

**EVALUATION OF THE EFFECTS OF MICRO, SMALL AND MEDIUM
ENTERPRISES FINANCE POLICY ON JOB CREATION IN NIGERIA**

BY

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August 2018

DECLARATION

I declare that this thesis submitted for the Doctor of Philosophy degree at the School of Government, Faculty of Economic and Management Sciences, University of the Western Cape is my original work and has never been submitted for any other degree at any other university.

.....

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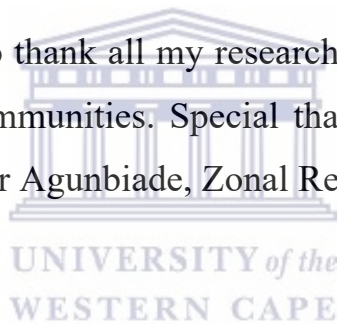
My entire family has been a blessing in this journey. They have confidence in my ability and they supported my dreams morally and financially. About my Mum, Obasola Ajike Adegbola, I’m short of words. I thank God for her. I submitted the same hour she passed on September 26th 2018! My husband Adewunmi is incidentally of the same genre as myself and my success would not have been possible otherwise. My children, the twins (Adedolapo and Adedamola) and Adetoun Oluwadara together with Harry are phenomenal and are worth being connected to. My brothers Tunde, Gbenro and Akin (“chips of the old block”) are all critical factors in my resilience. My appreciation also goes to my Sisters such as Funso and Iyang, Adura, Tokunbo and Bola as well as nephews and nieces. My Uncle, Chief Tunde Olojo is a rare gem in my family who ensured that I fulfill my promise.

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DEDICATION

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ABSTRACT

The researcher attempted to assess the effectiveness of Bank of Agriculture (BOA) microloan scheme on job creation among micro and small enterprises. This is in view of the unprecedented rise in the unemployment rate in Nigeria and the widely perceived belief that among other policies, harnessing the financial capacity of micro, small and medium enterprises (MSMEs) may possibly dictate the pace of the country's achievement of job creation. Despite a wide array of studies on MSME growth, only a handful of rigorous studies are available to provide evidence of the effect of finance on labour market outcomes in the sector, as well as on the use of more relevant assessment techniques on the performance of public policies and interventions related to MSME financing.

Through the use of mixed methods including questionnaire administration, key informant interviews, focused group discussions and desk research, this research undertook a theory of change-based assessment of Bank of Agriculture microfinance scheme, to assess the extent to which the scheme is effective in contributing to the achievement of the MSME Policy's fundamental objective of job creation. Descriptive statistics using frequency tables and graphs as well as OECD COTE (Coherence, Objectives, Targets and Evaluation) Framework for policy formulation were applied as methods of analysis.

The findings show a fundamental flaw in relation to the lack of strategic alignment of the Bank of Agriculture (BOA) operations with the MSME Policy. The Bank is seen to be operating in a silo as the strategic direction the MSME tilt does not seem to derive from the overall MSME Policy. BOA is also not seen to be positioned to engage the practice of performance measurement and reporting generally and in particular of the fundamental objective of job creation, as stipulated in the MSME Financing Policy of government.

It was also revealed that a majority of enterprises that took BOA microloans loans were not able to create jobs as many of them were operating as "survivalists". Although the

BOA microloan scheme is potentially capable of supporting targeted growth-oriented microenterprises in specific trades to create jobs, given the attractive concessional terms, the Bank is not achieving this objective in its present state and form neither is it seen to be positioned to do so due to several supply and demand side factors. An ongoing reform process in the Bank during this research period may be able to address part of this concern if more strategic steps are taken to surmount the constraints.

Furthermore, BOA does not have a functional performance measurement framework and monitoring and evaluation system that can be used as the basis for measuring goal attainment such as the goal of job creation, especially in relation to the outcomes of the provision of financial services to the MSME sector.

For BOA to be successful and truly developmental in focus especially in relation to its contribution to the strategic objective of job creation, the study therefore recommended the key thrust of a new framework for addressing the current unemployment situation to include an effective alignment of macro, meso (sectoral) and micro policies.

