



# DEVELOPMENT FINANCE FOR SME GROWTH

Experiences, Challenges and Way Forward

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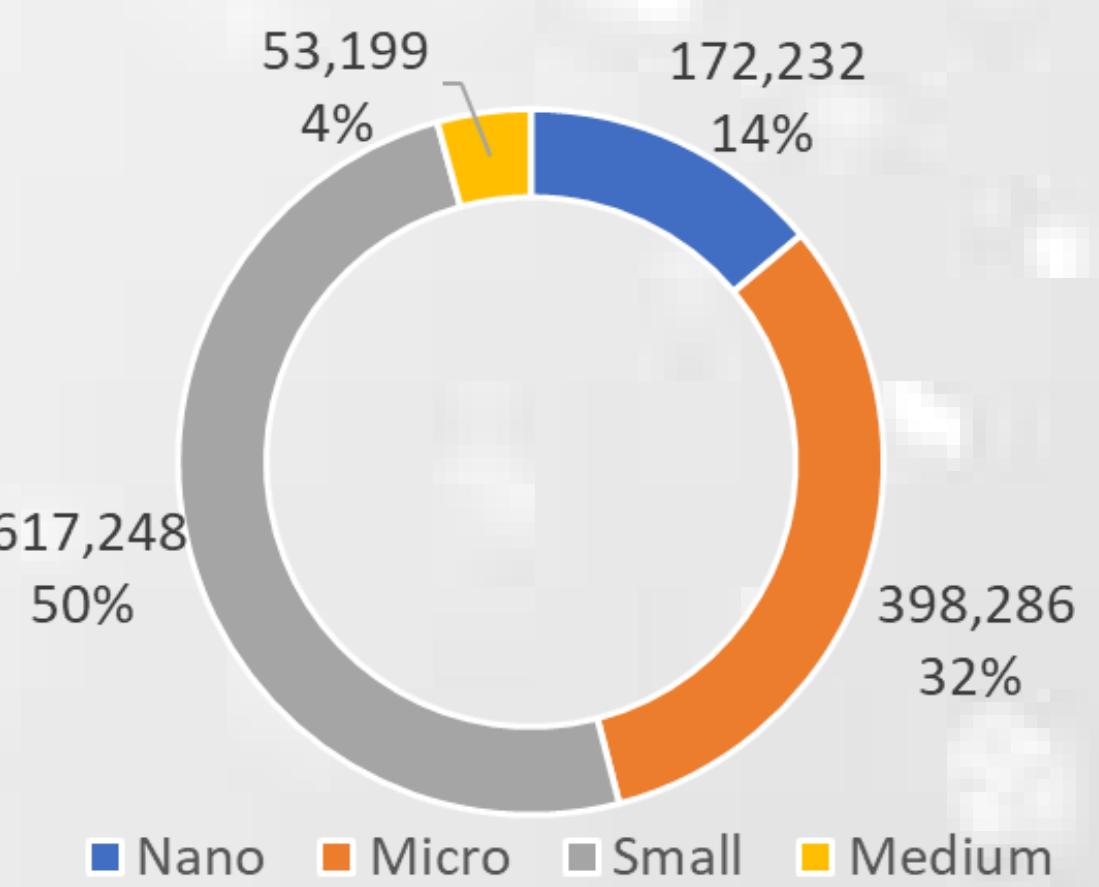
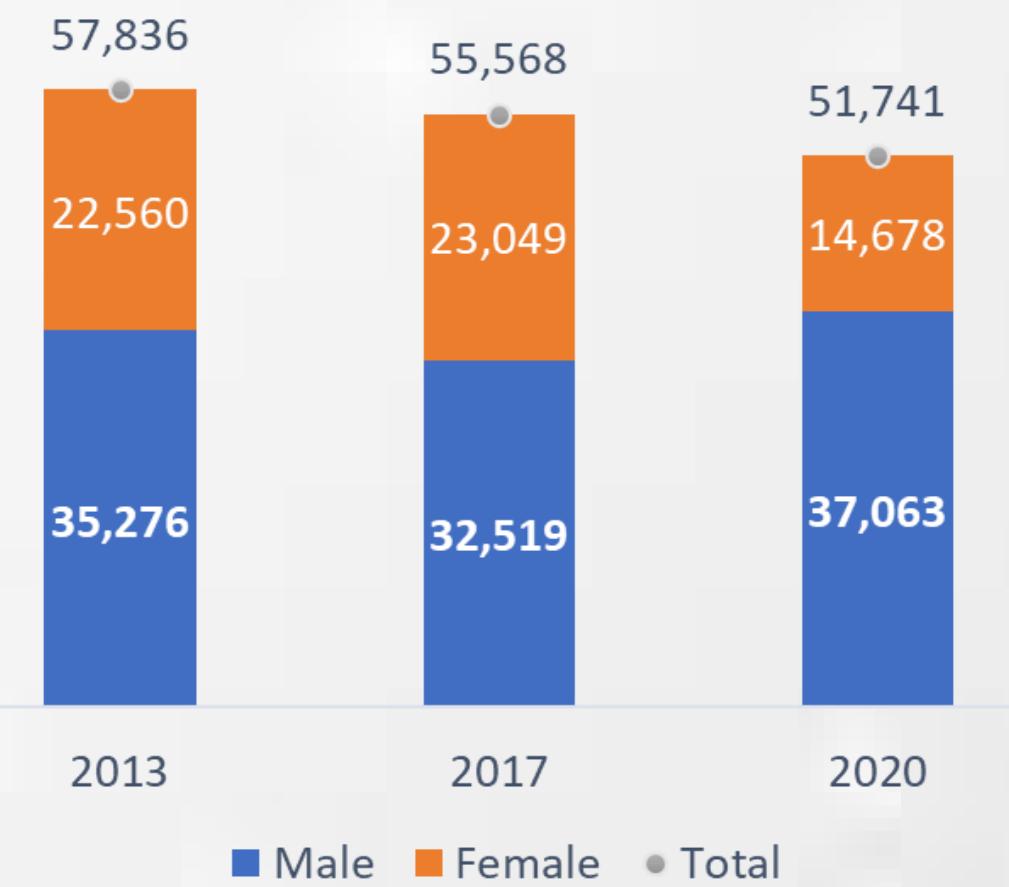
