MAKING MSMES BANKABLE – KEY TO INDUSTRIALIZATION, JOB CREATION, ECONOMIC GROWTH AND SUSTAINABLE DEVELOPMENT IN NIGERIA

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Abstract

In the last four decades or so various economic policy makers in the developing world have aggressively focused on the promotion of entrepreneurship as a strategy to deal with the challenges of growing unemployment and poverty. From Africa to Latin America and Asia, Micro, Small and Medium Enterprises (MSMEs), have become the pillars of growth in many economies. For instance, small businesses are believed to account for Taiwan's fast growing economy. However access to finance has become a major challenge to the micro, small and medium scale enterprises in Nigeria for obvious reasons. The small businesses lack the requirements often demanded by banks for credit extension. Majority of them do not keep records, neither do they have collateral acceptable to banks for accessing facilities from banks. Secondary sources of data will suffice for this study, such as text books, journals, newspaper, and internet documents. The research recommends that entrepreneurs must avoid preparing business plans without investigation, vague business opportunity that show no evidence of real demand, window dressing the business, overstatement of sales revenue and poor cash flow management among others in order to become bankable so as to be able to access bank facilities and contribute to economic growth and sustainable development.

***Keywords**: Bankable, Economic growth, Industrialization, Job Creation, and Sustainable development.*

Introduction;

Micro, Small and Medium Scale Enterprise (MSMEs) have become an indispensible catalyst for economic, social and even technological development. Their contribution in an economy has been given attention worldwide. MSMEs have contributed immensely to industrialization, wealth creation, employment generation, poverty reduction, production of primary and intermediate products and service for large enterprises. They also contribute immensely to foreign exchange earnings and export promotion, development and use of technology as well as the mobilization and utilisation of domestic savings.

The MSMEs are the bedrock of industrialisation and development of local entrepreneurship. They assist in output expansion and strengthening of industrial linkages. They provide all sorts of product ranging from, household products, industrial products, recreation and entertainment, healthcare, waste disposal, professional services and so forth. In Nigeria, the MSMEs dominate the Agricultural sector of the economy.

The flexibility in the management of MSMEs, enable them to respond swiftly to change than the larger ones. Despite their limitations, some MSMEs have become initiator of many technological innovations which usually brings enormous fortune to such firms, their owners and other investors within a few years.

Government also benefit tremendously from MSMEs through generation of revenue in form of taxes. As the MSMEs sector grows, less pressure will be on the government to provide employment, there is a greater likelihood of security being improved as many able bodied individuals will be engaged in productive activities. MSMEs established in rural areas reduce rural urban migration thus minimising excessive pressure on urban infrastructure.

Since the legal and capital requirements for establishing MSMEs are low, many individuals and families in both urban and rural communities can establish their own businesses, thus, MSMEs provide a good ground for skills development and the testing of new production techniques as well as new products.

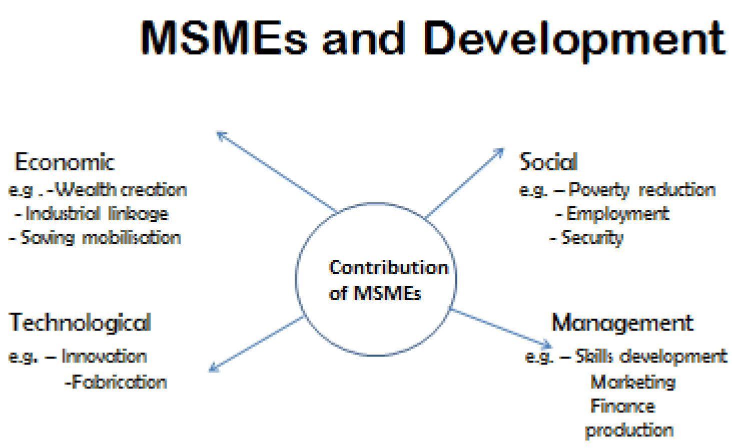
The industrial revolution that led to the rapid advancement of western countries started in micro 'cottage' and small scale enterprises. Similarly, momentous economic growth of emerging economises (e.g. China, India, Brazil, South Africa, etc) was largely due to the rapid growth and impact of MSMEs sectors.

