

BECKLEY MSME NEWSLETTER

Welcome to our First edition

IN THIS EDITION:

The focus of this edition is on available sources of funds for Micro, Small and Medium Enterprises (MSMEs) in Nigeria. Funding is always a critical issue to the survival of any business enterprise. Small businesses are not springing up in good number largely because of lack of funds, and many existing businesses are closing down for the same reason. The commercial banks say they have money but no viable businesses to lend to; entrepreneurs say they need money to start or grow their businesses but cannot access money from banks.

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We welcome you to the first edition of **BECKLEY MSME Newsletter**. The newsletter will be published monthly.

In the late 1990s, my wife and I set up a school chalk making business with the intention of growing it to manufacture other educational materials eventually. We attended a few training sessions which we considered relevant and adequate. We registered the business as a limited liability company and opened a separate bank account for the company.

The first year was very good as the company made a turnover of about N2m. By the end of the second year, production had become a problem as we were unable to meet up with the demand for our product. We decided to expand and relocate to a bigger production site.

In the 3rd year, several issues came up and the company suffered serious set-back. We made frantic efforts to bring the company back on its footing, but it did not work. We had no choice but to close down the business.

And that was how the company became part of the statistics of over 80% of small businesses that fail within the first five years of operation. Many businesses have suffered the same fate as our chalk business

Various surveys have identified the inherent challenges of small businesses to include access to finance, poor infrastructure, access to market, inconsistency in government policies and multiple taxation. No doubt, financing is one of the most intimidating and challenging parts of the start-up process, but there are other challenges within the control of the business owner in terms of adequate preparation and the expertise required to manage a business successfully.

We did not close down our school chalk business because of finance or any of the above challenges, though they remain critical to the survival of small businesses. We believe that enough attention is usually not paid to factors of managerial discipline and integrity of the small business owner to manage the business in a way that is acceptable to willing investors and providers of funds.

What is the way forward? Every stakeholder has a role to play – government, banks, and small business owners.

This newsletter is meant to address various issues that militate against the success of small businesses from all angles, and provide a platform for information sharing on how to move MSME to the next level in Nigeria. Topical MSME news and opportunities will also be accommodated in the newsletter.

Until next month. – J.O.E Ogbimi 



Quote of the Month:

"The critical ingredient is getting off your butt and doing something. It's as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today. The true entrepreneur is a doer, not a dreamer." – *Nolan Bushnell*

START-UP BUSINESS

Financing Start-Up Businesses

In 2013, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics carried out a detailed survey of Micro, Small and Medium Enterprises (MSME) in Nigeria. The report of the survey shows that we have a total of 37,067,416 MSMEs (Micro - 36,994,578; Small - 68, 168; and Medium - 4,670). Most of the government interventions for the MSME sector tend to exclude the micro and start-up businesses. The chances of micro businesses, which account for about 99% of MSMEs, to access funds from the banks or government intervention initiatives are very slim if not impossible.

Micro-Finance Banks which are designed to support micro businesses have their challenges and shortcomings. They cannot access funds for small businesses from commercial banks or even the Central Bank of Nigeria without one form of collateral or the other. They are expected to meet some conditions for disbursement and also guarantee repayment by the borrowers. The Commercial and Micro-finance banks are in business to make money, and cannot really be expected to give out loans to small businesses if they are not sure of repayment.

Where small businesses are able to access funds from micro-finance banks, the monthly interest rate is very high and usually with inadequate or no period of moratorium. Interest rate can be as high as 5% per month. Many businesses cannot pay this high interest and the principal and still remain profitable. Consequently, we have owners of micro businesses living from hand to mouth every month, choked by the burden of debt, including interest, payable to micro-finance banks.

Government needs to provide intervention funds that are truly meant for micro- and start-up businesses. All stakeholders should be involved to work out conditions, which borrowers can identify with, that will ensure loan repayment when due.

Tony Elumelu Foundation Grant for Start-Up Businesses

Tony Elumelu Foundation's Entrepreneurship Programme gives out \$5,000 every year to 1,000 carefully selected start up entrepreneurs all over



Africa as grant, and subsequently another \$5,000 each as loan. The programme was launched last year and the first set of 1,000 beneficiaries received their \$5,000 grant a few months ago. Each year, the programme starts with applications from January 1st to March 1st. The next

cycle of the programme will commence in January, 2016. The areas of interest include: Agriculture, ICT, Housing, Media, Education, Transportation, Textiles and Manufacturing. It is very competitive and requires hard work to present a winning business plan. If you are interested in the grant, this is the time to start to prepare your business plan for the 2016 edition. You can be among the 2016 winners. Those who won in the 2015 edition are not extra-ordinary people. They are ordinary people with extra-ordinary determination who worked hard to succeed.

