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External Funding Possibilities for SMEs in Nigeria

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External Funding Possibilities for SMEs in Nigeria

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Small and Medium Enterprises play a pivotal role in the economic growth of any nation, thereby increasing productivity, GDP, and employment opportunities. One major challenge to the growth and development of this sector of the economy is poor funding. It is on this premise that this research is based upon, finding the external funding possibilities for SMEs in Nigeria.

This study briefly talks about the importance of the SME sector to the Nigerian economy and also extensively explains the major external funding possibilities available to SMEs in Nigeria. Funding initiative by governments (Federal and States) as well as those of Non-Governmental Organizations, and International Development Agencies were also adequately considered.

The qualitative method was used in this research, thereby data was collected from both primary and secondary data. The primary data was obtained by interviewing two key officers of a SME business in Nigeria. Two senior officers at two lending institutions were also interviewed. Most of the secondary data used in this research were obtained by consulting articles, journals and other publications.

During the course of this research study, the researcher found that there are numerous sources of external funding possibilities with relatively cheap, available and accessible medium to long term funds for SMEs in Nigeria but are not aware of them because their existence and services were not adequately given enough publicity by the media.

The findings identified new initiatives springing up to support the sector. In the light of the above, the SMEs need to get acquainted with the knowledge of external funding initiatives available to them. It should also be noted that the entrepreneur's attitude towards external funding should be taken into consideration.

Key Words: External funding, SMEs, Entrepreneurs, Central Bank of Nigeria, Naira, Federal Government of Nigeria

LIST OF ABBREVIATIONS

BOI	Bank of Industry
CBN	Central Bank of Nigeria
FBN	First Bank of Nigeria
FGN	Federal Government of Nigeria
FSS	Financial System Strategy
MFB	Micro Finance Bank
MSMEDF	Micro Small and Medium Enterprises Development Fund
NYSC	National Youth Service Corps
PFI	Participating Finance Institution
SMEs	Small and Medium Enterprises
SMEEIS	Small and Medium Enterprises Equity Investment Scheme

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1 INTRODUCTION

The SME sector is a very important but largely neglected component of the economy of Nigeria. It makes much smaller contributions to the Nigerian GDP compared to other countries at the same levels of development as Nigeria. SMEs in Nigeria have great potentials for growth and could easily become major contributors to the GDP of Nigeria, if the government begins to demonstrate better commitments to building and developing strong SME sectors of the economy by instituting and implementing better access to finance and incentives, basic infrastructures, adequate legal and regulatory policies, and developing domestic knowledge base and competencies (Oyelaran-Oyeyinka, 2007). According to Oyelaran-Oyeyinka (2007), SMEs in Nigeria also constitute about 90% of the number of businesses in the manufacturing and industrial sectors and approximately a mere 1% of the country's GDP compared to 40% in Asian countries and 50% in the United States or Europe. In most developed countries, enterprises within the SME sub sectors gross about 95%, with Japan having 80% of its industrial labour force, Germany 57% and 46% in the USA where small businesses contribute 39% of the national income (Wang, Walker & Redmond 2011) and thereby contributing substantially to income, output and employment.

The European Economic Commission journal published in May 2003, defines SMEs as an enterprise with employees less than 250; an annual turnover of not more than 50 million euros and a minimum asset base of 43 million euros. Unlike what obtains in developed economies like Europe and United States Of America, there is no clear definition for SME by government institutions, private financial institutions or development agencies in Nigeria. Going by the various definitions given by government agencies such as Central Bank of Nigeria (CBN), Federal Ministry of Industry, and National Association of Small & Medium Scale Enterprises (NASME), Oyelaran-Oyeyinka (2007) summarised SME as a business engaging less than Three hundred (300) employees and an annual income below N100,000,000 (One hundred million Naira), which is equivalent to about €448,430 at the official Central Bank of Nigeria exchange rate of N223 to €1.

One major challenge that is preventing SMEs in Nigeria from achieving the kind of success mentioned above is that of business finance which affects them at various stages of their business cycle. Whether an SME is starting, stabilizing, growing, expanding or internationalizing, the need for accessible and affordable medium to long term funding is a major factor in the success of SMEs and their ability to positively impact the economy of Nigeria.

In the light of this, business capital acquisition for most entrepreneurs in Nigeria, are limited to personal contribution through savings and borrowings from friends and family.

This source of fund acquisition is not suitable for business growth and expansion in the long run.

1.1 Thesis Statement

BusinessDictionary.com (2015), defines Funding as the provision of financial resources to finance a need, program or project. Funding is an integral part of any business organisation either large or small scale. In Nigeria, a major challenge being faced by SMEs is how to source external funding for business growth. In view of this, the main research question will be what are the source for external funding possibilities for SMEs in Nigeria?

1.2 Research Questions and Objectives

In the following, each research question is discussed with the corresponding research objectives.

1. What are the major sources of external funding available to SMEs in Nigeria?

Objective: To identify and gain an understanding of the major external funding options available to SMEs in Nigeria.

2. What processes are involved for SMEs to apply for external funding in Nigeria?

Objective: This is to give an overview of the steps needed to be taken in order to apply for and get external fundng in Nigeria.

1.3 Significance of the study

- This research helps to give a clear and up to date view of external public funding sources available to SMEs in Nigeria.
- The results/conclusions of this research hopefully will help SMEs in Nigeria successfully apply and secure external funds finance.
- The research thesis will also serve as basis for further research into external funding possibilities for SMEs in Nigeria.

1.4 Limitation of the study

There were three (3) major limitations to this research study and the researcher tried to make the best decisions in order to overcome the following limitations:

1.4.1 Difficulty in finding a case company

It was difficult finding SMEs that were willing to be featured as case company because most SME owners were reluctant to allow their business information be made public. This resulted in the researcher using a SME company as an example to access the possibilities of external funds in Nigeria.