Majority of large and established enterprises started as micro, small enterprises and grew into large ones over time. This was due to their strong strength of being very bankable. They have attracted funds from banks, investors, etc.

Despite all these benefits of MSMEs, majority of MSMEs in Nigeria are vulnerable due to many challenges such as inability to access fund and poor infrastructure. They are unable to attract external funds (e.g. Long term loans and equities) because their owners have difficulties in making their business bankable. Therefore, obtaining short term loans to smooth out cash flow remains a challenge if a business is not bankable. Bankers are discouraged once credit risk is high.

The objective of this paper is to provide an insight into the concept of MSMEs in Nigeria, what drives bankability (Fundability) and how to make MSMEs bankable .It deals with some of the core issues of MSMEs bankability. That is, factors that impacts their attractiveness to bankers, investors and even donors for Financial Support. This research is non-exhaustive; however it will form a basis for further studies by scholars and other interested parties in view of the long-term benefits of sustainable growth and development that will accrue there from.

Impact of MSMEs in Economic Growth & Sustainability Development



LITERATURE REVIEW

Operating a small scale business is not necessarily the same with entrepreneurship. Entrepreneurship is also found in large established organisations. However, unlike entrepreneurship, which is a subjective concept, the small business can be defined base on criteria such as (1) turnover; (2) number of employees; (3) profits; (4) capital employed; (5) available finance; (6) market share; (7) relative size within the industry and so on.

Many countries derive their own definition of the small business based on their roles in the economy and as a result of public policies or programmes designed by government and donor agencies mandated to develop small businesses. Therefore, what may be regarded as a small business in the developed economies of Western Europe, United State, Japan, etc, may be considered as medium or large in a developing economy like Nigeria. The definition also varies overtime from one agencies or development institutions to another depending on their policy focus.

Okafor (2000) explained that in highly developed economies such as the United Kingdom, Netherlands, Germany, United States, Canada, etc, a combination of turnover and number of employee's are criteria's adopted in defining the small enterprises. On the other hand, Japan adopted a size classification criterion that reflects paid up capital and employment level, but these also depend on the industry type. In Japan, a small scale business in the manufacturing sector is defined as one with paid up capital of 100 million Japanese yen or less and staff strength of '500' or less. In the commercial sector, this is limited to 300 million Japanese yen or less in paid up capital or staff strength of 100.

The 1985 Companies Act in the United Kingdom states that an enterprise with a turnover of less than $1.4 million is small, those between $1.4million and $5.75million are medium size and those over $5.75million are large. The same Act also states that firms that employed fewer than 50 workers are considered small, those that employed between 50 and 250 workers are medium size and those with over 250 workers are large.

Obviously, this definition can be misleading. For instance, inflation can make the turnover definition useless as some firms are labour intensive and so may be very big in terms of the number of people employed. Capital intensive firm may be large but with few employees. Using profit basis can also be misleading as both small and big can incur losses in a given period.

In South Africa, the MSMEs are grouped as Survivalist Enterprises, Micro Enterprises, very Small Enterprises, Small Enterprises and Medium Enterprises.

In Nigeria, asset base criterion is more popular. The Central Bank of Nigeria (2010) in its guidelines on 200 billion SME Credit Guarantee Scheme (SMECGS) defined Small and Medium Scale Enterprises as an enterprise that has asset based (excluding land) of between N5 million –N500 million and labour force between 11 and 300.

The National Policy on Micro Enterprises (MSMEs) developed by SMEDAN with support from UNDP in 2007 describes MSMEs as follows:

Micro enterprises

Micro enterprises are enterprises with less than 10 employees and total asset of not more than N5million excluding land and buildings. They are usually operated by sole proprietor with support from family members, business associates, apprentices and a few paid employees. They dominate the informal sector of the Nigerian economy and provide employment to large number of people in areas such as agriculture, furniture making, textiles, leather making, metal work, art and craft, printing, wholesale, and retail trade, transport, hotel and restaurants, repairs and maintenance of vehicles, electronic, building and so on. The levels of technology and skills as well as output value are relatively very low. They are sometimes referred to as cottage enterprises. Sourcing finance from the formal sector such as banks is still difficult for micro businesses. The advent of formal micro finance institutions has provided succour for this category of enterprise.