At the (micro) institutional level, it is recommended that BOA should:

- improve its governance and management system as well as the integration of development impact considerations and measurement;
- create innovative financing products for growth-oriented microenterprises especially through cluster financing and cluster-based development;
- increase wholesale lending through the provision of on-lending products to performing microfinance institutions (MFIs);
- engage the services of BDS organisations to source for credible clients and build clients' entrepreneurial capacity including assisting them to access markets.

In line with the need to integrate development impact considerations and measurement into its entire operations, the researcher designed a monitoring and evaluation framework that can enhance the tracking of the attainment of job creation policy goal in BOA microloan scheme. In this vein, the institution is to adopt formal “lessons learnt” mechanisms to integrate evaluation findings into future activities and “put development back into development banking” (Smallridge, 2017).

At the meso level in the study context, horizontal cooperation is recommended where all relevant institutions are aligned and the impact of various policy measures on entrepreneurship and job creation are taken into account. Lastly, an employment – sensitive macro-economic framework must pursue: the relaxation of monetary and credit conditions that are supportive of employment creation in the economy; fiscal prudence in the context of exploiting fiscal space to accommodate investments with high employment potentials; use of legislative mechanisms for ensuring full and effective implementation of annual budgets, program and projects at all levels and development and effective use of computerised Labour Market Information System (LMIS) for Nigeria.

KEY WORDS

Micro Small and Medium Enterprises (MSME)

Microfinance

Job Creation

Unemployment

Local Economic Development

Social Performance Measurement

Monitoring and Evaluation

Impact Investment

Public Policy

Bottom of the Pyramid.



ACRONYMS

AFDB- African Developmental Bank

AFEX-Africa Exchange Holdings

ANMFIN- Association of Non-Bank Microfinance Institution of Nigeria

ATA- Agricultural Transformation Agenda

AUM- Assets Under Management

BAPPENAS- Indonesian Ministry of National Development Planning

BDS- Business Development Services

BMSMED- Bureau of Micro, Small and Medium Enterprise Development

BOA- Bank of Agriculture

BOI- Bank of Industry

BOP- Bottom of the Pyramid

BSEN- Business Environment

C.O.T.E – Coherence/Clarity; Objectives; Targets; Evaluation.

CAMA- Companies Allied Matters Act

CBN- Central Bank of Nigeria

CBO- Community Based Organisations

CEO- Chief Executive Officer

CGAP-Consultative Group to Assist the Poor

DCED- Donor Committee for Enterprise Development

DFI- Development Financial Institutions

DMBs- Deposit Money Banks

ENTX- Enterprise Characteristics

ERGP- Economic and Growth Recovery Plan

FCHR- Firm Characteristics

FCT- Federal Capital Territory

FDI- Foreign Direct Investment

FEPAR- Federal Public Administration Reform



FGD- Focus Group Discussions
FIS- Financial Inclusion Strategy
FMA & RD- Federal Ministry of Agricultural and Rural Development
FMARD- Federal Ministry of Agricultural and Rural Development
FSPs- Financial Service Providers
GDP- Gross Domestic Product
GIIN- Global Impact Investing Network
ICLS- International Conference of Labour Statisticians
ICT- Information and Communication Technology
IFIs- International Financial Institutions
ILO- International Labour Organization
IMM- Impact Measurement and Management
IRIS- Impact Measurement Metrics
ITF- Industrial Training Fund
IV- Instrumental Variables
JCU- Job Creation Unit
KII- Key Informants Interviews
KPI- Key Performance Indicators
KYC- Know Your Customer
LED- Local Economic Development LGAs-
Local Government Areas.
M & E- Monitoring and Evaluation
MDA- Ministries, Departments and Agencies
MFBS- Microfinance Banks
MFIs- Microfinance Institutions
MIS- Management Information Systems
MIX- Microfinance Information eXchange
MoFI- Federal Ministry of Finance Incorporated
MSEs- Micro and Small Enterprises