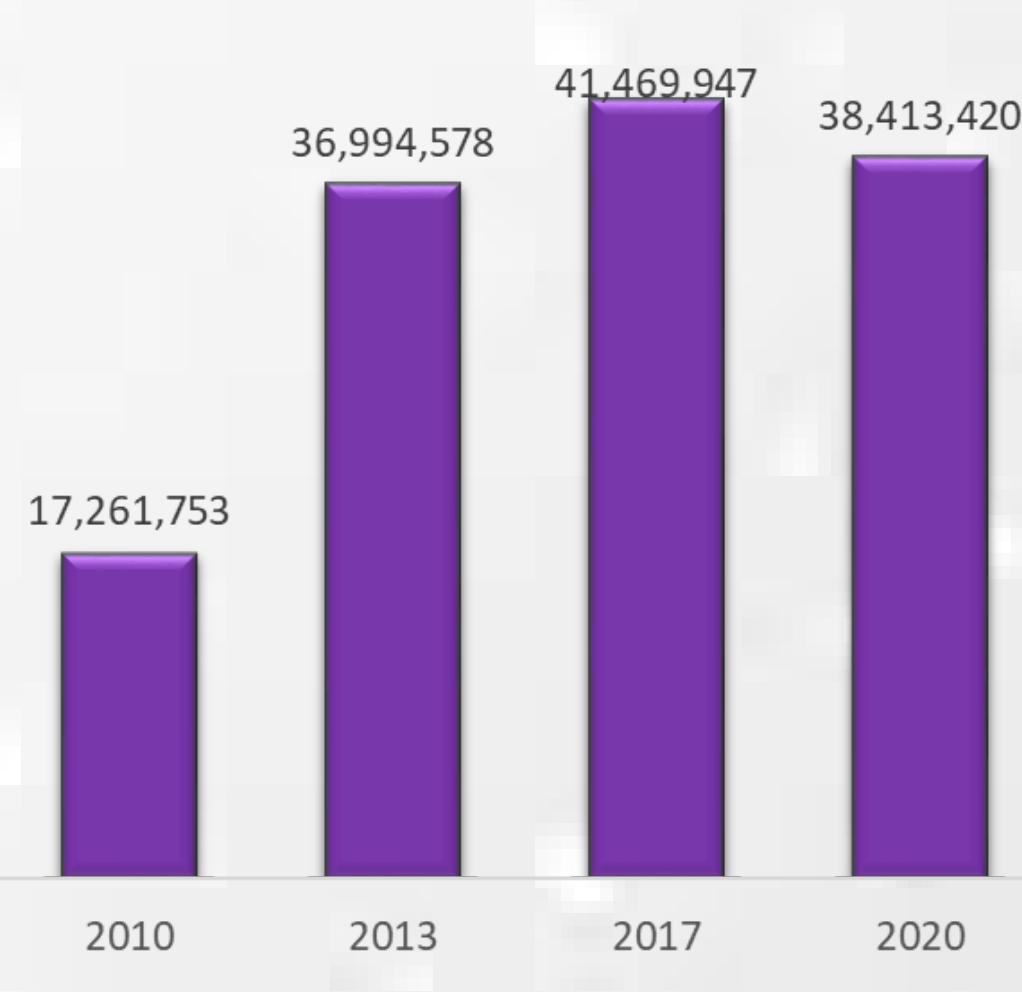
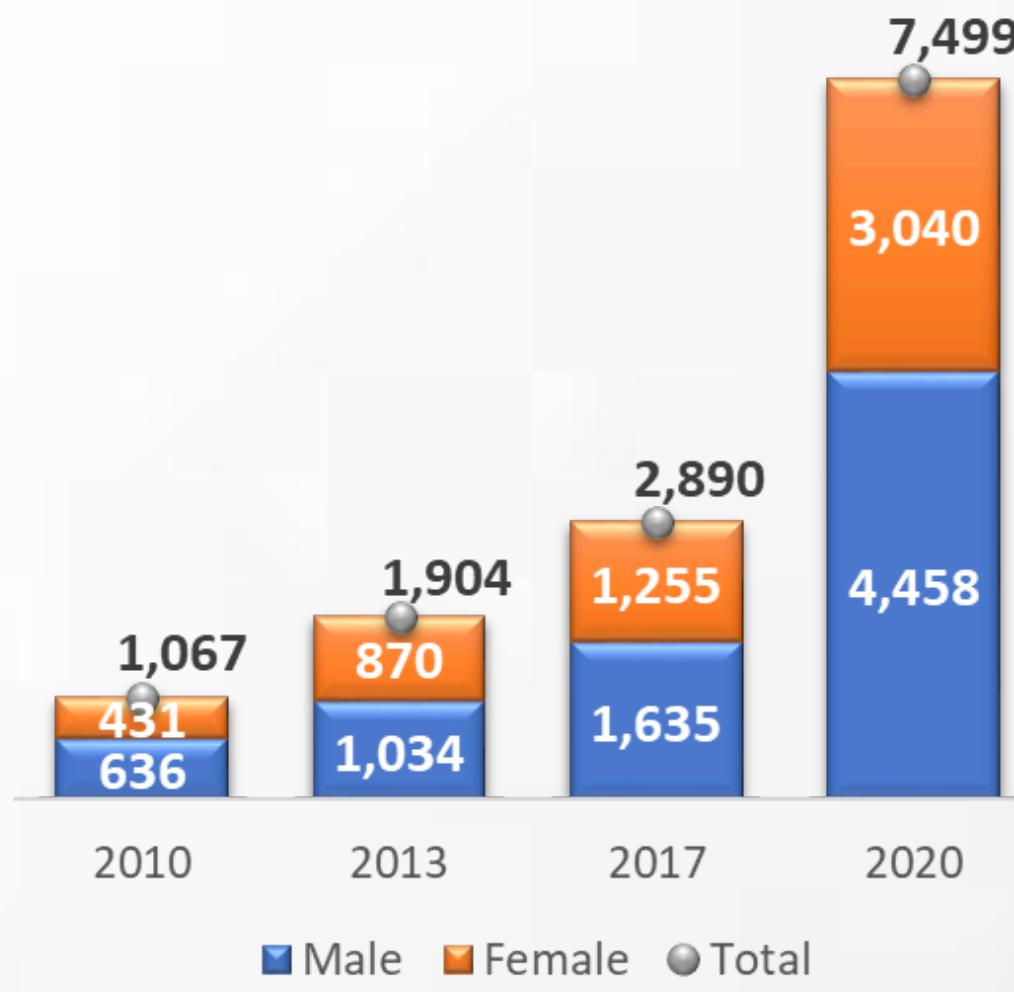
# Outline