1.4.2 Inadequate information

The researcher found it difficult to get adequate information on the study topic particularly for Nigeria as a result of insufficient information and statistical data that is not up to date on SMEs by the government agencies, financial institutions and development agencies. There is also no clear cut definition of the term “Small and Medium Enterprises” by the various governmental and institutional bodies in Nigeria. The researcher had to rely on publications, books and journals by renowned authors and institutional agencies.

1.4.3 Time

There was little time available for the researcher to find a willing case company due to the emotional attitude of SMEs in Nigeria towards their businesses, and inability to share their business information with third parties. The design and conduct of interviews, and also source large volume of information and data from various government agencies, developmental agencies and financial institution were not feasible due to little availability of time as a result of the researcher’s short stay in Nigeria for holiday.

1.5 Structure of the thesis

The structure of this thesis is in 5 major parts with sub sections which are linked to give a concise description on the study. The objective of the study borders on the thesis statement.

Introduction to the thesis is treated in the first chapter, which informs on SMEs generally, with main focus on the Nigerian economy and the need for funding. It then continues with methodology in Chapter 2, where the qualitative method is adopted using semi-structured interviews, Sources of external funding for SMEs in Nigeria are discussed in Chapters 3. Chapter 4 introduces an example of a SME company in Nigeria to elaborate how the external funding possibilities can be accessed . Chapter 5 highlights on the conclusion where the main findings and suggestions for further research is being discussed. References and appendice which contains the semi-structured interview for the lending institutions, are listed at the end of this thesis.

2 RESEARCH METHODOLOGY

2.1 Research methods used

The qualitative research method was used for this research study. Saunders et al (2009,151) defines this method as a data collection technique using interview or data analysis procedure like graphs and statistics that generates or use non-numerical data. Also Shank (2002), defines it as a form of methodical way of inquiring into a subject matter. The use of qualitative research in this study over the quantitative method is the collective belief of its ability to provide a deeper understanding of the social phenomena than would be obtained by purely quantitative data (Silverman 2001,8).

2.2 Research Strategy

According to Saunders et al (2009,42), no research strategy is inherently superior or inferior to any other. The case study strategy is employed for this thesis which Robson (2002,178) defines as research strategy involving the use of empirical investigation of a particular subject matter within its real life context using multiple sources of information. There are no clear evidences between the boundaries of the phenomenon being studied and its context but it has the ability to generate answers to questions "why", "what" and "how"?

2.3 Data Collection and Analysis

During this research study, two main sources of data were used in collecting information. These are the primary and secondary data sources.

The primary source of data collection reflects the first hand information or direct evidence based on the research topic of which the research questions and objectives are outlined. In this research, data is collected through direct interviews.

The use of semi-structured and open-ended interview were chosen to collect data, due to the open and flexible nature, which provides a better access to the respondent's views, interpretes events, understandings, experiences and opinions, in order to achieve a level of depth, which is not available in structured approach (Byrne 2004,182).

Secondary data according to Saunders et al (2009, 257), are data already collected for another purpose available for further analysis and use. They include both raw and published summaries. The researcher referred to secondary data source in the form of published theses, publications, journals, books, articles, electronic sources such as the internet, online and offline information search.

Before the interview was conducted, a set of semi-structured interview questions were drawn up in order to obtain information from 2 major points of view: i) the lender and ii) the borrower. On the lending side, there were two lenders institutions that were approached, one of the leading Micro Finance Banks and the other, is one of the biggest commercial banks in Nigeria. The interview questions were based on information regarding the lending policies of the banks regarding provision of funds for SMEs. In order to get indepth information from the institutions, the researcher took personal notes (Saunders et al. 2009, 320-321). This was further analysed, and compared to some earlier research findings and literature that were used in this study.

2.4 Assessment of Credibility

The concept of credibility borders on two core aspects which are: Reliability and Validity of the data collected. According to Rogers (1961, cited by Raimond 1993,55), a research method needs to be seen for what it is , it is a way of preventing the researcher from being misled in regard to personally formed intuitions, as a result of closeness between the study and the researcher.

2.4.1 Assessment of Reliability

Reliability on the other hand as defined by Saunders et al (2009,157) as the extent to which data collected and techniques applied will yield consistent findings. Silvermann (2001,188) buttressed that for relability to be calculated, the researcher needs to document his or her procedures and demonstrate the categories that had been consistently used during his research findings. The information on this thesis has been collected from reputable sources; the owner of Publix Technologies and his business manager, existing research journal based on the study and marketing officers from reputable finance institutions. It is logical to assume that most of the statements given are based on the personal business experience of the interviewees, where only a few of the questions answered reflected poor insight about external funding options for SMEs in Nigeria. Due to the nature of this research, one can safely assume that other researchers will come to the same conclusions achieved by this project.

2.4.2 Assessment of Validity

Validity of qualitative research should be based on truth, thereby ensuring that facts are sorted from fancy (Silvermann, 2001). The importance of validity of this research is to ensure that findings actually measure what they set out at the beginning (Saunders et al 2009).

The research findings based on the articles can be questioned since they were written based on the authors' political values and estimations, which has a large role to play on the outcome of the study.

In ensuring the validity of this study, the topic was discussed with the project supervisor, key people at the case company, two members of staff from two finance institutions, and other SME business owners who were willing to talk about their external funding problems but unwilling to feature as case company.

Some major sources of external funds in operation for SMEs in Nigeria were discussed, the choice of these particular options, are based on recent developments in government and private financial institutions to encourage the growth and development of existing and new SMEs in Nigeria.

3 SOURCES OF EXTERNAL FUNDING FOR SMES IN NIGERIA.

SME sector plays a vital role in every country, enhancing economic growth, development and employment including Nigeria. The growth of this sector is important to developing nations such as Nigeria which requires the stimulation of growth centres to promote broad development. In addition, some of them turn out to become large enterprises. For meaningful contribution to economic development, access to finance has become a dire necessity, as dependence on financial institution become paramount to raise funds for investment.

