



# DEVELOPMENT FINANCE FOR SME GROWTH

Experiences, Challenges and Way Forward

**Presented by:**

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# Outline

**01** SMEs' Growth and the Economy

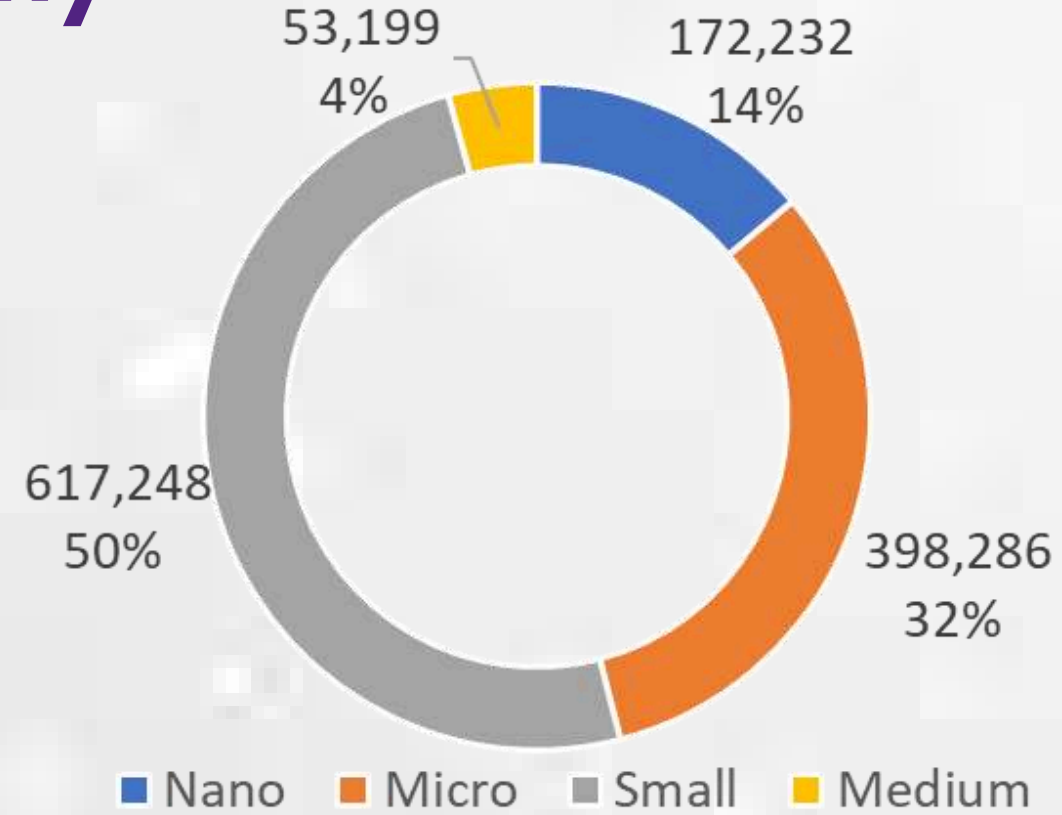
**02** Financing Opportunities

**03** Challenges of SMEs and Financing

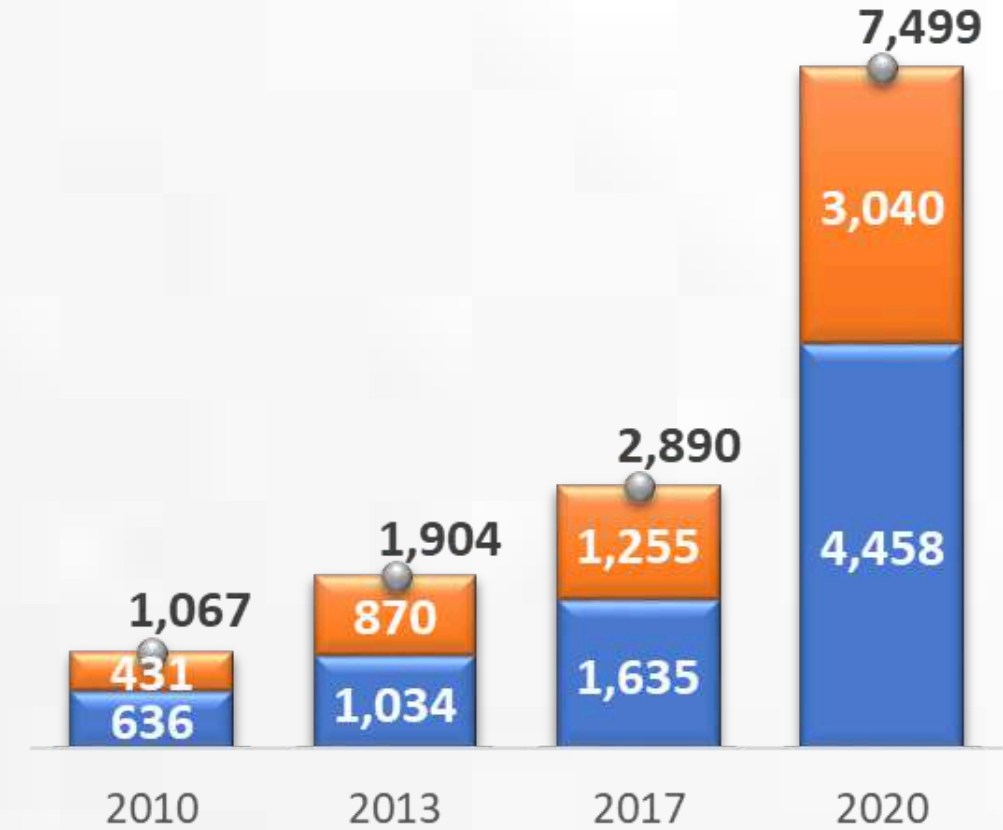