Small Scale Enterprises

These have between 10 to 49 employees and asset bases of 5 million naira and less than 50 million naira (excluding land and buildings.) The levels of technology and skills are relatively very high when compared with micro enterprises. Organisational and control system are well structured. A large number of small enterprises are incorporated companies or partnership firms. They have significant potentials to sole proprietorship or partnership. They also have significant potential to source funds from the formal sector such as deposit money banks, leasing institution and venture capitalist. This category of enterprises are also found in all sectors covered by Micro Enterprises including service sectors such as schools, hospitals, publishing organisations and professional firms for lawyers, accountants, architects, etc.

Medium Scale Enterprises

This category dominates the formal sector in Nigeria. Medium scale enterprises have between 50 to 199 staff and an asset base of 50 million naira and not less than 500 million naira excluding land and buildings. They are concentrated in key sectors such as manufacturing, information and communication technology, transportation, building and construction, multiple and departmental stores, etc. They have highly developed technology and resources. They have access to many sources of finance ranging from deposit money banks to development banks. They can also easily go to the capital market to source for additional capital such as equity and debenture.

As earlier mentioned, the attempt to define the small business using quantitative variables may be misleading and the use of number of employees has proven unsatisfactory in many respects. This is due to the fact that the size definition expressed in monetary terms such as turnover, asset value, profit, etc, will be raised frequently due to inflation. Also, some firms may be large in asset and turnover, but small in employment. For these reasons, a quantitative definition base on some major characteristics of small business is necessary. Therefore, a small enterprise might be defined as a firm actively managed by its proprietor in a personalized way, localized operation and with a relatively small market shares within an industry.

Table 1: Definition of MSMEs

In 1971, the Bolton Report in the United Kingdom considered that one definition of the small scale enterprise was inadequate and inappropriate. The report recommended three alternatives:

(i) **The Employee Basis**: this suggested the classification of small scale enterprises based on maximum number of employees, depending on the nature of capital intensity which varies from one industrial sector to another. Thus, a manufacturing venture with less than 200 employees was considered small, whereas the maximum for construction was 25 employees.

(ii) **The Turnover Basis**: The report considered a turnover of ₤50, 000 for small retail enterprises (which might be almost $1m today)

(iii) **The Characteristic Basis:** The Bolton Report gave the characteristics of a small enterprises as follows:

- Small market share
- Manage by its owners or part-owners in a personalized way.
- Operates independently

In 1996, the European Union (EU) gave its definitions of MSMEs as an enterprise employing less than 250 employees. These were further categorized into micro, small and medium enterprises as indicated below.

Number of Employees	Size of enterprise
0 < 10	Micro
10 < 50	Small
50 < 250	Medium

In Nigeria the national policy on MSMEs categorized enterprise as follows:

Size of the enterprise	**Number of employee**	**Assets (₦ million) excluding land & buildings**
Micro	1-10	Less than 5
Small	11-49	5 less than 50
Medium	50-199	50 less than 500
Large	200 and above	Above 500

THEORITICAL FRAME WORK

The term 'Bankable 'as used in this paper is a term used to describe a business ability and capacity to generate returns (profit or cash). With this, the business can pay off its debt as at when due and still provide returns for investors. This increases the attractiveness of the business to access fund. (Fundability)

Certain Major factor drives bankability. These are capacity and ability to tap realistic business opportunity; Innovation or value added capability; Entrepreneur personal character; management team expertise and capability; good demand, adequate cash flow, adequate record keeping, compliance with relevant regulatory requirements, collaterals.