A crucial concern for every business, whether micro, small, medium or large scale is the availability and accessibility of funds. Intending investors in SME businesses often need start-up funds while existing SMEs also need funding be able to grow, expand, develop and internationalize their businesses (Fatai, 2009).

Successive government administrations have shown considerable interest in the SME sector thereby coming up with and putting in place laudable policies and schemes to aid the availability and accessibility of funds to encourage the growth of SMEs in Nigeria. Listed below are the numerous sources of funds available to SMEs but only a few of these sources will be extensively discussed in this research due to their up to date and extensive modes of operations in SME funding activities.

- ❖ Bank Of Industry
- ❖ Central Bank of Nigeria
- ❖ Commercial banks
- ❖ Microfinance Banks

3.1 Bank Of Industry (BOI)

The Bank of Industry (BOI) is the product of the merger of 3 earlier SME funding initiatives of the Federal Government of Nigeria: NIDB, NBCI and the NERFUND. The merger was done in January 2000 and but the bank did not start operating until May 2002 with an initial capital base of ₦50 billion (€224 million) which was increased to ₦250 billion (€1.121 billion). It has a branch office in each of the 36 states of the country and is wholly owned and financed by the Federal Government of Nigeria.

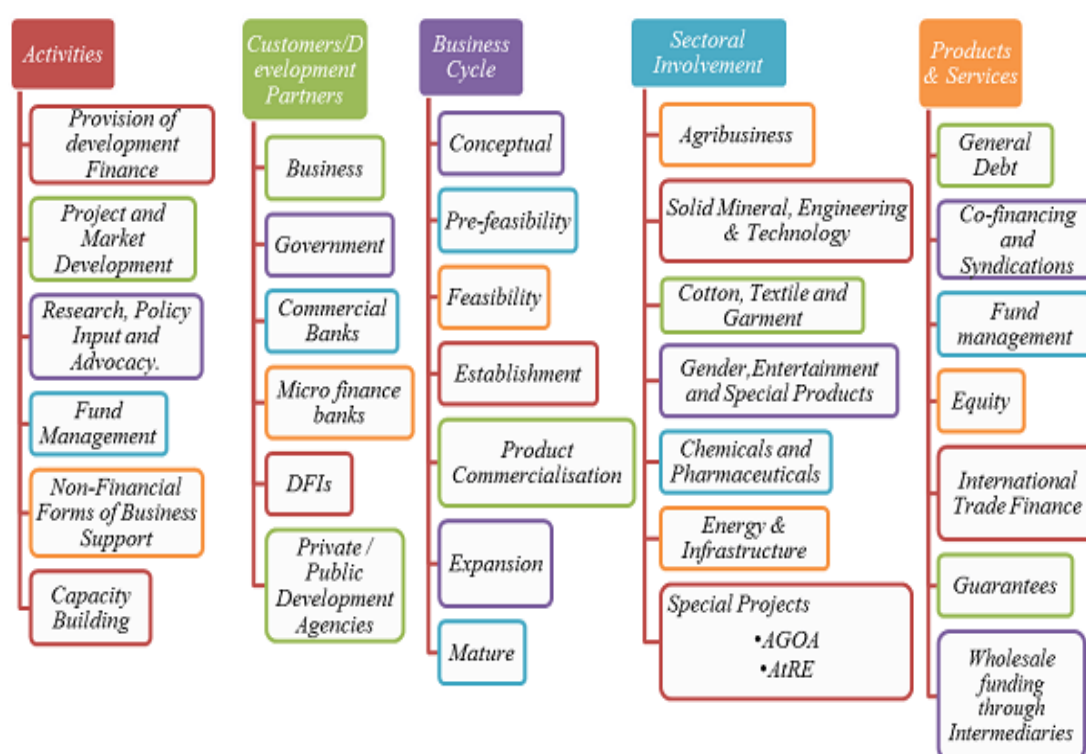


Figure 1. Business Model - Products and Development Activities of the BOI

Although initially set up to provide cheap finance to existing and new businesses, and mandated to assist projects that would improve the economy of Nigeria, the bank also has a microfinance subsidiary and has gone on to become one of the strongest funding providers for both start-up SMEs and existing SMEs. The Bank of Industry has three core funds/ products with sixteen funding programmes for all sectors of the economy but four of these programmes will be discussed in detail due to its relevance to the research study. Below is a list of the Bank of Industry Products and Funds:

1. BOI/State Matching Funds
2. BOI/Dangote Foundation Matching Funds

3. BOI/CBN Intervention Fund
4. Cassava Bread Fund
5. Cottage Fund
6. FGN Special Intervention Fund for MSME (NEDEP)
7. National Programme on Food Security(NPFS)
8. Rice and Cassava Intervention Fund
9. Sugar Development Council Fund
10. NAC Fund
11. Cement Fund
12. Bottom Of Pyramid
13. Cottage Agro Processing Fund
14. Fashion Fund
15. NollyFund
16. Graduate Entrepreneurship Fund

3.1.1 BOI/State Matching Funds

The BOI /State Funds are matching funds based on partnership between Bank of Industry and some State Governments. They can be accessed by Cooperatives, Enterprises and Limited Liability Companies engaged in Manufacturing and Agro-Processing, with single obligor limit of N50 Million. Interest rates range from between 5% to 10%. Intending applicants should visit the relevant State Ministry of Commerce and Industry for more details. Below is a tabular representation of the requirement criteria for accessing the BOI/State Matching Funds.