**04** Way Forward

# SMEs Growth and the Economy

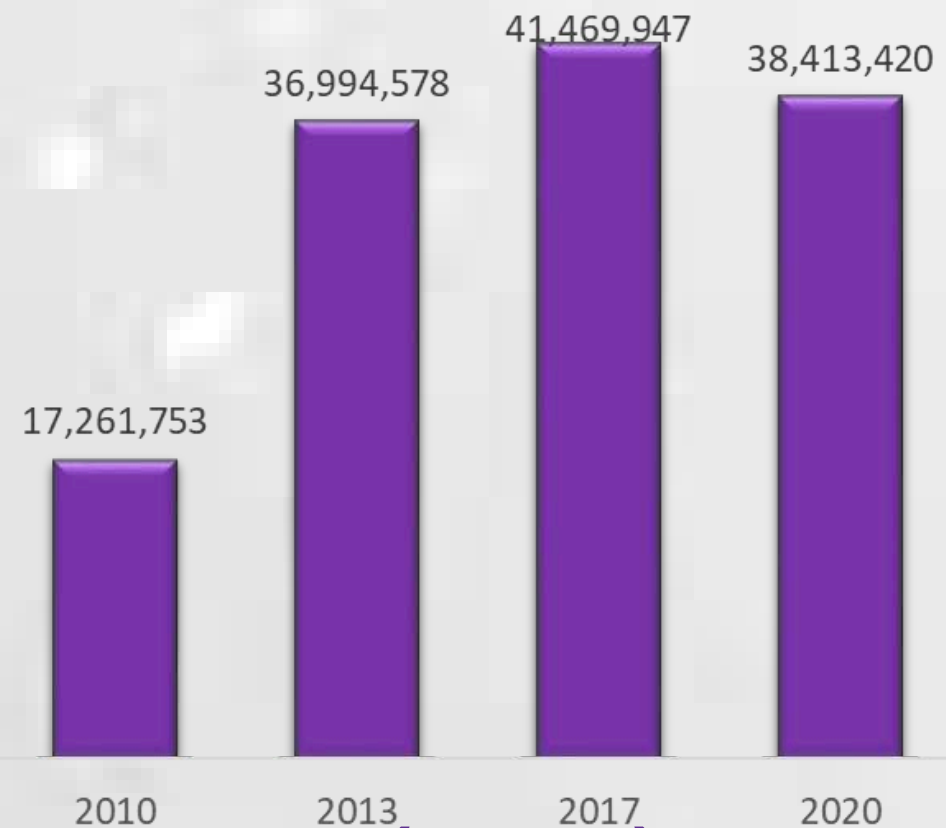
- The Micro, Small and Medium Enterprises (MSMEs) are central to the economic activities of most countries and the livelihoods of the citizens
- In Nigeria for instance, MSMEs have been estimated to contribute
  - 48% of GDP
  - 96% of businesses, and
  - 84% of employment.