These factors are explained as follows:

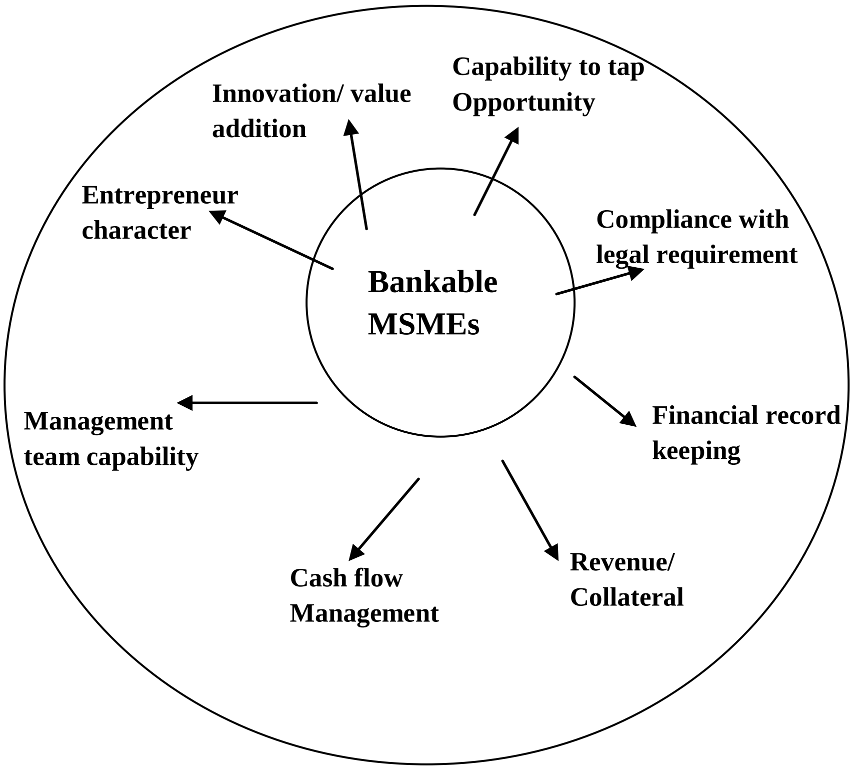
- **Innovation (Value Added Capability):** An innovation usually results to the introduction of a new idea, product or method with great value than the cost. This value addition gives competitive advantage over rivals. If this is sustained with added capability to add further value, the business becomes more bankable.
- **Capability of Tapping Business Opportunity:** Bankability is a function of the ability to tap an opportunity created through innovation (added value) or by some business environmental factors e.g. An embargo on import can trigger opportunity in the domestic market as market share expand. Innovation or discovering and satisfying latent demand can be a fantastic opportunity etc. However, the business capacity and ability to take advantage of such opportunity is what matters.
- **Entrepreneur Personal Character and Capability:** An indication of the Entrepreneur credit worthiness and willingness to repay loans is an evidence of the ability to run the business profitably. Resilience and persistence in the face of obstacle and having good relationship with bankers and investors inspire confidence. These are excellent entrepreneur quality that can impact on bankability.
- **Management Team Expertise and Commitment:** The management team which also includes the entrepreneur should have a wide range of skills and experience in finance, production, marketing etc. A stable and committed workforce is an indication that business is being run successfully and profitably. However, excessive remuneration and fringe benefit for those in the top will make financier to raise questions.
- **Compliance with Legal Requirements:** Compliance with the necessary regulatory requirement gives bankers confidence that the entrepreneur is ready for business. Up to date registration with relevant government agencies and submission relevant returns (e.g. annual returns, tax returns) impact strongly on bankable.
- **Maintenance of Adequate Financial Records:** Record keeping is an indication that the business is operating in an orderly and transparent manner. It activities can easily be monitored. Banks also look historical data such as Profit and Loss Account/ Balance Sheet and Tax Returns. This indicates transparency and accountability.
- **Revenue/ Collateral:** A demonstration of an ability to pay from revenue instead of collateral enhances bankability. Collateral is a term used when bankers have access to an

Asset that the business or entrepreneur is willing to cede in case of non-payment or a guarantee by a respected person to repay the loan in default. (Churchill and Frankie wick 2006). Having collateral enhances bankability. However, many SMEs operation don't have collateral.