Purpose/Rationale	An equal participating funding scheme between the Bank of Industry and state governments which will be used to support the growth and development of SMEs in the state. Economic Rationale: <ul style="list-style-type: none"> • Promotion of economic and political empowerment • Accelerate pace of industrial development processes in the state • Promote the establishment of MSMEs in the state. • Increase in employment and value added to the economy.
Target Market/Criteria	The fund will be accessed by rural entrepreneurs from the state promoting the establishment of MSMEs in the state.
Projected Impact	The fund is to be mobilized towards the establishment of SMEs
Single Obligor Limit	N50 million
Pricing	FEES: <ul style="list-style-type: none"> • Interest rate: 5% - 10% per annum for term loans

	<ul style="list-style-type: none"> • 1 % appraisal fee (before disbursement) • 0% - 1% commitment fee (full payment on acceptance of loan) • Legal fees
Security Arrangement	In line with BOI standard requirement
Tenor	Usually 3 years inclusive of 6 months moratorium
Moratorium	6 months
Funding Structure	<ul style="list-style-type: none"> • State Government: 50% • Bank of Industry: 50%
Disbursement	Phased disbursement in accordance with agreed milestones
Repayment Source	From the company's operations.

Table 1: BOI/State Matching Funds Source

3.1.2 BOI/ Dangote Foundaton Fund

This fund is a 5billion naira fund which is accessible by business owners from SME to limited liability companes who are engaged in the Manufacturing, Agro processing and Merchandising sectors for Nigerian locally made goods.It has a single obligor limit of 50 million naira with an interest rate of 5%.

The table below shows a representation of the structure and requirements in accessing the fund and it rationale for establishing the fund.

Purpose/Rationale	<p>BOI has an equal participatory funding with Dangote Foundation to administer the fund for the establishment of micro, small or medium scale business nationwide.</p> <p><u>Economic Rationale:</u></p> <ul style="list-style-type: none"> • Promotion of economic and social empowerment • Accelerate the pace of industrial development in Nigeria • Promote establishment of micro, small or medium scale enterprises (MSMEs) in the country • Value addition and empowerment generation
Target market/Criteria	The fund will be accessed by companies/indigenous entrepreneurs engaged in manufacturing, agro-processing and merchandising (made-in-Nigeria goods only)
Projected Impact	The fund is aimed at job creation and poverty alleviation
Program Unit	N5.0 billion
Single Obligor Unit	N50 million
Pricing	Fee:

	<ul style="list-style-type: none"> • Interest rate: 5% per annum • 1% appraisal fee (before disbursement) • 1% commitment fee (full payment on acceptance of loan) • Legal fees
Security Arrangement	In line with BOI's standard
Tenor of the scheme	Usually 3 years inclusive of 6 months moratorium
Moratorium	6 months
Funding Structure	Dangote Foundation: 50% Bank of Industry: 50%
Disbursement	Phased disbursement in accordance with agreed milestones
Repayment Source	From the company's operations

Table 2: BOI/ Dangote Matching Fund

3.1.3 Graduate Entrepreneurship Fund (GEF)

The Bank of Industry as a way of encouraging young Nigerian graduates of tertiary institutions serving in the National Youth Service Corps (NYSC) to start up their own business or expand existing ones initiated the Graduate Entrepreneurship Fund (GEF). This Fund is a loan with a limit of Two (2) billion naira in the first year. It shall be used to support the formation and growth of SME businesses with an estimate of One thousand (1,000) entrepreneurs promoted by corps members throughout Nigeria. The structure proposes to produce a minimum of five thousand (5,000) direct jobs and twenty five thousand (25,000) indirect jobs annually, making a total of Thirty thousand (30, 000) jobs annually. It is initiated to help fresh graduates become employers of labour.

Criteria for Application of Graduate Entrepreneurship Fund

- Applicants will be serving members of the NYSC
- The screening process for the fund would have been duly completed
- A capacity building programme organised by the GEF would have been attended by the applicant.
- Submission of a business plan to any of the Banks identified with SME.

To ensure efficiency of the scheme, the GEF collaborates with various partners which are: The National Youth service Corps Directorate, Partner Enterprise Development centres/Institutions, Partner Technical Skills training institutions and SME Friendly banks.

The underlisted is the structure of the Graduate Entrepreneurship Fund

- It has an obligor limit of Two (2) million naira
- The tenor of the loan is between 3-5 years
- Moratorium period is Six months from date of loan disbursement

- Interest rate is 9% per annum
- Collateral for the loan is based on the right of lien on the NYSC discharge certificate, one external guarantor and specific charge over the asset to be purchased by applicant.
- Funding Structure are in Two(2) parts: Purchase of Assets will be up to 100% of investment needed and 80% of total loan, while the Working capital structure will be 100% of the working capital not more than 20% of the loan amount.
- Loan processing is between 2 - 4 weeks.
- Loan will be disbursed in accordance with agreed milestones with the Bank of Industry taking up 10% equity of the investment.
- Repayment of the loan will be from the proceeds of the business and paid by monthly direct debit

3.1.4 Federal Government of Nigeria Special Intervention Fund

As one of the Federal Government's initiative to stimulate the economic activity of the SME sub-sector, the FGN Special Intervention Fund was established to provide subsidized loans to SMEs at a single interest rate of 9% per annum.

Criteria for benefiting from the Fund

- ❖ The fund can be utilised by appropriately certified SME businesses in Nigeria.
- ❖ Entrepreneurial businesses in the manufacturing and Agricultural sector will benefit from the fund with special interest in the use of products from Nigeria.
- ❖ The fund is in form of a loan with a limit of Five (5) billion naira with a single obligor of Twenty (20) million.
- ❖ It has a moratorium period between 6 -12 months
- ❖ The Funding structure is FGN MSME at 100%
- ❖ The loan will be repaid from the proceeds of the company's operations.

3.2 Central Bank of Nigeria

The Central bank of Nigeria (CBN) is the apex bank of the country that regulates all banking operations of the various arms of the banking sector. Since inception, it has been involved in the promotion, empowerment and development of SMEs. The CBN credit guidelines obliges that banks allocate a specific minimum percentage share of credit to important sectors of the economy, including SMEs. Over the years, various schemes have been put in place to encourage the growth of SMEs. Examples of such schemes are: Micro, Small and Medium Enterprises Development Fund (MSMEDF), Small and Medium Enterprises Credit Guarantee Scheme

(SMECGS), SME Refinancing and Restructuring Facility (SMERRF) and Small and Medium Enterprises Equity Investment Scheme (SMEEIS).