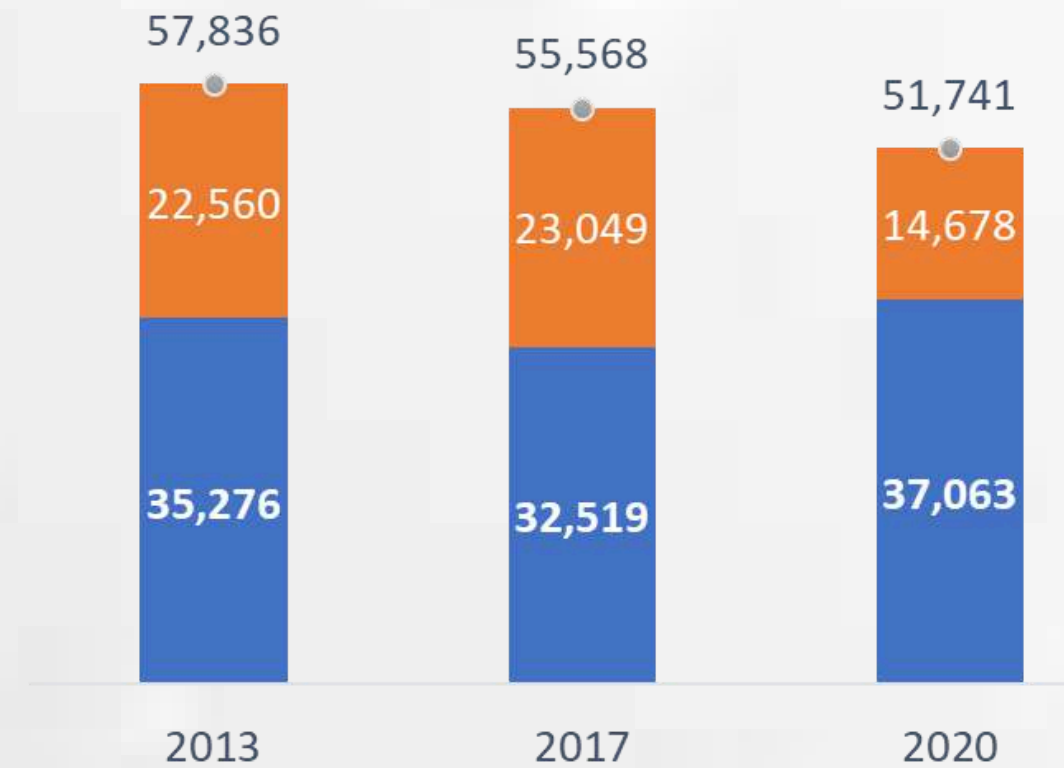
Number of Formal Enterprises In Nigeria (2020)



Employment by SMEs ('000)



Number of Micro (Informal) Enterprises



Employment by Micro Enterprises ('000)

# Financing Opportunities for SMEs

## Regular

- Own/family/friends savings
- Commercial banks
- Stock market (growth board, ASeM)

## Special Interventions

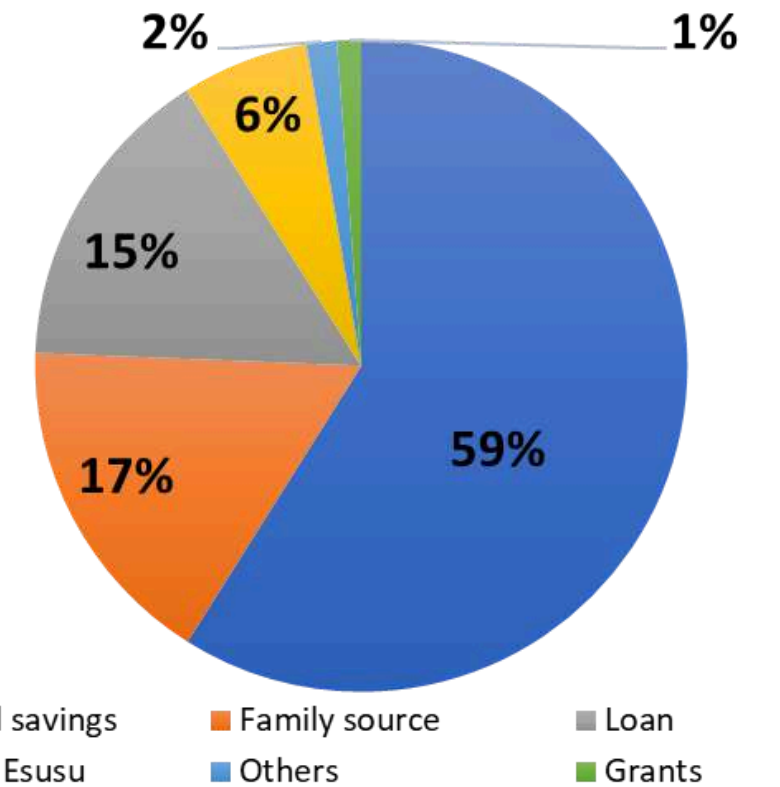
- YouWin, N-Power
- Tax exemption for less than ₦25 million turnover (Finance Act 2019)
- National MSME Policy (2021-2025) launched in 2021
- Digital and Creative Enterprises (IDiCE) programme
- Micro and Small Business Single-Digit Interest Loans

