

SMEs: OPTION FOR CAPITAL MARKET FUNDING

The Nigerian Stock Exchange (NSE) a few years back embarked on initiatives to woo and bring on board companies that by their status fall into the category of Small and Medium Enterprises (SMEs), but who by certain criteria fall short of requirements for listing on the Main Board of the NSE. The move gave rise to the then Second Tier Securities Market (STSM) of the Exchange. The objective was to create a window in the capital market via the stock exchange by which these companies listed in this special market segment could have access to cheap equity funding. It was also aimed at broadening the market offerings.

This initiative clearly underscored the Exchange's appreciation of the SMEs as occupying very strategic positions in the development and growth of any economy, particularly those that are still at the developing stages. It also believes that the full harness of this very essential productive sector has strong and positive impact for GDP growth, employment generation, diversification of revenue base, poverty eradication; and particularly for the Exchange, giving depth and breadth to the market.

This effort has been followed by the current administration of the NSE with the launch of the Alternatives Securities Market (ASEM). The objective remains the same except for change of name and perhaps clearer definition of qualifying criteria for listing. Also, as in the STSM, the bait for the SMEs to list on the ASEM has been easy and cheap access to equity funding.

LISTING OF SMEs, THE BENEFIT SO FAR

While the companies listed on the ASEM may not have had the easy way to the cheap funding as expected, being on that platform gives them enhanced status to attract investment. The point here is that by being listed, these firms would have satisfied critical conditions that would put them on a market pedestal that is acceptable to investors. The Exchange would have guided them in putting in place the appropriate corporate governance structure, adopting and implementing the acceptable accounting standards, efficient operating structure, as well as receiving advice on the right technology implementation.

NSE's FUNDING OPTION FOR THE SMEs

Key issues that confront the SMEs are lack of funding, difficult business environment, shortage of appropriate managerial skills and lack of access to modern technology. It may be contended that some the SMEs that got listed on the ASEM are disillusioned as they are unable to have access to the funding they require to boost their businesses. While they may not have control of the business environment, with the right funding the challenges of managerial skills and technology can be addressed. The NSE will do well to create the platform or window which the companies can have funding leverage for enhanced operations. The Exchange can creatively open a specialized funding window for the SMEs that are listed on the ASEM. This can be implemented in collaboration with the Bank of Industry (BOI). In other words, the Exchange can go into partnership with BOI to launch a special fund (NSE/BOI ASEM FUND) that will be solely accessible to the companies on ASEM. The details, structure, and features of the fund can be agreed upon based on mutually beneficial interests of the two institutions.

ADVANTAGES OF THE NSE/BOI ASEM FUND

The Fund will be a win-win for all the parties. For the NSE, the Fund will have the potential of attracting other SMEs to

MARKET UPDATE

	15/01/13	15/12/13	28/08/14
Naira/US\$	157.65	159.94	162.10
Brent,US\$/BBL	109.78	107.84	102.60
COCOA, US\$	1487.82	2685.47	3215.33
MPR%	12.00	12.00	12.00
INFLATION RATE %	10.3	7.9	8.3
MORTGAGE RATE %	22.0	23.0	23.0

STOCKS CONSTITUTING GMA INDEX

STOCKS	31/12/13 Price (N)	28/08/14 Price (N)	%Change in Price
OANDO	24.25	26.15	-7.84
GTBANK	27.02	29.87	10.55
OKOMU	44.00	34.49	-21.61
STANBIC	21.35	30.00	40.52
DANGSUGAR	11.70	8.63	-26.24
FIDSON	2.79	3.33	19.35
TRANSCORP	4.35	6.00	37.93
CCNN	11.75	14.40	22.55

	PRICE(N)	NAV (N)
	31/01/14	28/08/14
UHOREIT	50.00	50.00
UPDCREIT	10.00	10.00

Index	31/12/13	28/08/14	% Change
NSE ASI	41,329.19	41,359.89	0.07
GMA Index	1.50	1.70	13.31

Source: CBN, SEC and NSE

seek listing on the Exchange thereby achieving their objective of increasing market participation. For BOI, it provides a ready outlet for their available funds to the SMEs which are already pre-qualified by virtue of the listing status of the companies on ASEM. The ASEM companies on the other hand will have access to cheap alternative funding at single digit with option for equity conversion.