(Visit tonyelumelufoundation.org for more information). 

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INTERVIEW SESSION WITH MR ALEX EFEFARORO

The following is an excerpt from an interview session with **Mr. Alex EfeFaroro, the founder and Chief Executive Officer of WHITE ALMOND INDUSTUSTRIES LIMITED** - producers of Glitters Car wash, Glitters Hand wash and Glitters Liquid wash.

BCL: Why did you decide to go into liquid wash business despite the stiff competition?

Alex: The decision to go into liquid soap business was taken about 10 years ago when I left the University. I noticed the lack of high quality cleaning product that can make cleaning of our offices, homes and environment easy. I also

considered the increasing population of Nigeria and its effect on the demand for cleaning soap that is of high quality and attractive to users.

BCL: What did it take you to get the business started?

Alex: I started this business from the scratch with absolutely nothing. I started from my bathroom as a Youth Corper in Agbara, Ogun State. I later moved to a small store, then to an empty security house, and finally to the bungalow which I currently use. I started with crude equipment - vehicle radiator fan motor, 20 liters bucket, and bottled water containers for packaging. The first labels I used were photocopied.

BCL: What were your initial challenges and how did you overcome them?

Alex: My initial challenges were about getting information on how to run a proper production company, marketing, distributing my product and building a small scale factory. I also had the problem of finance, but being a goal getter and a believer of 'I CAN DO IT', I moved on, searching both

the internet, journals and magazines. I also attended free and paid seminars, joined associations and attended trainings on entrepreneurship and capacity building. Till date, I still attend programs on entrepreneurship and businesses for update on new innovations in my industry.

BCL: What is your experience in getting funds from banks since you started business?

Alex: I always get unpleasant experiences dealing with banks. I have not received any financial assistance from any bank even after series of discussions and applications for loans. I got my first financial assistance from a non- governmental organization, and that was as a result of the training institute I attended. I got a loan of five hundred thousand naira (N500, 000), which I used to pay for the first rent for my factory space. I got this loan at 23% interest rate.

BCL: You said 'series of discussions and applications', tell us about a particular application for loan that you made and was unsuccessful.

Alex: The most embarrassing was the last one I applied for from Bank of Industry. I requested and was told I was qualified, so I applied. I submitted all relevant documents which were vetted and my factory site was visited by an official from the Bank. This was after my guarantors were interviewed at BOI office. These processes took about eight months after which, the bank wrote to me stating that the value of the loan I was requesting was too small for them to disburse. I just wasted the eight months. I wonder why this was not communicated to me at the beginning of the process. I have also tried other banks, but they all want me to run my account with them before they can unfold whatever assistance they would want to render. I have continued to run the business with personal funds and sales proceeds. *(continued on page 4)*



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FUNDING

Bank Of Industry (BOI):

The Bank of Industry (BOI) has the mandate of providing medium to long term funds to



BANK OF INDUSTRY



small and medium enterprises (SME). The bank was not set up to support micro or start-up businesses. The target beneficiaries are established companies with good reputation for keeping financial records and management capability supported by appropriate collateral and guarantees.

Though BOI claims it can finance start-up businesses at its discretion, the hurdles to cross to get to this are almost insurmountable.

Some of the reasons why the BOI is seen not to be doing enough are lack of understanding of its mandate and the inability of many small businesses to provide the bank's requirements for funding. About 99% of MSMEs are micro businesses and cannot benefit from BOI funding, because they do not have what it takes to meet up with bank's long list of requirements. We shall be dealing with what these requirements are in our future editions.

However, it is interesting to note that BOI recently signed a Memorandum of Understanding with 10 Commercial Banks to support beneficiaries of its medium and long term loans with working capital. This was expected to ease the problems of working capital by beneficiaries of the bank's loan. The BOI does not give working capital loans. The commercial banks are: Access Bank Plc, Diamond Bank Plc, Ecobank Limited, Fidelity Bank Plc, First Bank Limited, First City Monument Bank Limited, Skye Bank Plc, Stanbic IBTC Bank Plc, Standard Chartered Bank Limited, and United Bank for Africa Plc

It is important to visit BOI website to study the bank's loan requirements and be sure of your eligibility before you apply for financ-

ing. You have to subject your business to the discipline of good management practice to approach BOI for funding. Note that the requirements include provision of audited accounts and being up to date with personal and corporate income taxes.

Commercial Banks:

When it comes to funding, the commercial banks are like the Bank of Industry - existing businesses, collateral, guarantees, good cash flow and corporate governance. Micro and start-up businesses are not funded by commercial banks. They consider these categories of businesses too risky to fund with depositors' money. And when they get the opportunity to recommend them for funding by the Central Bank of Nigeria (CBN) through special intervention funds, they impose their own risk assessment criteria and other conditions, since the CBN will hold them responsible for default in payment by borrowers.