## Development Finance

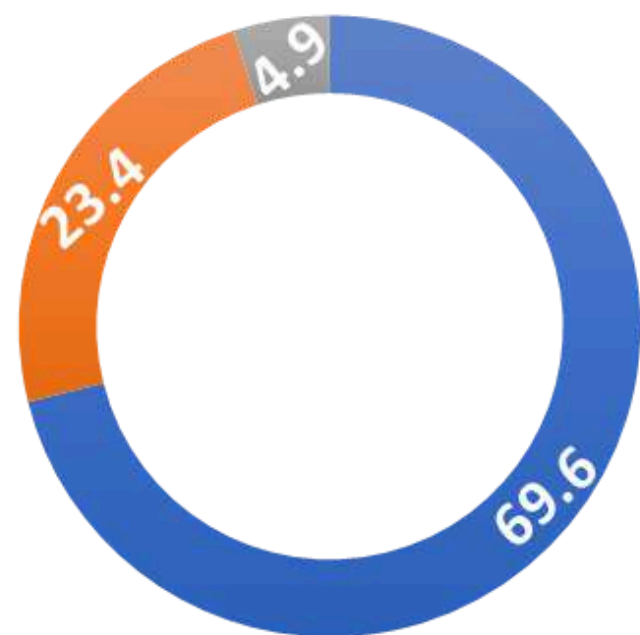
- BOI (2002), DBN (2014), BOA (1972), NEXIM (1991) and TIB (1992)
- CBN (Development Finance), SMEDAN (2003)
- International Development Institutions, e.g. World Bank, NGOs etc.

## Innovation and Tech-based

- Private Equity
- Crowdfunding
- Digital Assets/ICOs, P2P, B2B lending
- Start-up Act, 2022



