
Challenges of Credit Guarantee Scheme for Sustainable Entrepreneurship in Nigeria

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Abstract

In economic development theory, entrepreneurship is targeted as diversified way forward and out of both vibrant and turbulent economy respectively. Credit guarantee scheme (CGS) is sine quo non to fueling entrepreneurship and entrepreneurship in essence, is a yard stick with which economic strength and growth is sustained. In recent years in Nigeria, entrepreneurship is saddled with enormous burden of revitalizing, redirecting, diversifying and integrating the economy. This paper identified and proffered recommendations to remedying the stippling credit guarantee scheme and also enlightens the practitioners and the beneficiaries on how to explore the strategies and the benefits of the scheme in Nigeria

There is a growing recognition worldwide that, creating sustainable growth of small and medium enterprises (SMEs) form a fundamental base for industrial development, (Adewale, 2005). They are particularly suitable for diffusion of management skills, fostering and stimulating indigenous entrepreneurship, this is evident in their spread through the economic strata of the society

Adelaja (2004) noted that, small and medium enterprises are economic engine of growth which is constrained due to inadequate financing scheme, poor economic development, coupled with misguided policies and externally induced crisis in Nigeria. Small and medium scale managers have knowledge of customers and market better. They do this through sensitive awareness of customers needs and careful observation of market trends necessary to make this potential strength a reality by increasing per-capital income and out-put, diffusion of industrial skills, enhancing regional economic balance through industrial dispersal, effective resource utilization, creating job opportunities, and reduction in rural-urban migration. However, this undertaking is

hindered first and foremost by their financial disposition, which contributes in greater proportion to the failure of most SMEs in Nigeria in terms of realizing their objectives. (Rwigema, Venter, 2004).

Access to finance is important to all enterprises regardless of their size. Blocked or inadequate access to finance from banks and non bank financial institutions to cater for credit needs in order to revamp the sector on a sustainable basis constitute a major constraint in the functioning of SMEs, a barrier to their growth and an obstacle to employment generation for sustainable growth and survival.

Consequently, Nigerian government extensively initiated SMEs sector reforms and established credit schemes in all the state of the federation aimed at transforming the economy from its rudimentary state to highly industrialized one. Institutions were established to off-set the handicaps, calls were made for policy shift that will accord the private sector a role in the economy (Ihyembe,2000), the first effort was credit scheme administered by state and federal government to liberalized the economy through the Ministry of Commerce and Industry, and the National Agricultural and Cooperative Bank (NACB). In as much as the programme is design to encourage SMEs to bridge the funding gap, Small-medium scale equity investment scheme (SMSEIS) programme and the SMEs are still not taking full advantage of the programme, largely due to a poor macro-economic environment, lack of basic infrastructural facilities, internal management problems of SMEs and the fear of risk-aversion by the financing institutions. This paper attempts to identify the origin and constraints associated with small and medium scale equity investment scheme and making the necessary recommendations at ameliorating these challenges

Concept of Entrepreneurship and Credit Guarantee Scheme

There are perhaps as many definitions to the small-medium enterprises as there are writers on the concepts which may vary from place to place, time and purpose. But commonest criteria used in such definition according to Timmons (1994) includes the number of employees, turnover/sales, financial strength (principally in terms of capital outlay and working capital) and the structure of the ownership. According to Nigerian economic summit group [NESG](2002), the best way to capture the definition of SMEs in Nigeria should be by the nature of business aid magnitude. For example road side artisans, petty traders, sachet/bottled water producers, bakers local fabricators (regarded as micro enterprises) should constitute part of the SMEs in actual fact; there is no consensus on definition throughout the world. Below are list of preferred definitions base on various criteria of SMEs.

World Bank (1990) defined small-medium scale enterprises as those with total capital outlay (excluding land) that do not exceed N10 million in constant 1988 prices. Small and medium enterprises development agency of Nigeria (SMEDAN) official definition in Adelaja (2004). Stated that micro enterprises are those with asset not more than N1 million (excluding land) and employing not more than ten people.

Central Bank of Nigeria (CBN), Defined SMEs to the purpose of its credit guidelines for financial institution, it defines small-medium scale business as one whose turn over does not exceed N500,000 due to the inflation and depreciation effect on the value of naira as obviously seen.

Obviously one would note that, the definition re-iterates on certain financial ceiling in capital investment, thus addressing crucial place of finance in some activities. Government has made a concerted effort to revamp the economy by having a re-directed focus toward business in various dimensions such as Green Revolution, Operation Feed the Nation, National Directorate of Employment (NDE), Family Economic Advancement Programme (FEAP), Poverty Alleviation Programme, Nigerian Agricultural and Co-operative Bank (NACB), Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry, Equity Investment Scheme etc. But another distressing point to note is that, government usually has laudable ideas that are inadequately or never implemented. (Littlefield, 2008). According to Khandker, S. (2009) the pre-requisite of effective flow of credit are sound planning and efficient management in any undertaking, because SMEs is a worthy effort toward alleviating the suffering and strengthening the activities of entrepreneurs and entrepreneurship advancement has strong link to economic development (Matley, 2005).