However, a number of the SME friendly commercial banks have come up with various products to address the needs of SMEs - not micro businesses. At the recent 9th EDC SME Conference held at the Federal Palace Hotel on September 10, 2015, the representative of Heritage Bank who was a member of one of the panels informed the audience that the Bank could give up to N5m loan to an individual without property collateral. This is a good development, though it may be with equity contribution and one kind of guarantee or the other. Heritage Bank was the main sponsor of the conference. Some other commercial banks have special products for SMEs also, but not without conditions that cannot be met by many small businesses. 

Interview: (cont'd)

BCL: What are your experiences in the sales and marketing of your products?

Alex: Sales and marketing have been my challenges since the beginning. I tried selling GLITTERS on the street, from shop to shop, even giving people GLITTERS Liquid wash for free to use and give feedback regarding the product. Now I work with Distributors and resellers who buy and sell Glitters in different locations and states, while I handle production and monitor quality and other production challenges, and also support my distributors with branded marketing materials.

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REASONS SMART STARTUPS ESTABLISH 'COOPETITION'

Marty Zwilling

<http://blog.startupprofessionals.com>

As a startup advisor, when I suggest cooperating with competitors, most entrepreneurs initially think I'm crazy or suggesting something illegal. But trust me, I'm not talking about anything sinister here, just a concept known in smart business circles as "coopetition," recognized as one of the best and fastest ways to grow a company. And growth is the lifeblood of every startup.

For example, think of all the specialized social-media sites that allow the use of your Facebook or Twitter credentials, instead of forcing a new one. That's a win-win-win deal, since the ease-of-use attracts more people to the new

site, it enhances the Facebook brand, and it simplifies the customer interaction. At least two competitors had to cooperate to make that happen.

As you will see, this example highlights only one of several ways that coopetition can supplement or even supersede all your efforts to accelerate organic growth, meaning growth from within. Here are some other reasons to use this strategy:

1. It reduces common costs and customer learning curves. Similar startups, with competing products, almost always have overlapping areas, which cost money to develop. If these elements are not your core competency or "secret sauce," why not negotiate a sharing partnership?
2. Complementary advantages can expand both markets. Every smart startup starts with a focus on a unique advantage, such as owning a distribution channel. A competitor may have complementary strengths. A strategic partnership, sharing common gains, should be a growth opportunity by expanding the market for both.
3. There's an opportunity for follow-on sales

to existing customers. Every business brings a set of existing customers who are great candidates for additional sales from a partner-competitor.

4. It leads to referral agreements and affiliate marketing. These are simple cooperation agreements, but many entrepreneurs are too proud or busy to consider them as a growth opportunity. Why not improve your customer satisfaction by referring customers you can't satisfy to someone who can? If they do the same, you both win, along with the customer.

If you are contemplating a win-lose relationship, hoping to put your competitor at a disadvantage, don't do it. It's very risky, costs you a lot of time and money and generally backfires, since most competitors are not desperate or stupid. In every

case, make sure your intellectual property is protected up front with a two-way non-disclosure agreement. Be cautious, but not paranoid.

Smart entrepreneurs realize that sometimes they have to fight that natural instinct to consider competitors as the enemy. If you keep your customer's best interest as your first priority, you will know when it's time to think outside the box. That thinking, including coopetition, will pay big dividends for your own startup's growth, as well as customer relationships. 

Interview: (cont'd)

BCL: What are the most important challenges of a small business in Nigeria today?

Alex: The most important challenges I see in small businesses in Nigeria are:

- Unstable Government Policies.
- Lack of the Right funds with good interest rates.
- Lack of long-term loans for industries.

BCL: What are your hobbies?

Alex: Networking and listening to the news.

BCL: Thank you for taking time to share your experiences with us.



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GOVERNMENT INTERVENTION PROGRAMMES FOR MSMEs

The challenges and importance of Micro, Small and Medium Enterprises (MSMEs) have been recognised by successive governments. Several policy and intervention measures have been put in place over the years to address the needs of MSMEs, but unfortunately, these measures do not appear to have yielded the desired results. Some of the measures taken in the past include:

1. Micro, Small and Medium Enterprises Development Fund (MSMEDF) 2013
2. Nigerian Incentive Based Risk Sharing System (NIRSAL) 2011
3. Small and Medium Enterprise Credit Guarantee Scheme (SMECGS) 2010
4. Small and Medium Enterprises Equity Investment Scheme (SMEEIS) 2005
5. Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) 2005
6. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) 2003

The MSMEDF was launched in 2013 with a take-off fund of N220bn to provide low interest loans to the MSME sub-sector based on guidelines issued by the Central Bank of Nigeria. According to information from the Central Bank of Nigeria, only about N48.88bn of the fund had been disbursed as at July 3, 2015, to 24 states (N42.33bn) and some Participating Financial Institutions (N6.55bn). The impact of what has been disbursed so far is yet to be felt in the economy. The disbursement is very slow not because MSMEs do not need the funds, but because the conditions for disbursement are too stringent for MSMEs to meet.