CLASSIFICATION OF SMEs

There is no clear cut definition for the classification of SMEs as every jurisdiction defines it based on what constitutes critical factors within that context and environment. However, in Nigeria the criteria for the classifying SMEs is wove around total assets, turnover, and number of employees. Under the Small and Medium Enterprises Credit Guarantee Scheme

(SMECGS), and SME is an enterprise that has an asset base (excluding land) of between N5 million to N500 million and labour force of between 11 and 300. For the Small and Medium Enterprises Equity Investment Scheme

(SMEEIS), SMEs have been broadly defined as businesses with turnover of less than N100million. It is also defined as any enterprise with a maximum asset base of N1.5 billion (excluding land and working capital) with no lower or upper limit of staff.

Whatever the classification, SMEs have been known to possess great potential for improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large scale industries. Unfortunately, the sector has not been able to deliver on the above benefits as there are strong indications for gross underperformance of the SMEs in terms the expected contribution to the nation's economic growth and development. The SMEs represent about 90% of manufacturing/industrial sector in terms of number of enterprises in Nigeria, but sadly, their contribution to GDP translates to an insignificant 1%.

CHALLENGES OF SMEs

As earlier indicated, inadequate funding, unfriendly business environment, low managerial skills, and lack of access to modern technology are some of the challenges facing the SMEs. Above others, financing of SMEs in Nigeria is very critical if they are to perform the growth and developmental role in the nation's economy. Proper financing of SMEs in is an essential tool for promoting and leveraging small and medium enterprises development in Nigeria. It has been shown that finance contributes about 25% to the success of SMEs. About 39% of small scale firms and 37% of medium scale firms in Nigeria are financially constrained. The implication is that they are forced to close shop because they are unable to access the required funds.

Overtime the commercial banks' advances to SMEs have been on the decline. Loans from Commercial banks to SMEs as a percentage of total credits decreased from 48.79% in 1992 to 0.15% in 2010. Similarly, merchant banks loans to SMEs as a percentage of total credits reduced from 31.2% in 1992 to 9.0% in 2010.

GOVERNMENT INTERVENTION

Many credit institutions have been established over the years by the government and its agencies. The objectives of these credit institutions have always been to improve access to finance by SMEs. Some of these institutions are the Nigerian Bank for Commerce and Industry (NBCI), Bank of Industry (BOI) an offshoot of the merger of National Economic Reconstruction Fund (NERFUND) and the Nigeria Industrial Development Bank (NIDB), the Peoples bank of Nigeria (PBN), the community banks (CB) now microfinance banks, Nigerian Export and Import Bank (NEXIM), and the Nigerian Agricultural Credit Guarantee Scheme. Others are the Small and Medium Equity Investment Scheme (SMEEIS) which was actually a voluntary initiative in 1999 by the bankers' committee through CBNS' moral suasion, to assist in providing finance to the small enterprises, and the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS).

Activities to be covered under the scheme include manufacturing, agricultural value chain, educational institutions, any other activity as may be specified by CBN, the managing agent (CBN); while the credit facilities will essentially be for long term loan for acquisition of plants and machinery, refinancing of existing loans, resuscitation of ailing industries, refinancing of existing lease, and working capital.

CONCLUSION

The SMEs are critical economic drivers. The effort of the NSE to bring them in on the stock market platform is quite strategic with its impact of positively growing the market. However, this effort must further be made more effective by creating a platform by which cheap funding can be made available to the companies listed on the ASEM. This development will naturally attract other SMEs to seek listing on the Exchange. It is therefore imperative the NSE explores the window of specialized Fund to boost the delivery of the market.

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