Benefit of (SMIEIS) Programme in Nigeria

The role of entrepreneurship in achieving and maintaining open and modern economies became the major focus of both the developed and developing economy (Wennekers & Thrurik 2009). A country's economic growth and development depends a great extent on their ability to create jobs through entrepreneurship (Henry, Hill and Leitch 2003) unfortunately, in Nigeria SMEs are not sound financially and otherwise, to guarantee economic growth unless program such as SMIEIS are initiated to bridge the funding gap (Marlyn, 1995), our country's economic growth will hinge on our ability to create new jobs, provide goods and services through entrepreneurship and those entrepreneurs in turn will require well articulated credit financing scheme willing to take the helm of venture creation. It will not be out of place for credit guarantee practitioners to embrace SMEs to auger well the desirable changes needed for national development. Akpoin. (2009). A well planned credit scheme should consist well articulated policies that will enable smooth acquisition of requisite skills, attitudes, knowledge, behavior and all the values that are needed for survival of any successful entrepreneurship, because credit guarantee scheme is an indispensable and a pre-requisite factor worthy for entrepreneurship and economic integration (Narbard, 2000).

The Challenges of Credit Guarantee Scheme

1. Bank risk averse behaviour in lending when bank considers the expected value of returns on investment as being less than expected utility of investment outlay, and when transaction cost inherent in servicing small loans to a large

number of borrowers is perceived risk cost in the absent of appropriate risk mitigation measures, continues to act as a barrier.

2. High collateral ,interest rate and stringent eligibility criteria for registration at bank level particularly banks located in some rural areas and resource poor areas , this inappropriate attitudinal orientation has been reported , and has hindered access to credit finance.
3. Limited managerial capability due to inexperience ,illiteracy and absence of mentoring and entrepreneurial network, again the challenge is ability to provide sound business plans. On the other hand, financial institutions have not quite bought into support of co-operatives, as we would like them to. Thus it becomes very important for financial institutions to support this sector in business. If we want to meet the objectives of achieving Broad-based Black Economic Empowerment (BBBEE), creating jobs and growing the economy, then things have to change.
4. on the other hand, is a major constraint in providing sound business to access loan. therefore credit scheme have not quite bought into supporting cooperatives as we would like them to in other to achieve Brought Based Black Economic Empowerment (BBBEE) for creating jobs in developing the economy
5. Fear of dilution of ownership with credit guarantee institutions and poor health of the cooperatives which have the penetrative reach which could cater effectively for small and marginal cooperatives has been a inhibiting factor.
6. On the other hand, the outstanding loan of the cooperatives has grown at much faster rate as compared with their loan advances during both pre and post economic period. The slower growth in institutional finance through credit cooperatives during the decade of 1999-2007 is mainly due to adverse environment created by the financial sector reforms. Due to unfavorable policy frame work, much of the deposits of the credit cooperatives are misappropriated instead of advancing loan to cooperatives as a result, the C.D ratios of this credit cooperatives have been adversely affected.
7. The increasing competition among micro finance and other institutions:- Some micro finance have sought strategic alliances with NGOs and other financial intermediaries in other to build new market and expand a client base is stimulating competition leading to client running to commercial banks that offer credit finance

8. The management of interpersonal relationships in cooperatives is collapsing because of the dynamics between individuals and Poor administrative skills.

Conclusion

The study revealed credit guarantee institution their stringent criteria for registration and eligibility criteria for collateral and credit guarantee. The number of benefit that emanate from SMEs proliferation to the Nigerian economy, the general challenges facing them were identified, financing scheme addressed and the challenges faced by the SMEs in accessing funds from the conventional money and capital markets were analyzed.

Finally this essay concludes that the small-medium enterprises SMEs need financial assistance either equity or credit finance from either bank or non bank credit guarantee scheme e.g. small-medium industry equity investment scheme ,SMIEIS the principal objectives of SMIEIS is to facilitate credit guarantee to entrepreneurs but SMIEIS seen exaggerated as a panacea to the financing problems of Nigerian SMEs.

Recommendations

1. The micro finance sector can become more diverse with the entrance of several private commercial banks, finance companies, insurance companies, and many NGOs that have become regulated FMLs.
Other necessary changes includes modification to the banking regulations such as registration and eligibility criteria for loan to be less stringent, to fit need of micro finance such as replacing weak asset base collateral requirement by a need to demonstrate client credit worthiness and by simplifying reporting requirement.
2. Government should inject more money through specialized banks and also facilitate the used of fixed movable collateral by beneficiaries who have access to the formal lending institutions
3. The Central Bank of Nigeria must continue to provide consistent regulatory environment to facilitate licenses and supervision of intermediaries involves in rural finance and build adequate capacity for off and on sight supervision. And also pursue vigorously prudent and consistent home grown programmers, workshops, seminars to attract and sustain entrepreneurship.
4. There is increasing number of MFL and institution providing micro finance and result stimulates competition leading to innovation which increases the number of clients. Therefore there is need for creating open and liberal financial Market (open access) and exit, no price regulation where by journalist would have access to all information for dissemination to prospective beneficiaries.

5. There is need for diversification in areas where group loan has been maximized. There is a growing trend towards individual loan to allowed for more and fast borrowing. Instead of group peer pressure a clients credit worthiness is built up over time, loaning larger amount over periods expanding lending to include savings scheme and micro to take deposits, build capitalization and lower costs as well as increasing the potential to access more finance from larger institutions interested in micro-finance
6. The central bank of Nigeria should ensure consistency, transparency and clarity of respective legal and regulatory frame work over all micro-finance, giving the increasing competition and a need to build new markets in other to expand a client base environment.

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