If the intended beneficiaries of government intervention funds are unable to access the funds owing to stringent conditions, then government should do something about the conditions and help potential beneficiaries

to meet them. Otherwise, the objectives of the intervention funds will not be achieved.

For a long time, funding was regarded by many as the most important challenge of small businesses; and some still think so even now. Therefore, it is not surprising that most of the various interventions above by government were aimed at helping small businesses to access funds. There is nothing wrong with this. But the conditions for accessing

the funds according to the guidelines were usually out of the reach of the small business owners.

Consequently, the impression in the small business community is that government is not sincere in its drive to facilitate access to funds by small business owners. Otherwise, how does one explain guidelines

that include property collateral, equity contribution, guarantors, and three years' audited accounts for an unemployed youth who wants to start a small business? There is so much frustration by MSMEs that despite government's promise to make funds available to them at single digit interest rate, they are unable to access the funds. MSMEs have no choice but to approach microfinance banks or commercial banks for loans at very high interest rates with the requirements of personal guarantees and collaterals.

The importance of finance has been so bloated that other constraints of MSMEs, such as inconsistent government policies, weak infrastructure and multiple taxation, which are within the purview of government are not seriously considered. Even constraints which are internal, and within the control of owners of MSMEs, such as integrity, commitment, keeping financial records, succession planning, and capacity building are overlooked. If government and small business owners address these constraints that are not directly related to finance, then the burden of funding may even be reduced. *(continued on page 7)*



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SME IN CHINA

China is the most populous nation with a population of over 1.35 billion; it also has the second largest economy in the world. It is no news that China is one of the major sources of goods and services that are needed all over the world.

About 60% of all China's industrial output can be attributed to Micro, Small, and Medium Enterprises (MSMEs) and they also account for about 80% of all jobs in China. Similar to MSMEs in Nigeria, MSMEs in China also have challenges. They have been facing difficulties in their operation due to shortages in electricity, capital, labour etc.



The Chinese government, being aware of the challenges faced by MSMEs, have put in place a 5-year plan to support the activities of the MSMEs. The plan is aimed at achieving five major objectives:

To increase the capacity of MSME's and creating new jobs

To optimize the structure of MSME's

To boost the development of industries and industrial clusters

To upgrade enterprise management and

To refine MSME support systems

However, despite these limitations and challenges, MSMEs in China have continued to thrive. There is a noticeable increase in the number of Nigerians that go to China for one business or the other. This may not be unconnected with the growth of MSMEs in China as a result of the support they receive from the government.

The Vanguard Newspaper of December 22, 2014, quoted Nigerian China-based Shanghai Engineering Construction Company (SECC) boss, Mr. Fetus Mbisiogu, as follows:

"Nigerians constitute the bulk of Africa-China business transactions and statistics show that out of 70 per cent of business conducted in Guangzhou, China, 50 per cent are undertaken by Nigerian visiting businessmen.

"Nigerians add value to the SME operations in every facet of the city and have created employment even for the locals. On a daily basis, about \$100 Million flow into China from Nigerian businessmen"

Nigeria is the most populous country in Africa. Unemployment is currently a major challenge. Nigerian businessmen need to be encouraged to add value to SME operations in the various states of the Federation and help to create employment for the growing population of

unemployed youths in the country. Perhaps we need to learn some lessons from China on how to encourage the development and growth of micro, small and medium enterprises, so that they can play their roles of employment generation and wealth creation effectively. 

- Culled from: <http://www.uhy.com/china>

"Perhaps we need to learn some lessons from China on how to encourage the development and growth of micro, small and medium enterprises, so that they can play their roles of employment generation and wealth creation in the country effectively."

GOVERNMENT INTERVENTION PROGRAMMES FOR MSMEs : (cont'd)

A revised National Policy on Micro, Small and Medium Enterprises has just been put in place to create a favorable business environment for the development and growth of MSMEs in Nigeria. It is often said that the country does not lack good policies, and that what is missing is the effective implementation of the policies. This cannot be allowed to continue to be a defense for the non-realization of MSME policy objectives. Implementation of this policy should include adequate education of intended beneficiaries on what benefits are available and how to access them. 

