



The significance of Micro, Small and Medium enterprises (MSMEs) for the growth, productivity and competitiveness of the economies of developing countries is universally recognized. Not only do they provide employment and income for the bulk of the population, they are the primary source of new jobs. They have been acknowledged as critical breeding and nurturing grounds for domestic entrepreneurial capacities, technical skills, technological innovativeness and managerial competencies for private sector development. This Policy Brief is written as an introduction to MSMEs in Nigeria and their challenges. Innovative and affordable capital market funding opportunities are discussed as well as experiences from other countries.

1. Introduction

The MSMEs are the biggest employers of labour in many countries. In Nigeria, this sub-sector employs about 85% of the nation's productive sector workforce and contributes between 10-15% to Nigeria's total manufacturing output and much more to other sectors' growth (FSS2020 Strategy Paper). The Small and Medium Enterprises Development Agency of Nigeria and National Bureau of Statistics (SMEDAN-NBS, 2013) Collaborative Survey classified MSMEs based on employment and assets size as shown in table 1 and most of Nigerian enterprises fall in this category.

S/no.	Size category	Employment	Assets (N'm)*
1.	Micro enterprises	Less than 10	Less than 5
2.	Small enterprises	10 to 49	5 to less than 50
3.	Medium enterprises	50 to 199	50 to less than 500

*this excludes land and buildings.

The major challenges of MSMEs in Nigeria include lack of access to credit, poor infrastructure, inconsistency in government policies, poor support (business development and services), lack of access to market, multiple taxation and obsolete technology.

Out of all the constraints facing MSMEs, access to finance is one of the most commonly cited barriers to their growth and competitiveness. For example, total banking credit to MSMEs is not encouraging; in every N100 credit to the economy, only average of N1.60 went to the MSMEs between 2007 and 2017 (see table 2).



Although many interventions by relevant stakeholders, such as SMEDAN, Central Bank of Nigeria (CBN), Bank of Industry (BoI), among others, have been made, a huge leap in plugging the financing gap facing MSMEs remains to be done. Unlocking sources of capital is therefore crucial to enable the sector grow and provide the needed jobs and growth potentials. Hence, the need for increased focus on capital market funding options for Nigeria's MSMEs. The Capital market provides affordable and innovative finance through private equity, venture capital, equity-based crowd funding, operations of commodity exchanges and Alternative Securities Market (ASeM).

Table 2: Banking System Credit to the Economy			
Year	Total DMBs' Credit to Private Sector (N'Billion)	Total DMBs' Credit to MSMEs (N' Million)	Share of MSMEs (%)
2007	4,820,695.7	41,100.7	0.85
2008	7,799,400.1	13,512.20	0.17
2009	9,667,876.7	16,366.50	0.17
2010	9,198,173.1	12,550.30	0.14
2011	9,614,445.8	15,611.70	0.16
2012	10,440,956.3	13,863.50	0.13
2013	11,543,649.9	15,353.0	0.13
2014	13,179,598.1	16,069.30	0.12
2015	13,568,878.1	12,949.5	0.10
2016	15,628,550.8	10,747.9	0.07
2017	16,237,800.94	10,747.9	0.07

Source: CBN Statistical Bulletin (2017)

2. Opportunities for MSMEs financing in the capital market

Creating financing opportunities for MSMEs in emerging markets, particularly in Nigeria is a key way to advance economic development and reducing poverty. In Nigeria, MSMEs have an estimated financing gap of N9.25 trillion (FSS2020 Strategy Paper). This therefore, needs to be sufficiently addressed through innovative and affordable long term finance as provided by the capital market. In this regards, the activities of the ASeM, Private equity funds and Venture capital can be considered as existing, while those of Crowdfunding and Commodity platforms can be seen as emerging.