**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.

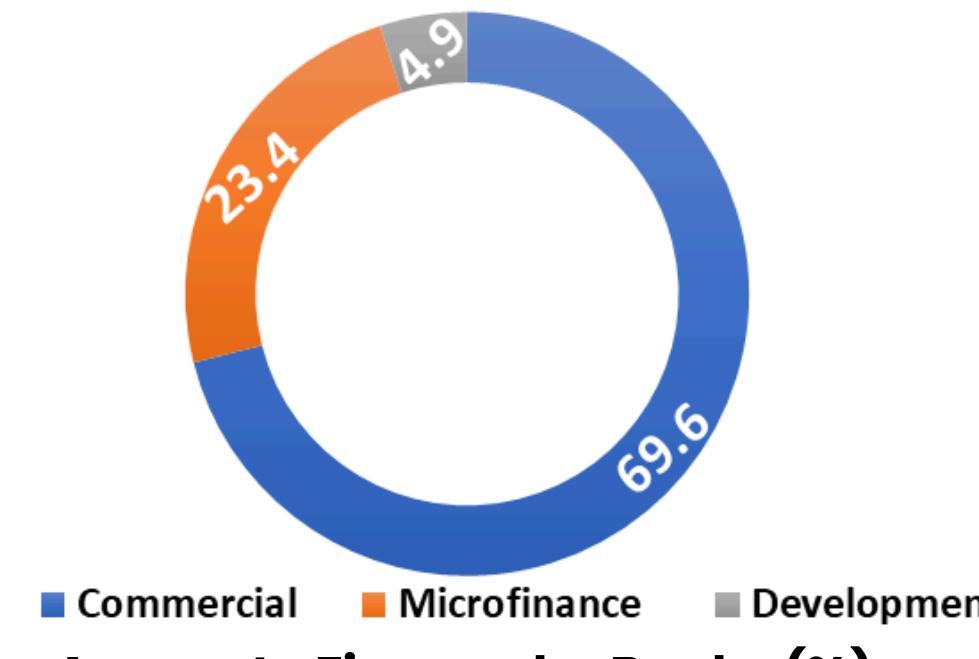
# Financing Opportunities for SMEs

## Regular

- Own/Family/Friends
- Commercial Banks
  - Stock market (Growth Board, ASeM)

## special Interventions

- YouWin, N-Power
- Tax exemption of 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