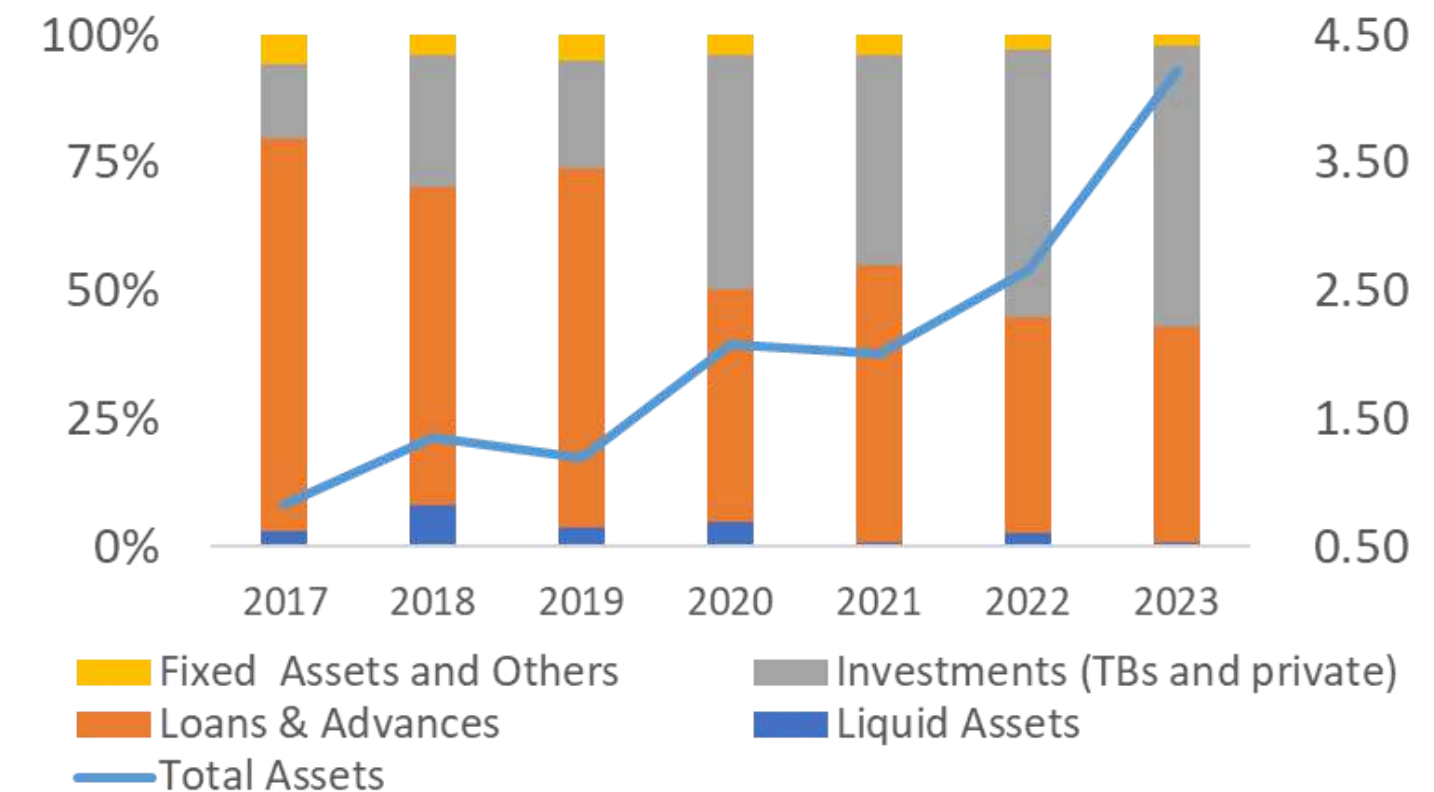
Source of Capital to SMEs  
Source: SMEDAN-NBS (2021)



Access to Finance by Banks (%)  
Source: SMEDAN-NBS (2021)