MSME- Micro, Small and Medium-sized Enterprises
MSMED- Micro, Small and Medium Enterprise Development
MSMEDF- Micro, Small and Medium Enterprises Development Fund
MTEF- Medium Term Expenditure Framework
MTSS- Medium Term Sector Strategy
MWA&SD- Ministry of Women Affairs and Social Development
NAICOM- The National Insurance Commission
NAMB- National Association of Microfinance Bank
NBS- National Bureau of Statistics
NCC- Nigerian Communications Commission
NDDC- Niger Delta Development Corporation
NDIC- Nigerian Deposit Insurance Company
NEDEP- National Enterprise Development Policy
NEEDS- National Economic Empowerment and Development Strategy
NEXIM- Nigerian Export/Import Bank
NFIS- National Financial Inclusion Strategy
NGOs- Non Governmental Organisations
NIMC- National Identity Management Corporation
NIPR- Nigerian Industrial Revolution Plan
NIRSAL- Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NISER- Nigerian Institute of Social and Economic Research
NMFPC- National Microfinance Policy Consultative Committee
OECD- Organisation for Economic Cooperation and Development
OLOP- One Local Government One Product
OSMEP- Office of Small and Medium Enterprise Promotion
PenCom- Pensions Commission
PFIs- Participating Financial Institutions
PhD- Doctor of Philosophy
PMU- Project Monitoring Unit

POS- Point of Sale

PPP- Public Private Partnership

RBM- Results Based Management

SCPZ- Staple Crop Processing Zone

SDGs- Sustainable Development Goals

SHG- Self Help Groups

SMART-Specific, Measurable, Achievable, Realistic and Time bound

SME- Small and Medium Enterprises

SMEDAN- Small and Medium Enterprises Development Agency of Nigeria.

SPM- Social Performance Management

SPVs- Special Purpose Vehicles

UN- United Nations

UNCTAD-United Nations Conference on Trade and Development

WESO- World employment and Social Outlook



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CHAPTER ONE

INTRODUCTION OF THE STUDY

1.1 Background to the Issue of Unemployment and Job Creation

Policy makers in developing economies as well as those in transition face serious challenges as they attempt to design more relevant, focused and effective policies to attain sustained growth, create jobs and reduce poverty. The current wave of policy reforms in these economies are therefore attempts to design new interventions to meet these demands and generate sustainable development. A major policy concern in this regard relates to the global crises that are manifesting in high rates of unemployment in many economies.



Data generated by International Labour Organisation (ILO) suggests that globally, over 204 million people were not employed in 2015. Unemployment rate increased from 170 million people in 2007 to about 202 million in 2012, and 40% of these unemployed people are young women and men. Between 2016 and 2030, 470 million jobs (i.e around 30 million per year) would be required to accommodate new participants in the labour market and keep up with the rate of growth of the global working age population¹. This evidence has highlighted the need to design appropriate public and private sector policies which are supportive of job creation and poverty reduction to facilitate a fairer distribution of economic opportunities.

¹ <http://www.un.org/sustainabledevelopment>

Despite the recently touted economic growth prospects in sub-Saharan African economies, the employment situation has not significantly improved and is even deteriorating in some countries. Although unemployment levels are falling in some developed economies, new analysis from ILO World Employment and Social Outlook (WESO) suggest that the global job crisis may not end soon, especially in developing economies. In most of these countries, informal employment as well as underemployment are expected to remain high over the next few years while it was estimated that by 2020, an estimated 600 million additional jobs would need to be created, mainly in Africa and Asia, particularly in view of ensuing demographic trends (IFC, 2010).



It is widely believed that MSMEs have the potential to contribute to job creation and reduce the prevailing unemployment in these regions and this underscores the importance attached to reforms that can aid the growth and development of micro, small and medium-sized enterprises (MSMEs) by developing regions. In most developing countries, micro and small enterprises (MSEs), represent an overwhelming proportion of economic activity constituting the vast majority of firms that are employing a high proportion of the population, (Nichter and Goldmark, 2005). The OECD (2009) also reports SMEs (small and micro enterprises) as key generators of employment and income. SMEs are also recognised as drivers of innovation and growth, employing more than half the labour force in the private sector in OECD countries as well as accounting for as much as 99% of

private enterprises in the European Union. In low and middle-income economies, MSME density is rising at a pace faster than in high income countries (Kushnir *et al*, 2010).