The ASeM is a specialized board of the Nigerian Stock Exchange for emerging enterprises with high growth potential. It provide smaller companies with the avenue to access the capital market and raise long term finance through less stringent listing rules and requirements. There are currently 9 listed companies under the ASeM category. Also, using the classification by employment as shown above, a total of 54 listed companies on the NSE can be classified as MSMEs. Some of these companies include FTN Cocoa Processors Plc, Livestock Feeds Plc, Mobil Oil Plc, and Berger Paints Plc among others.



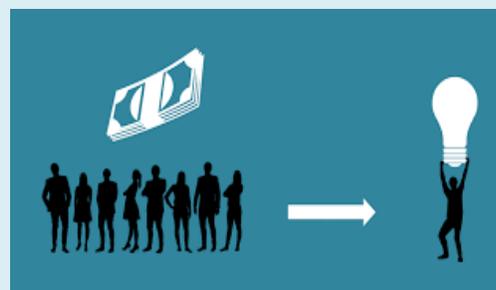
Private equity (PE) are funds and investors that invest in private companies, or that engage in buyouts of public companies. The ISA 2007 empowers the Securities and Exchange Commission (SEC) to register private equity funds and those with a minimum commitment of N1billion of investors' funds are registered. As at the end of December 2018, 12 private equity funds have been registered by the Commission with a target fund size of \$1.9billion.



Venture capital (VC) is financing of small businesses and start-ups that are believed to have long-term growth potentials. The Commission currently has 5 registered venture capitalists. The funding opportunities provided by PEs and VCs are growing. They have been seen to play in sectors such as real estate, financial, consumer goods and information technology.

Given adequate incentives and strengthening, their contributions will be felt more in jumpstarting Nigeria's growth through MSMEs financing. MSMEs can take advantage of these opportunities to unlock and enhance their values as provided during the investment period of these funds.

In addition to the foregoing, the advent of **FinTech** (combining technology and innovative business models in financial services) has gained considerable momentum in recent years, with global investments rising at exponential rates. It holds the potential to revolutionize MSMEs financing and offers unprecedented solutions to deal effectively with the main barriers that MSMEs face in financial markets. For example, equity-based crowd funding and peer-to-peer lending are some of the emerging funding opportunities in the capital market.



Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. It is a form of crowdsourcing and alternative finance. It can be equity or debt based and represents a veritable and desirable funding source by MSMEs. Peer-to-peer lending (P2P) is a practice of lending money especially to businesses through online services that match lenders with borrowers. Although the law in Nigeria currently does not explicitly allow crowdfunding and private businesses soliciting for funding from public, the SEC is working on innovative ways to ensure MSMEs have access to this type of financing sources.

Commodities market and platforms also provide funding opportunities for Nigeria's MSMEs. For example, AFEX commodity exchange is currently operational and doing a lot in the area of commodity trading in Nigeria. As at end of April 2019, 2,598.28 MT of commodities valued at N243 million were traded through AFEX Commodity Exchange. Soybeans constitutes 11.74% of commodities traded during the month while Maize, Paddy Rice, Cocoa and Sorghum accounted for 78.35%, 0.23%, 8.07% and 1.61% respectively.



The Exchange is working on issuing electronic warehouse (e-Wrs) receipt for the produce stashed in its warehouses which can be used by commodity farmers and traders to access financing from financial institutions and will also be tradable on the Exchange. Other commodity exchanges that are coming up in Nigeria are also

working on introducing innovative ways to finance agriculture activities.

The recently-licensed Lagos Commodity and Futures Exchange is also a boost in this sector. Further, the federal government and relevant agencies are investing in the Nigerian Commodity Exchange to ensure that it operates optimally.

The Commission is equally offering its supports towards ensuring Warehouse Receipt Bill is finally signed into law. Warehouse receipt financing is a form of secured lending, where the bank advances funds against inventory that are being stored in a warehouse and that have been assigned to the lender. Since many MSMEs are agriculture-based, this provides a huge opportunity for financing.