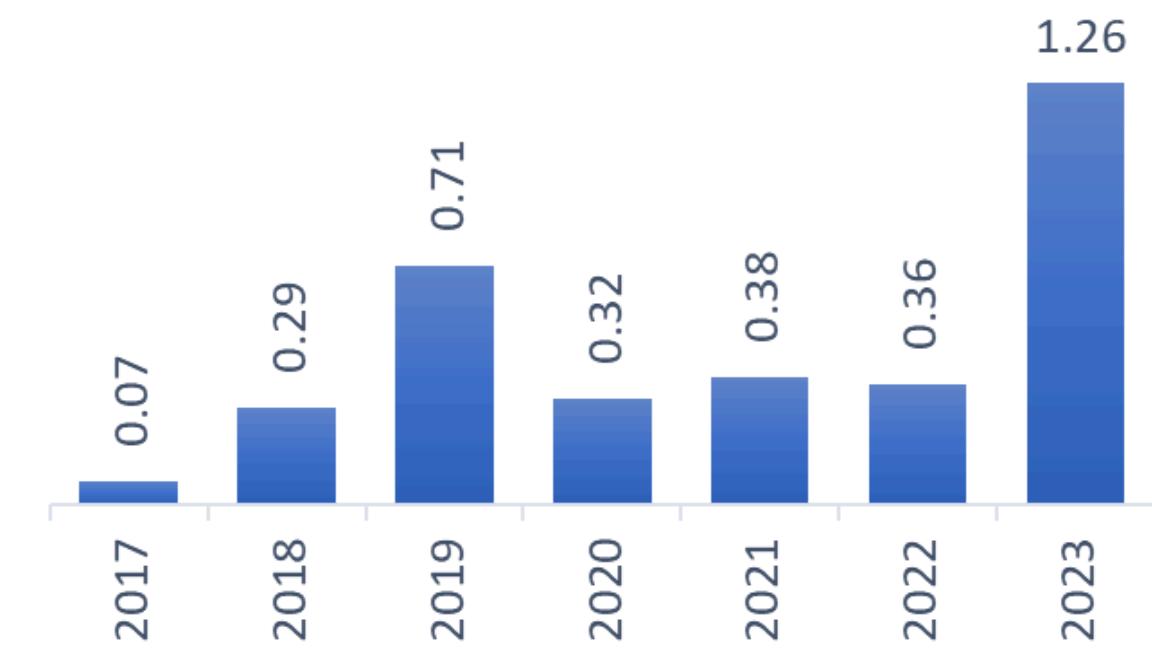


## Development Finance

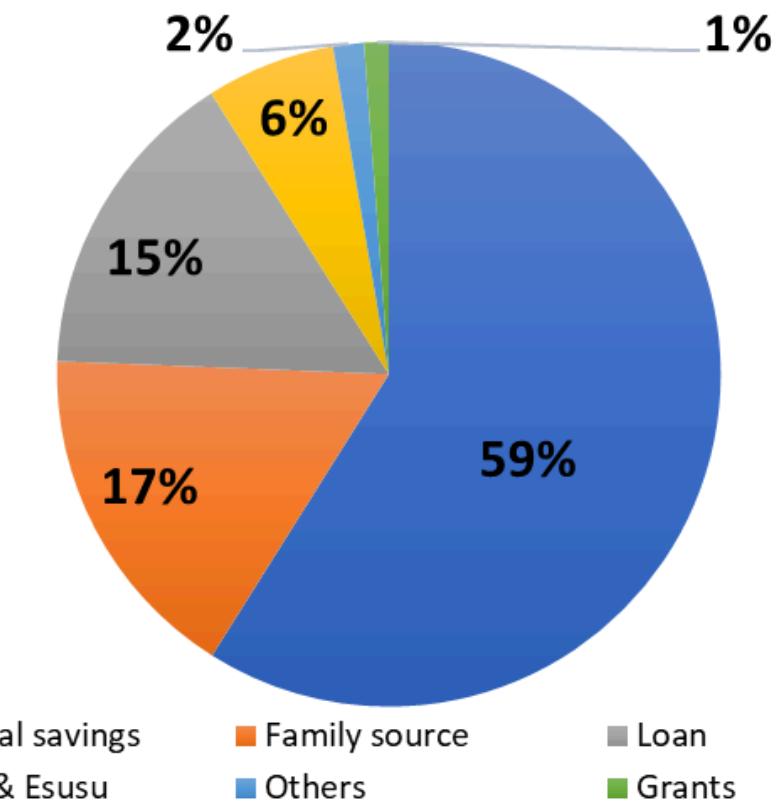
- BOI (2002), DBN (2014), BOA (1972), NEXIM (1991) and TIB (1992)
- CBN (Development Finance), SMEDAN (2003)
- International Development Institutions, e.g. World Bank, NGOs etc.