3.2.1 Small And Medium Enterprises Equity Investment Scheme (SMEEIS)

This scheme is established in order to provide external funding for SMEs. It was established and approved in December, 1999 at its 246th meeting being held.

The rationale behind this scheme was as a result of the Federal Government's policy to promote SMEs rapid and viable economic growth, development and reduction of unemployment and poverty in the Nigerian economy.

Participants of this scheme are all commercial banks, and the stakeholders to the scheme are; "Federal Government, Participating banks, The Bankers' committee, Independent Fund managers, The Securities and Exchange Commission and promoters of Small and Medium Enterprises".

Beneficiaries of SMEs applying for this scheme need to meet the following criteria for eligibility:

- i. Make companies books and financial records available for inspection by appropriate authorities;
- ii. Keep up to date records of the scheme;
- iii. Comply with the guidelines of the scheme;
- iv. Provision of monthly reports to financing banks by the 15th of every month;
- v. Ensure that funds been allocated are utilised for the purpose they are meant for.

The table below shows the prerequisites for participating banks in the Small and Medium Enterprises Equity Investment Scheme

Purpose of Scheme	Yearly 10% Profit After Tax is contributed to support the scheme.
Activities covered by the scheme	All legal business activities except: 1, Trading and merchandising 2, Financial services
Eligibility for Funding	Comply with provisions of Companies and Applied Act 1990 (CAMA '90) Comply with all relevant tax laws
Type of scheme	It is a loan scheme
Modalities of the scheme	Interest on loan is a single digit of 9%

	Funds invested by contributing banks are in either credit facility or shares or both.
Investment owners	The banks shall be equity partners with the SME for a maximum of 3 years.
Amount of Investment	20% of the banks annual set aside funds, subject to N500 million naira.

Table 3: Requirements for Participation in the SMEEIS Initiative

3.2.2 Micro, Small and Medium Enterprises Development Fund (MSMEDF)

The Central Bank of Nigeria in 2013, established the MSMEDF to recognise the significant contribution of the Micro, Small and Medium Enterprises subsector of the economy. MSMEDF has the sole objective of channelling cheap interest rate facility via the Participating Financial Institutions (PFIs). It has a seed capital of 220 billion Naira (approximately 987 million Euros). The fund serves as both a loan and a grant, it prescribes a 50:50 ratio funding for both participants of the sub-sector. New entrepreneurs will be funded by Deposit Money Banks (DMB) under this scheme. It should be noted that 2% of the fund shall go for entrepreneurs that are incapacitated.

There are two components to the fund which are commercial and developmental components.

The Commercial component of the fund constitute 90% of the total fund ,it is in form of a loan and shall be disbursed to PFIs of which 60% is for Women and 40% for Others. Included in the 40%.

The Loan Tenor for this component is five (5) years for SMEs with Interest rates at 9% on the whole. Maximum loan amount for SMEs is five (5) million naira funded by other PFIs and Fifty (50) million naira when funded by DMBs.

On the other hand, the Developmental component of the fund makes up the remaining 10% . It is categorised as Grant and Operational expenses for take-off in the ratio 9.75% and 0.25% respectively.

Mode of Application for the funds

The required modalities for borrowers to apply for funds in both components are:

- The applicants will need to apply through a PFI.
- The PFIs will appraise the application to check for economic and viability of the request.

- The applications will be forwarded to the State and Central Bank of Nigeria specifying, amount, category of clients and purpose.
- Upon approval of the application, the CBN will disburse the required amount through the PFIs bank.

3.3 Commercial Banks

Most of the commercial banks in Nigeria do not really have funding programmes for SMEs because of the perceived high risks associated to starting and keeping an SME business running successfully. Therefore most of the finance available at commercial banks are expensive and require high value collateral to secure because they were not really designed for SMEs. Also, such credit provisions have been on steady decline since the year 2003 dropping from a high of 19.01% in 2002 to a low of 1.56% in 2012.

Year	Commercial Banks' credit to SMEs in Nigeria (N million)	Real Gross Domestic Product as 1990 Basic Prices (N million)	Commercial Banks' credit to SMEs in Nigeria as a percentage of GDP
1992	20,400:00	271,365:52	7.52
1993	15,462:90	274,833:29	5.63
1994	20552:50	275,450:56	7.45
1995	32,374:50	281,407:40	11.50
1996	42,302:10	293,745:38	14.40
1997	40,884:30	302,022:48	13.54
1998	42,260:70	310,890:05	13.59
1999	46,824:00	312,183:48	15.00
2000	44,542:30	329,178:74	13.53
2001	52,428:40	356,994:26	14.69
2002	82,368:40	433,203:51	19.01
2003	90,176:50	477,532:98	18.88
2004	54,981:20	527,576:04	10.42
2005	50,672:60	561,931:39	9.02
2006	25,713:70	595,821:61	4.32
2007	41,100:40	634,251:14	6.48
2008	13,383:90	672,202:55	1.99
2009	16,366:50	718,977:33	2.28
2010	12,550:30	776,332:21	1.62

2011	15,611:70	834,000:83	1.87
2012	13,863:46*	888,893:06*	1.56

Table 4 : Commercial banks' credits to SMEs in Nigeria as a percentage of GDP (1992 to 2012)

Source: Central Bank of Nigeria Statistical Bulletin, 2012

* Provisional figure

However, some of the major commercial banks in Nigeria have been able to work in partnership with the Bank of Industry, Central Bank of Nigeria and the International Finance Corporation to make funding available to SMEs in Nigeria. A lot of the funds are actually structured to cater for MSMEs rather than only SMEs.