3. Selected Countries Experience

Many other countries have also been seen to use the platform of the capital market for their MSMEs sector growth. Some of these are shown in table 3:

Country	Innovations for MSMEs financing
South Africa	<ul style="list-style-type: none"> • The Johannesburg Stock Exchange (JSE) has a market segment for SMEs, called AltX. • SME considers listing on AltX to achieve the following: issues new shares, raises capital, widens investor base, and makes shares available for trading on a regulated market. • The SMEs appoints a designated advisor (DA), who will guide through the listing process, with company's directors to attend directors' induction programme.

Table 3: Countries Experiences

Kenya	<ul style="list-style-type: none"> To deepen access to the capital market for SMES, the Growth Enterprise Market Segment (GEMS) was launched in 2013 as Kenya's market segment for small and medium companies wishing to expand their businesses. The GEMS segment offers a wide range of incentives to attract SMEs to market. The incentives on offer for companies fall into a number of types – easier admission criteria, easier processes, tax incentives and fee incentives. SMEs can choose to access GEMS via an initial public offering (IPO) or an introduction, with the choice of raising capital immediately or simply gaining admission through introduction, and raising capital at a later stage through a rights issue.
Indonesia	<ul style="list-style-type: none"> Indonesia Stock Exchange (IDX) has no listing platform for SMEs. Currently IDX has two boards, Main Board and Development. As of 31 March 2019, there are 310 companies listed on the Development Board with a total market cap of USD\$59,61Billion. To further accommodate SMEs' fund raising, IDX is currently developing new board below Development Board, namely Acceleration Board. Hopefully through this initiative, IDX can accommodate more SMEs accessing fund through Capital Market. IDX expects to launch this initiative before the end of 2019.
Ghana	<ul style="list-style-type: none"> The Ghana Alternative Market (GAX) is a parallel market operated by the Ghana Stock Exchange. It focuses on businesses with potential for growth. The GAX accommodates companies at various stages of their development, including start-ups and existing enterprises, both small and medium.
China	<ul style="list-style-type: none"> The Shanghai Stock Exchange (SSE) launched in 2012 a program of serving micro, small and medium-sized enterprises (MSMEs). Some benefits include, simplification of procedures for approval of MSMEs' direct financing; support to MSMEs for their issuance of private placement bonds; guiding the venture capital investments and private equity funds for the investment in MSMEs; and coordinating with relevant authorities to promote the construction of an over-the-counter market with unified regulation and provide micro and small enterprises not meeting the listing requirements with the services of resource distribution in the capital market.
Chile	<ul style="list-style-type: none"> The Stock Exchange operates an alternative financing mechanism in the market called, the "Agricultural Product Stocks Act" The law allows products, contracts and invoices to be placed on the market in order for investors to buy and therefore generate financing to those companies that issue invoices. Bolsa de Productos MiPYMEs [Micro-SME Product Exchange], is a dissemination platform that offers SMEs easy access to the capital market.

Source: Compilation from various sources

4. Conclusions

The Micro, Small and Medium Enterprises (MSMEs) have been known, in both developed and developing nations, to be incontrovertible contributors to employment generation, wealth creation and poverty alleviation. It is on this premise that several efforts should be geared towards consciously providing the enabling environment and other necessary support for the MSMEs to thrive. This sub-sector needs special attention by the Government because the operatives are largely informal and at the same time they need to develop for the national economy to grow.

Therefore, the use of emerging funding opportunities in the capital market as well as other traditional funding sources can help in revolutionizing the MSMEs sub-sector in Nigeria. Lessons from other relevant jurisdictions can also be useful, especially on how their capital markets have been leveraged to finance critical MSMEs sectors.

References

- Central Bank of Nigeria Statistical Bulletin (2017)
- FSS2020 Strategy Paper (2012)
- www.nse.com.ng
- www.idx.com.ng
- www.nse.co.ke
- www.jse.co.zg
- www.gse.com.gh