## Innovation and Tech-based

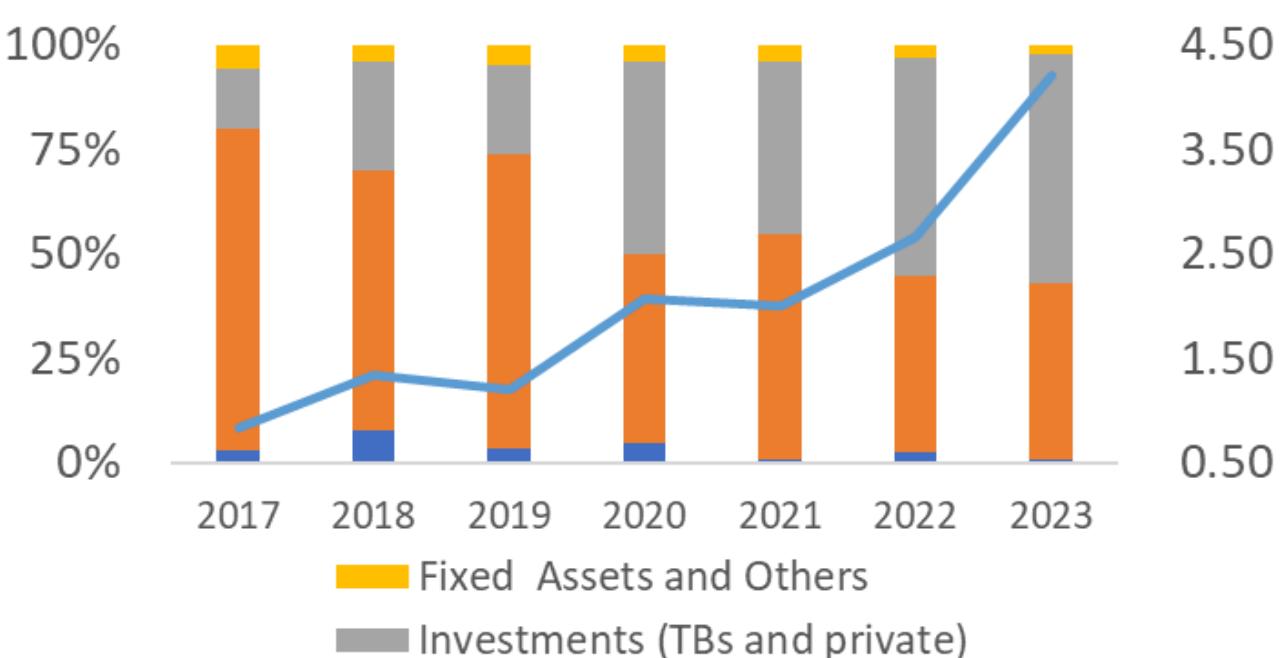
- Private Equity
- Crowdfunding
- Digital Assets/ICOs, P2P, B2B lending
- Start-up Act, 2022