Although globally, microenterprises constitute the majority of formal MSMEs, with 83 percent of MSMEs in this category, informal MSMEs are found to outnumber formal MSMEs many times over in developing countries (IFC, 2010). Available evidence therefore suggests that the informal sector is larger in sub-Saharan Africa than in other parts of the developing world, generally accounting for 60-80 per cent of total non-agricultural employment (Charmes, 2000). The importance attached to MSEs particularly in sub-Saharan Africa is therefore not in doubt and not misplaced either.



Policies for boosting the role of MSMEs in job creation are receiving unprecedented attention among policy makers and researchers in developing countries as the spate of these policy responses receive further justification in view of new fiscal policies that aim at constraining the growth of employment in the public sector. However, despite the plethora of policies, programmes and projects being implemented to support MSMEs, the performance of many of them are not seen to be routinely and strategically tracked to “prove” and “improve” same. In many countries, the need to track the effects of development policies and programmes specifically in relation to the goal of job creation is one critical area of research interest in recent times. The

next section is devoted to a discussion of the specific problem that emerges from this issue in context.

1.2 Statement of the Research Problem

The Nigerian economy has been experiencing a *jobless growth* where too few jobs are also being produced when the country has the latent market capacity that can absorb far more jobs. Admittedly, lack of formal sector jobs and the unemployment situation constitute significant economic problems. MSMEs are expected to play a major role in increasing the level of employment, to further local and regional development; enhance competition; spread innovations; diversify the supply of products and services and maintain supplier chains.



The MSME sector continues to expand in absolute and relative terms in Nigeria, though the sector suffers from a number of constraints, key among which is the lack of access to finance. Micro, small and medium sized businesses which perhaps constitute the most vital part of Nigeria's real economy have therefore been under-utilised. Yet their ability to flourish if they are well harnessed and effectively supported can possibly dictate the pace of the country's achievement of the goals of job creation and poverty reduction. This has critical policy implications. That employment generation through the MSME sector is a consistent policy concern in Nigeria is not in doubt. Governments at all levels express the utmost concern for job creation to address the unemployment situation through this sector, yet the

unemployment rate is increasing unabated in spite of different interventions designed to address the problem. *MSME support programmes are therefore not seen to be effectively enhancing the structure and capacity of microenterprises such that they can grow to the levels where they can create decent jobs and contribute to sustainable development.* (Ebitu, Glory & Alfred, 2016, Abdulahi et al 2015, Okon, 2018)

Despite the array of policies and programmes especially credit interventions, that the Federal Government has designed to pursue developmental goals especially job creation in the MSME sector, available evidence suggests that many of them are not seen to be fulfilling the intended goals. (Agusto 2015, Olaoye 2010, Oshewole 2010, Ihugba, Bankong & Ebomuche, 2014 Ayeomoni, & Aladejana, 2016)

Policies designed to address the unemployment problem may not be effective in generating the expected results due to a number of reasons. These may be conceptual and/or operational, where in some cases the nature of the policy package may be inappropriate to address the identified problem. Specifically, the state of clarity/coherence of a policy along the policy corridor may compromise its effectiveness. Yet in many cases the lack of effectiveness may be due to poor implementation including the institutional mechanisms for implementation. In the entire scenario, an apparent absence of a well-structured and effective monitoring and evaluation (M and E) system seems to be lacking in Nigeria. The existence of an

effective M and E system would have been serving as an early warning mechanism to inform policy processes in line with the attainment of policy goals and objectives.

The 2017 World Development Report on Governance and the Law devotes a great deal of attention to the issues around the formulation and implementation of development policies and their development outcomes in Africa. The apparent failures of supposedly well-crafted policies to achieve their objectives or their mere modest success rates have prompted this concern, especially when such policies persist and are acknowledged by policy leaders as successful. The same concern informs this present research which critically examines the continued relevance of the Microloan scheme of Bank of Agriculture in relation to the application of the MSME Policy against the existing context of high unemployment. Chapter Two provides a detailed background to the whole issue from macro, meso and micro perspectives.

Only few studies are known to evaluate the effects of MSME support policies and programmes aimed at creating jobs, especially in the area of development financing, such as in the microfinancing scheme of Bank of Agriculture (BOA). This issue creates a policy knowledge gap and constitutes a major problem which the present study aims at addressing.