- **Cash Flow Management:** Good credit and cash management will increase net cash flow. This is a proof of liquidity indicating that business can pay its debt.

Figure 1: Key Drivers of Bankability

In a nutshell the key to becoming bankable that MSMEs must pursue can be demonstrated as follows:



Making MSMEs Bankable in Nigeria

a. **Conduct a Feasibility and Viability Assessment:**

Once an opportunity and a project idea is developed, it is good to conduct a feasibility and viability study. A feasibility or viability assessment is a fundamental step towards the preparation of a bankable Business Plan. The Feasibility assessment establishes the practicality or possibility of the proposed venture. It assess whether a project can be done given the prevailing physical, technological, economical, legal, social, etc environment or circumstances. A viability assessment considers the worthiness of the venture in generating satisfactory benefits that will significantly exceed the cost of resources invested. These provide empirical evidence on viability of the venture.

b. Prepare a Bankable Business Plan:

The Business Plan is a valuable document for all stake holders in the entrepreneurial process-The entrepreneurs and management team, potential investors, banks, donors, etc. A bankable Business Plan is professionally prepared to meet the needs of financiers or investors – bankers, venture capital, etc. Therefore, the entrepreneur should be able to see his/ her project or venture through the eyes of a banker and investors. They want to see strategies that will help the entrepreneur achieve his or her goals and eliminate risks associated with losing their money. A Bankable Plan should describe clearly the basic business idea, opportunities, objectives and strategies. The plan must be realistic and attainable. This will minimize uncertainty. It should also provide detail information to address the concerns of bankers and investors, such as risk and return on investment, repayment of borrowed fund and interest, management capability and dedication, knowledge of the market and customers' needs competitors' activities etc. It's also address cost and benefit of the venture.

c. Prepare Operating Budget with Emphasis on Cash Flow:

Budget for sales, production operating expenses, income statement and cash budget should be prepared elaborately. These give projection of profitability and cash flow over the period of the plan. This will be used to track net cash flows. Banks are highly interested in positive cash flow. This is an indication of liquidity and business capability to repay loan.

d. **Communicate the Business Plan Properly:**

Once the business plan is drafted, the entrepreneur must effectively communicate it to his or her banker or potential investors. Languages use to describe the venture no matter the level of technology, should be simple, concise and understandable. The basic business idea, production, marketing and financial strategies supported models must be articulated clearly. No matter how good the plan is, if it is poorly communicated, it impact negatively on bankability.

e. **Secure a Route to Market:**

The entrepreneur should have research into how he or she intends to access the customer's base. That is, secure his or her route to the market. Select appropriate channels of distribution and promotion method to improve market share and increase sales. Any sign to show that the marketing and sales capability of the venture has been improved upon will enhance the bankability of the business.

f. **Demonstrate Management Competence:**

A demonstration of the level of management knowledge, skills, experience and commitment will enhance bankers and investors confidence in the business enterprise. Bankers and investors look for dedicated management. Therefore, entrepreneur and management team strongly expresses their expertise as well as passion and dedication for the business. Investors invest in management – not just ideas.

g. **Personal Funding (Own Capital**):

If the entrepreneur can significantly invest his or her own money in the business, financier will be convinced that he or she will be committed to the business sustenance. To fund project, many banks usually ask for a significant contribution (equity) of up to 30 per cent from the entrepreneur. The demonstration of significant personal investment, enhance bankability.

h. **Legal Status/ Registration:**

i. Many micro and small businesses in Nigeria are not registered with Corporate Affairs Commission. This is an obstacle in accessing fund from Micro Finance Bank. A key requirement of opening an account in the bank is the presentation of business name registration or certificate of incorporation. Compliance with other legal requirement such as filing of annual return, filing of tax return, product registration (e.g. with NAFDAC) obtaining a patent or copyright, license will enhance the bankability of the business.