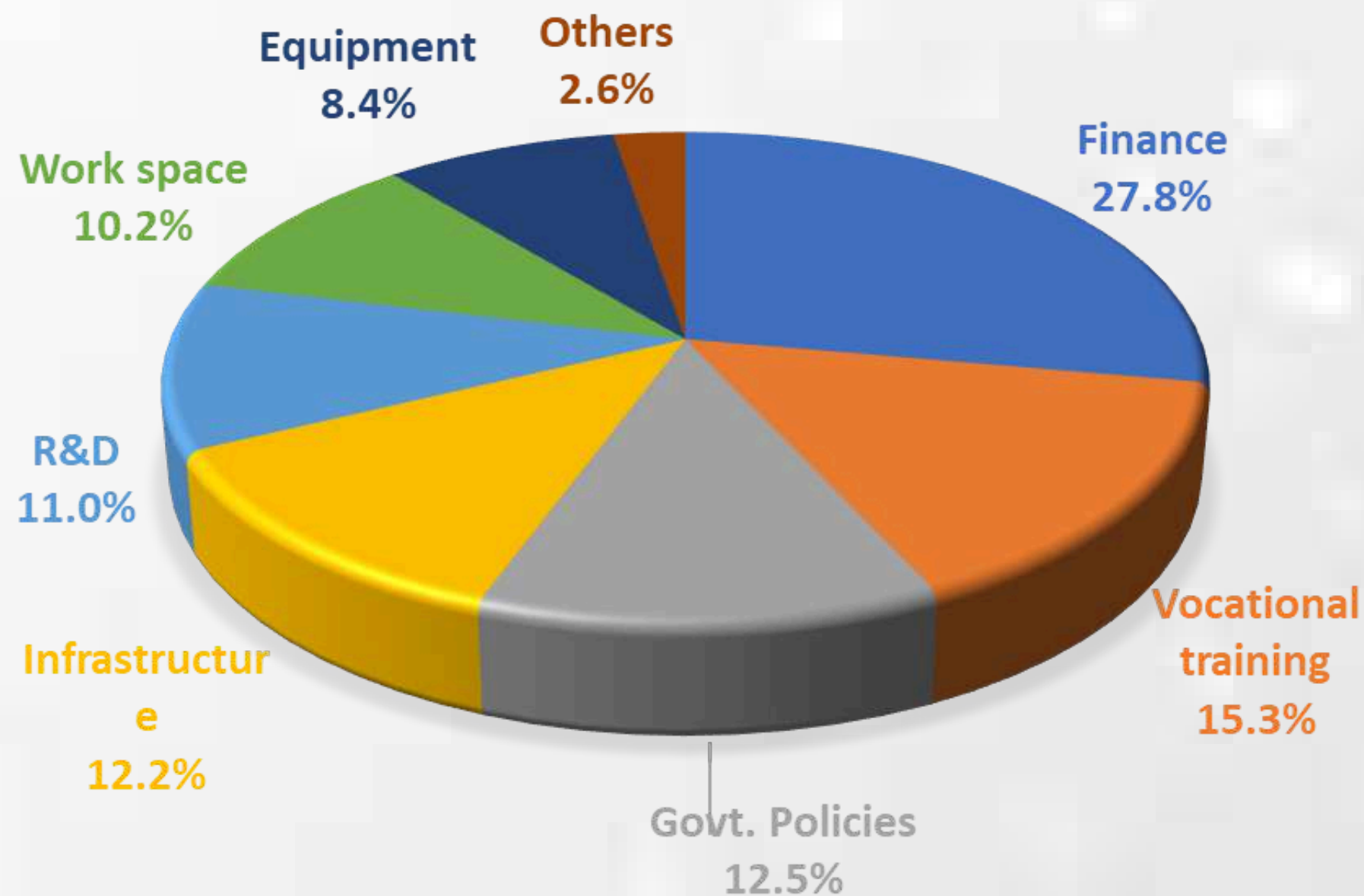
Share of Com. Banks Credits to Small Ent. (%)  
Source: CBN



DFIs (BOI, NEXIM, BOA, TIB) Balance Sheet (₦ Trn)  
Source: CBN

# Challenges of SMEs and Financing

- SMEs face a number of challenges, top among which are lack of finance **(27.8%)**, poor training **(15.3%)**, inconsistent government policies **(12.5%)** and inadequate infrastructure **(12.2%)**.



**Top Challenges of SMEs**

Source: SMEDAN-NBS (2021)

## The Development Finance Institutions also face their own challenges, including:

- Sourcing for capital
- Optimal allocation of funds to SMEs
- Managing customers' and other risks
- Balancing the often contradictory goals of development and commercial viability
- Gauging the impact of lending operations on the economy
- Dealing with the macroeconomic challenges of high inflation and interest rate environment
- Competition from alternative local and global funding sources with varying and distorted rates of return

# Way Forward

- 92.7% of Nigerian workers are in the informal sector
- Less than 2% of Nigerian businesses are SMEs,
- Micro enterprises account for over 90% of businesses and over 80% of employment

- 1**
- For maximum impact, target Micro enterprises through SMEs

- 2**
- Low SMEs access to credit is an opportunity for DFIs to expand

- Only 15% of SMEs access bank loans, majority use personal savings (59%) and families (17%)
- Of those with access to formal loan, only 4.9% access Development Finance
- On average banks allocate less than 1% of their credits to small scale enterprises

- The balance sheets of DFIs are getting larger
- But an increasing proportion is going into TBs and other financial investments as against SMEs loans
- The weak macroeconomic environment also poses a challenge

- 3**
- DFIs' shareholders' fund to be raised to focus more on SME development and less on profitability

- 4**
- Encourage a variety of funding options for SME growth

- Explore the regular financing more, especially banks and Growth boards of Exchanges
- Government special interventions can be channelled through DFIs
- Embrace innovation and tech-based solutions and sources

- Ensure a balance between goals of development and commercial viability
- Scientifically measure impact of DFIs lending on the economy
- Appropriately measure customers' default risks and see how to help reduce them

- 5**
- Improve DFIs impact and risk assessment skills

- 6**
- Remember that finance does not work in isolation

- Lack of finance, capacity and infrastructure are the major SMEs business, so more is needed in addition to finance
- Thus, build capacity, infrastructure and general business environment



# THANK YOU

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