3.3.1 First Bank

First Bank has several credit facilities that are available for SMEs to enjoy. Following are some of the credit products:

a. Secured Term Loan

This loan product that can be enjoyed by SMEs that are existing customers of the bank. Such SMEs must have an annual turnover below N500 million. It could be used to finance capital projects like the acquisition of new technologies, asset replacement, etc. The maximum amount an SME can get is N40 million but is limited to 50% of turnover in the last 6 months. This credit facility is collateralized and the maximum tenor is 36 months of monthly or quarterly instalmental payments at competitive interest rates.

b. Secured Overdraft

The overdraft is a product strictly for SMEs who have bank accounts with th banks and have an annual returns with a maximum of N500 million naira. This is to assist in the financing of working capital requirements of their business. The maximum amount to be applied for by a SME is N20 million naira with adequate collaterals for the overdraft. The loan is repaid back in 12 monthly instalmental payments at competitive interest rates.

c. SME Products Financing

This consist of a bouquet of credit products for various SME businesses like Import Finance, Oil and Gas Contract Finance, Invoice Discounting Finance, Bonds & Guarantee, Telecommunications Distributorship Finance and Petroleum Dealership Finance. All these products are collateralized but competitively priced with a tenor of 1 year and below. They are all available to SMEs that are already First Bank customers.

3.3.2 First Bank SME Connect

This is a special service of the First bank that is dedicated to helping SMEs in Nigeria get access to the funding support needed for the growth and development of their businesses. It is a one-stop centre created to bring all the relevant resources, products and services of the bank that are aimed at helping SMEs in Nigeria, under one umbrella. It also provides tailor-made products that are targeted at the specific needs of SMEs in Nigeria. These loans have been designed to finance the various business activities of SMEs in Nigeria. The following are some of the credit products available at SME Connect:

a. LPO Finance

This type of finance is targeted at SMEs who engage in the provision of products to large corporations . It provides finance for up to 70% of the cost of project execution at a maximum of 90 days tenor with a 60 day roll-over option. This facility requires flexible collateral structure, comes at competitive pricing and has a quick turn around time.

b. Secure Term Loans and Overdrafts

This credit facility is designed to provide funding relief to address funding gaps in running a business. It provides a maximum amount of N20 million with flexible repayment spread over 12 months. It is a collateral based credit facility. It is competitively priced and the facility is renewable subject to good account performance of the benefitting SME.

c. FirstEdu Loan

With this form of SME financing, it makes it easily accessible to SMEs in the educational sector to acquire assets and enhance smooth working capital operations of the schools pending the receipts of school fees. It can be accessed to the tune of 10 million naira and has a loan repayment plan of 90 days. One major criteria in applying for the loan is that the school business must be approved by the state government and registered with the Corporate Affairs Commission also have at least 100 students.

3.3.3 GT Bank SME Banking

This is another one of the leading commercial banks in Nigeria that is making effort to help provide funding support for SMEs in Nigeria. It recently announced the launch of a N3 billion funding scheme in partnership with Agence Francaise de Development (AFD) to promote the development of SMEs in Nigeria. This scheme is designed to risk sharing mechanism on loan

advances that will make it possible for the bank to provide foreign guarantees to local credit facilities that are advanced to SMEs. Some of the SME-targeted credit finance facilities available at the bank are:

a. Term Loans

This is a credit finance facility of the bank that is provided to SMEs for a set period of time with a pre-agreed repayment plan.

b. Invoice Discount Finance

This is another credit finance facility of the bank that is designed to be a short term borrowing facility which will provide a cash flow solution for SMEs when their cash flow is slow.

c. Overdraft

This credit finance facility is to take care of the short term borrowing needs of SMEs so as to give their businesses the flexibility that is required to be able to cope with unexpected expenses that often occur in business operations.

3.3.4 Diamond Bank SME Banking

Diamond Bank provides funding support for SMEs in Nigeria through its Diamond MSME Proposition. This programme caters for Micro Enterprises along with Small & Medium Enterprises, thus the name MSME. The following are some of the credit finance facilities that the bank offers:

a. Revolving Credit

This is a line of credit that is offered either as a revolving overdraft facility or a term loan for SMEs in Nigeria. It is a collateralised facility that is meant to provide short-term financing for a maximum tenor of 1 year and gives discounted interest rate to good borrowing customers. It is quick and easy to collect, and available for customers of other banks.

b. Instalment Loan

This is a term loan facility that is available for SMEs to finance fixed assets. It provides up to a maximum of N10 million credit facility and is offered to SMEs for a maximum tenor of

3 years. It offers a moratorium of up to 90 days and borrowers, there is also no financial fines when loans are repaid before due dates. It requires minimum contribution of not less than 10% from the borrower and is competitively priced without any hidden charges.

3.4 Microfinance Banks

Apart from providing an opportunity to reach the previously unbanked people, microfinance banks have provided a veritable source of external funding possibilities for SMEs in Nigeria. When they started banking services some 10 years ago, the microfinance banks of then were only able to provide short term credit funding facilities to SMEs and at rather expensive interest rates but nowadays more microfinance banks are providing medium to long term credit facilities to SMEs and the interest rate charges are much cheaper and often lowered with reducing balance. The following are some of the microfinance banks that currently provide credit funding facilities for SMEs in Nigeria:

3.4.1 BOI Microfinance Bank

The BOI Microfinance Bank is a subsidiary of the BOI that is licensed by the CBN to operate as a unit microfinance bank. It is solely focused on providing banking services and loans at a relatively cheap rate and ease of repayment to micro enterprises in Nigeria. The bank offers 3 types of loans to SMEs, these are:

- Individual Loan
- Solidarity Group Loan
- Cooperative Loan

According to the BOI Microfinance Bank website, the borrower is required to provide 2 passport photograph, copy of a recent utility bill and verifiable means of identification. The borrower's guarantor is also required to provide similar items. After these, the borrower's address and business premises will be verified and evaluated. The bank provides credit facilities to the manufacturing, processing, agriculture, forestry, services and trading sectors of MSME businesses in Nigeria.

a) Bottom of the Pyramid

The Bottom of the Pyramid scheme is designed to use the services of microfinance banks in Nigeria to provide credit facility to reach out to micro-enterprises in the MSME segments of the economy that do not have ready accessibility to funding.