j. **Accounting Record/Financial Reporting:**

Keeping proper accounting records and preparation of financial reports is sign of seriousness in managing a business. Incomplete financial information can frustrate a banker or investor in making decisions. A poor accounting procedure may hamper the ability of the management to produce credible financial report. This also gives impression that something is being hidden. Once a banker discovered that the financial statement is not revealing enough information, fund will not be given until there is a cleanup, the loan will not be granted. It is important not that personal and business finance should be kept separately.

k. **Develop a Good Credit History:**

This happens when the entrepreneur maintains a good track record of credit worthiness. He or she can start small and gradually build a sound relationship with the banker by been credit worthy. First, a line of credit can be open for a reasonable amount and paid back within the agreed period, obtain another, use it, and pay off. This gives enough proof to the bank that the entrepreneur knows how to manage credit relationship. The bank will be willing to give higher line of credit.

l. **Maintain Honest and Transparent Relationship with your Banker:**

This will enable the entrepreneur to understand the way his or her banker thinks and the relationship will be more open and cordial. If there is a demonstration of honesty Banker can assist in giving valuable advice. A personal banker can spend all time to counsel you without given you a bill like other professional service providers (accountant or lawyer).

Qualities of a Successful Entrepreneur;

According to Adebayo, 2011 there are five most important qualities that drives successful entrepreneur which the young entrepreneurs must imbibe if they must become bankable and attained financial inclusion. These include:

a. Integrity: Right is right even no one is doing it, and wrong is wrong even if everyone is doing it. Integrity guarantees success in business ventures.
b. Self-Discipline: To become a successful entrepreneur, requires a high level of discipline. The entrepreneur must be disciplined in spending money so that you do not eat up your profit before it is earned. Times is also important, discipline must apply in time management.
c. People Skill: It is important to learn how to relate well with people, customer as well as staff, customer is the life wire of any business. The customer does the business a favor when he patronizes the business and not the other way round. For well-motivated staff, input of extra hour for success to emerge may not be an issue.
d. Strong Work Ethics: There is no short-cut for hard work, especially when the business is a new start-up.
e. Sales Ability: The entrepreneur must have the ability to convince others to make conscious buying decision which is the key in becoming a successful entrepreneur.

Conclusion:

Despite the numerous obstacles of sustaining and growing MSMEs in Nigeria a large number of MSMEs are being established every year. Running a business in such a challenging environment requires a wise usage of opportunities and resources the entrepreneur can access to support and expand his/her venture. One of the great opportunities that can be tapped is accessing the many different fund made available to support MSMEs in micro finance banks, commercial banks and development financial institutions. However, so many MSMEs are not bankable because of lack of understanding of bankers and investors requirements. To be bankable, the entrepreneur must tailor their business plans with the banker and investors in mind. A good knowledge of these requirements will produce a winning plan. Entrepreneurs are also expected to communicate their objectives and strategies effectively, build a good management team, comply with legal requirements, produce credible financial statement, and maintain a good history of credit worthiness and so no.

If these are properly done, MSME can attract not just credit from banks but significant equity investment.

Therefore every stakeholder in MSME development – micro finance institutions, commercial banks, development finance institutions, NGOs and professional adviser such as accountants, management consultants, lawyers, etc should be involve in making MSMEs to become bankable.

Recommendations:

In putting effort to build a bankable business, new and young entrepreneurs must avoid the following common mistakes:

- Preparing a business plan without adequate investigation.
- Presenting complex business plan. This can create communication barrier
- Vague business opportunity that show no evidence of real demand.
- Incredible financial projection or developing projections that is inconsistent with other aspect of the plan.
- Concentrate all effort on the development of product instead of other important elements such as how to access customer base.
- Overestimation of sales revenue and poor cash flow management.
- Attempt to clean up the business only when there is opportunity for loan.
- Window dressing the business.
- Diversion of loans to other purposes
- Relying on collateral instead of the business capacity to generate revenue and pay off loans.
- Having a poor credit rating
- Combining business cost with personal expenses
- Having little or no experience and competence in the area of business
- Doing business in a sector with high failure rate
- Excessive remuneration and fringe benefits for entrepreneur and top management

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