Eliminate illegal banditary tax collectors**



# Human Capital Development

## Depth of

- **quality managers**
- **Entrepreneurial skills**
- **Quality Trades men and artisans etc**
- **SME Business Development practitioners**

## Need:

- ⇒ **Increase investments and focus on developing quality skilled managers for SME's with adequate entrepreneurial skills**
- ⇒ **Training more skilled and unskilled workers, Trades men and artisans (what ever happened to Trade Test Certification)**
- ⇒ **Train effective business development practitioners**





# Security, Law and Order

## Issues:

- **Crime**
- **Communal violence**
- **Adequate Law enforcement**

⇒ **We still need to do a lot more on these issues.**

⇒ **We need to re-think some of our strategies in these areas e.g**

✓ **Are there other ways of reducing crime without police check points on our highways? ... to eliminate the involuntary “road Tax” etc.**

⇒ **Seek more help and institute effective tools of conflict resolutions in our communities.**

⇒ **Effectively train and equip our police force for the new and evolving challenges they face.**



## ● Encourage synergy and linkages between large enterprises and SME's

⇒ **Synergy in manufacturing inputs**

⇒ Mentoring

⇒ Outsourcing

⇒ Hand-hold SME's through quality certification interphase for supply of their inputs.

⇒ **Component assembly manufacturing model**

## ● Networking

⇒ **depth of knowledge or no clear cut information on availability, quality, location and cost of local produced goods**

⇒ - **Yellow pages ...MAN, NASSI, NAFDAC, SON, FOS etc.**

## ● Accelerate developments in institutions required to assist SME growth e.g:

⇒ **2nd and 3rd tier Stock exchange markets**

⇒ **Commencement of a functional commodity exchange to enhance raw material supply and price stability.**



## ● Investment Culture

- ⇒ Perception to wealth creation
- ⇒ Partnering for business
- ⇒ Business ethics

## ● Adopt new and sensible economic technology tools

- ⇒ reduce labour
- ⇒ Improve productivity

● Develop ways and means to invest in successful university and research Institute's spinouts.

● Paradigm shift production preference from labour intensive to knowledge based goods



## Concluding Remarks

### **Fact:**

**SME's are engines of growth and development in any economy. We must continue to work hard at creating the enabling environment and conducive climate for SME's.**

### **We need to work more on**

- ⇒ **maintaining a stable macro economic environment**
- ⇒ **Reducing the cost of doing business**
- ⇒ **Strengthening, adapting and creating a business friendly legal structure and systems**
- ⇒ **Improve our weak infrastructure**
- ⇒ **Maintaining effective security, law and order**
- ⇒ **Create both local and export market for our goods and services**
- ⇒ **Create structures and systems to ensure our stated incentives reach and have the desired effects**

**A lot has been done, there is still a lot more to do. We need to automate and time how our systems and processes work to make them give our desired results.**



**Thank You**

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