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



Source of Capital to SMEs

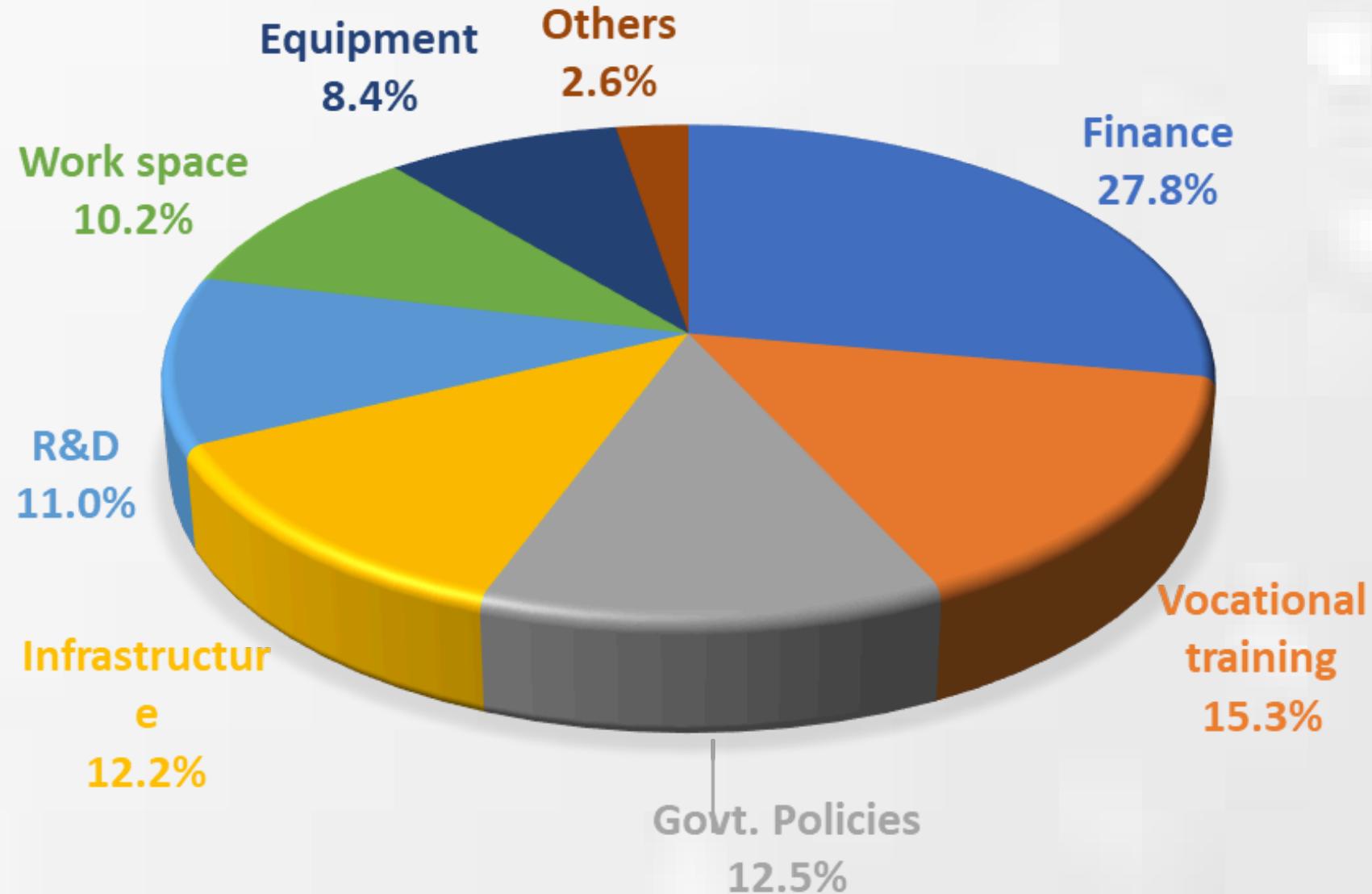


Access to Finance by Banks (%)

DFIs (BOI, NEXIM, BOA, TIB) Balance Sheet (#' Trn)

# Financing Opportunities for SMEs

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



**Top Challenges of SMEs**

The Development Finance Institutions also face their own challenges

- 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 employment

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

- Balance the 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

- For maximum impact, target Micro enterprises through SMEs

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

- Encourage a variety of funding options for SME growth

- Improve DFIs impact and risk assessment skills

- Remember, finance does not work in isolation

- 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

- 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

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



# THANK YOU

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