According to the BOI website, the scheme is designed to provide an average loan size of N250,000 per borrower but may be increased to a maximum of N500,000. The scheme provides loans at an interest rate of 1% per month to participating MFBs and instructs the MFBs to lend to the borrower at an all inclusive rate of 1.5% per month. The tenor of the loan is 2 years with a moratorium of 3 months from the date of disbursement of the loan.

3.4.2 FirstBank Microfinance Bank

There are several credit finance facilities available from FirstBank Microfinance Bank to SMEs in Nigeria. The following are some of the more common ones:

a. Asset Loans

This is a short term credit facility for SME owners who are already existing customers of the bank who is aged between 18 - 60 years, and the customer must have been maintaining a current account at the bank for at least 3 months. The loan is designed to help entrepreneurs acquire assets that will positively impact their income. At the beginning, the bank takes full liability for the purchase of the assets, while the assets will be handed over to the SME upon full repayment of the loan.

b. Step Up Loan

The Step Up Loan is a loan facility that is readily available to SMEs who are Nigerians as well as resident foreigners in Nigeria, engaged in income generating activities. It is targeted at increasing SME business working capital. One of the criteria to apply for this loan, is that the SME must be an adult from 18 years and above and must have been in the business for a minimum of 6 months. The loan is easy to access and offers a recycle if there is no late repayment. The repayment is weekly or monthly.

c. LPO Finance

This is a short term loan facility for financing of contracts, order for supply of goods and financing of small distributorship allocations.

3.4.3 AB Microfinance Bank

This is one of the microfinance banks that is really making it easy for SMEs to gain access to credit finance to meet their business needs. The borrowers do not need to be existing customers of the bank. The following are some of the SME-targetted loans that they offer:

a. AB SME Access

This credit facility provides loans from N1,500,000 to N2,500,000 to existing businesses. It has a tenor of 6 to 24 months. It comes at an interest rate of 4.5% on reducing balance and attracts a disbursement fee of 2.5%. It is a collateral based loan.

b. AB SME Comfort

This credit facility provides loans from N2,500,000 to N20,000,000 for existing SMEs. It has a tenor of between 6 to 24 months and attracts interest rates ranging from 4% to 2.5% per month on reducing balance. It is a collateralised loan that attracts a disbursement fee of 2.5% of the amount of the loan.

c. Medium SME Loans

This is a credit facility that allows existing SME businesses to access N20 million and above for their business needs. It is a collateral based loan that attracts an interest rate of 2.5% monthly on reducing balance and a disbursement fee of 1% to 1.5% per month. The tenor of the loan ranges from 9 months to 24 months.

4 EXAMPLE OF A SME BUSINESS ON HOW TO ACCESS FUNDS

4.1 Introduction of the SME business

This is a small scale enterprise, located within a city in Lagos State, Nigeria. The property characteristics of the city is mixed, offering a fairly even spread of commercial and residential activities due to a presence of large numbers of SMEs as well as a lot of residential buildings with a large local dwelling population. There are also a few large scale industries within the same city.

The enterprise is a sole proprietorship which was established by Bolakale Arepo. He holds a National Diploma in Business Administration after which he joined his uncle to start up a simi-

lar business which they both nurtured successfully for over 8 years before he decided to start Publix Technologies. In addition to his many years experience, Bolakale also took a short duration training in Computer Engineering to help enable him, handle basic equipment maintenance and repairs.

The SME company started as a business services support centre in the year 2009 providing services like internet services, photocopying, typing, printing and scanning to members of the public. It later diversified business in 2010 when it went into the business of registering and training people at successfully writing examinations like TOEFL, SAT, ACT, GRE, GMAT, IELTS and PTE.

According to accounts given by the business owner, about N2 million Naira was needed to get the initial business started. This fund went into the payment of the first year rent for the office space, furnishings and purchase of the equipments that were needed to get started. The business started with 11 computers, 1 laptop, 1 LaserJet printer, 1 flatbet scanner, 1 digital camera, 1 digital photo printer, 6 UPS units, 6 electricity stabilizers, 2 ceiling fans, 1 broadband internet modem, 1 LAN switch, 1 wireless router, 1 diesel-powered electricity generator and 3 employees apart from the business owner. The start-up capital was raised from a combination of the business owner's personal savings and borrowings from close friends and family members. Roughly 25% of the start-up capital (N500,000) was from the personal savings of the business owner while about 75% (N1,500,000) was borrowed funds. The business owner did not find it an easy task in raising the start-up capital and he had to talk with over 20 people before he was able to find 2 of his close friends and 3 members of his family who were able to borrow him the additional funds he needed ,however, he was fortunate that when the funds came eventually he got them at cost and the borrowers only required that the funds be paid back as soon as possible.

According to the Operations manager who has been with the business owner from inception of the business, Publix Technologies had to borrow some more money on two occasions in 2010; first to add improvements to the original business, enabling it to stay ahead of its competitors and second, to start the examinations business. The funds borrowed to add improvements to the original business was used to provide 2 air-conditioning units to make the office environment more conducive while the funds borrowed to start the second business line was used to purchase 10 additional computers, 5 UPS units, 5 electricity stabilizers, a second LAN switch, a second broadband internet modem and a petrol-powered electricity generator. The number of employees which stood at 3 at the inception of business also increased to 5.

Altogether, it has taken over 4 years to be able to pay back all the funds it borrowed at different stages of its business. Currently it is faced with new funding challenges arising from

increased operational expenses and the need to replace defective equipments. There is also the need to improve its business model and the quality of service delivery to be able to continue to stay ahead of its competitors, currently he needs the sum of Three million naira (3,000,000) which he projects to pay back within Three (3) years. Thus the need for the business to once again seek borrowed funds but unlike previous times, the business owner is unable to find willing borrowers partly because of a general downturn in the nation's economy and partly because the previous lenders were not happy that it took the business owner so long to pay back all the funds he borrowed from them. At the moment, the owner is considering other major sources of external funding to save his business. These are sources the business owner has previously preferred to stay away from due to high interest rates and unfavourable terms and requirements for applying for the funds. He is now forced to consider as there are no friends or family members who are unable to come to his aid at this time.

4.2 Suggestions and Solutions

There are various external funding possibilities for SMEs in Nigeria which serve as an alternative source of funding . These sources are extensively discussed in Chapter 3. The options include their various product lines which are in the form of loans, grants and guarantees.

The Micro, Small and Medium Enterprises Development Fund(MSMEDF) is a scheme of the Central bank of Nigeria, which is a worthy alternative for the company. It has a dual role of grants and loan, with also a single digit low interest rate of 9%. The application for this source of fund is done through PFIs and does not require the case company to have a bank account with any of the financial Institutions. It also meets the loan repayment possibility of 5years, whereas the SME proposes to pay back within 3 years.

First Bank Secured Term is one of the products of the First Bank of Nigeria. It is also a viable option for the case company as a result of the loan financing capital projects .One of the company's business challenges is funding for operational working capital. Loan repayment suits the projected period for the SME, but the shortfall here is that the loan is only given to existing customers of the First bank operating accounts for a minimum of 6 months.

On the other hand, another commercial bank product to be considered is the Diamond Bank Instalment Loan, which offers this SME the opportunity to finance fixed assets. It also meets the capital amount needed and offers a moratorium period and no penalty when loans are paid before expiration. This source requires only a minimum contribution of 10% from the business ($0,10 \times 3,000,000 = 300,000$) and there are no hidden charges. To fully access this facility, the SME needs to have an operational account with the bank for a minimum of 6 months.

There are many opportunities that are available as sources of external funding, the final decision is for the case company to make. Considering the suggestions above, the Micro, Small and Medium Enterprises Development Fund (MSMEDF) does not require the SME to be an existing account holder, it also has a low interest rate of 9% and it can be accessed as a grant or loan, depending on the business owner's final decision.

5 CONCLUSION

The aim of this project was to find out External funding Possibilities for SMEs in Nigeria. The main attention was paid to various sources and their differences, prerequisites of such funds, targeted market and criteria for application of these funds.

The research questions and objectives were:

1. What are the major sources of external funding available to SMEs in Nigeria?

Objective: To identify and gain an understanding of the major external funding options available to SMEs in Nigeria.

Results: During this research, the major sources of external funding available were discussed, taking into cognisance the existence of a lot of sources. Each alternative source pointed out the rationale/objective of the fund, its target market, the criteria for applying, the type of fund (loan or grant), moratorium period, repayment policy and interest rates.

2. What processes are involved for SMEs to apply for external funding in Nigeria?

Objective: This is to give an overview of the steps needed to be taken in order to apply for and get external funding in Nigeria.

Results: To comprehend the processes involved for the application of the external funds being presented in this thesis, information on how to apply were duly stated for each fund option.

It is worthy of note that there are so many publications from various institutions regarding external fundings but most SMEs in Nigeria are not privy to such information due to inadequate knowledge of the processes and existence of such external funds.

This therefore portrays that, the theoretical outcomes obtained can also be applied to other entities other than sample company, with emphasis on SMEs in Nigeria.

5.1 Main Findings

The results in this research study shows that there are many viable sources of external funding possibilities for SMEs in Nigeria and each source offers several funding options but people do not seem to be aware of them and their products or services. One major reason for this, is because there is inadequate publicity for the sources and funding options. Information about the external funding possibilities of most lending institutions is not available online at their websites and when they are available, they are often incomplete.

The tenor of most credit facilities available to SMEs in Nigeria is rather short and the cost of such facilities is rather on the high side, making it difficult for interested borrowers to utilise the funds long enough to derive appreciable benefits before full repayment back to the lenders. This is a major factor that discourages SME owners from turning to lending institutions to seek external finance. The collateral requirements for most credit facilities are also rather stringent and difficult to meet.

There is also a need to deepen the purse of lending institutions that are involved in the efforts to provide affordable and accessible funding supports for SMEs in Nigeria. This can be done by government financial agencies seeking more support and collaboration from international development agencies. The private financial institutions should also explore more ways of sourcing cheaper long term funds from developmental institutions like the International Finance Corporation and African Development Bank.

5.2 Suggestions for Further Research

The study on external fundings for Small and Medium Enterprises is a non-stop process. This is due to the existence of many possibilities: old sources are discontinued and/or improved upon while new sources emerge.

As a suggestion, it will be of immense help for SMEs if a further research can be carried out with cross case references on various SMEs and external funding possibilities relevant for them. It will also be interesting to know who benefits more from the external funding sources for SMEs in Nigeria between the Rural SMEs and the Urban SMEs. Due to the researcher's limitation on time and information availability, all the public funding possibilities were impossible to study because they were too numerous.

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INTERVIEW QUESTIONS FOR THE LENDING INSTITUTIONS

1. Do you have credit finance for SMEs in Nigeria?
2. What types of credit finance products do you offer SMEs?
3. Are they available to all SMEs or only to SMEs that are existing customers of your bank?
4. Are your credit finance products collateral based or not?
5. What is the shortest tenor of your credit finance products?
6. What is the longest tenor of your credit finance products for SMEs in Nigeria?
7. Is your bank participating in any of the CBN initiatives for financing SMEs in Nigeria?
8. What is the cost and tenor of such funding initiatives?
9. What kind of SMEs can access such funding initiatives?
10. What do you think is responsible for the apparent lack of interest of Nigerian banks in providing credit finance for SMEs?
11. What has been the performance of SMEs in the repayment of their credit finance to your bank?
12. Has there been many defaulters?
13. What does your bank do when SMEs default in the repayment of their credit facilities?
14. What do you think can be done to help encourage Nigerian banks to better support SMEs by providing more medium-to-long term funds at single digit interest rates?