1.3 Research Questions, Aim and Objectives

1.3.1 Research Questions

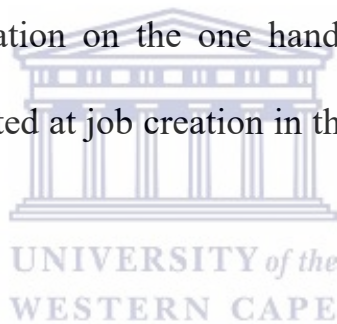
The study will be interested to look at the achievement of job creation- a key element of the vision, fundamental objective and strategies of MSME financing policy, beyond the rhetoric contained in policy documents. BOA is one of the Development Finance public institutions expected to implement part of the financing strategies of the MSME Policy in Nigeria. The study will therefore address the following main research questions in reference to BOA:

1. Does the MSME financing policy contain internal consistency and a shared understanding of job creation as a fundamental objective of the policy among relevant stakeholders, especially BOA officials?
2. Is there sufficient evidence to show that MSEs have the capacity to create jobs when they have access to microfinance services and if so, under what conditions?
3. Is there justification for government direct policy intervention in the area of providing micro lending services to MSEs for enterprise development and job creation?
4. To what extent is the Bank of Agriculture Micro Loan Scheme able to support MSEs to grow and create jobs or is the bank merely providing financial services to perpetuate survivalist motives?
5. Is there a framework in place to track the phenomenon under review?

6. Can a coherent and integrated framework be developed to aid policy goal attainment in BOA operations?

1.3.2 Aim and Objectives of the Study

The research objectives are premised against the backdrop of the above questions given the perceived potential role of the micro and small enterprise cohort of MSMEs in employment generation in Nigeria. This study therefore seeks to unravel the applicability of the conceptual issues around the role and prospect of microenterprises in job creation on the one hand and the effectiveness of public financing programmes targeted at job creation in this sector on the other, in this case BOA.



Aim

The main purpose of this research is to assess the effects of BOA Microloan Scheme in relation to the achievement of the fundamental objective of job creation as contained in the MSME Policy in Nigeria.

Specific Objectives

1. Present a sound theoretical and policy framework to underpin the study;
2. Analyse the internal consistency of the MSME policy and the extent of policy alignment /coherence in relation to job creation amongst key players in the

MSME policy corridor- in particular BOA; (analysis of policy content and policy processes)

3. Present evidence on the possible pattern of job creation opportunities attributable to BOA interventions; (assessment of outcomes)
4. Investigate BOA monitoring and evaluation systems and critique same in relation to its effectiveness;
5. Document intended and unintended consequences of the policy and
6. Proffer policy options and propose an integrated framework for enhanced attainment of policy goal.



1.4 Motivation, Justification and Significance of the Study

In many contexts all over the world and for different reasons, elements or objectives of national policies that are designed at the central level of government usually have a way of getting diluted or fizzled away along the “vertical slice”² and at the horizontal slice of the policy corridor. It has been suggested that many development projects in Africa have failed because of inadequacies in policy management. (Ile *et al*, 2014, World Bank 2017) Unless concerted efforts are made to regularly track performance in relation to policy goals, objectives or other elements, there is a tendency for them to experience weak implementation and therefore they may become vulnerable to what has been termed as “*policy evaporation*” in some

² A term used by Brock *et al* 2004 to mean range of levels spanned by policy from the uppermost levels of governance to the lowest.

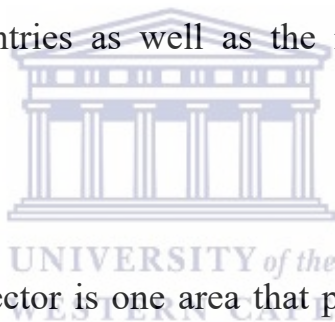
development literature³. In other words, implementing agencies may not “walk the talk”. Although “job creation” has been copiously adopted conceptually as a deliberate goal in MSME related policies in

Nigeria, in view of the increasing unemployment situation, one may ask, “could it be that job creation-rich policies had possibly turned into job creation-poor practice and if so for what reasons”? A search for the answer constitutes the motivation for this study.

This proposed study is justifiable for development on a number of critical fronts and hence its significance. Firstly, there is a dire need for more studies on a wide range of policies in a number of different institutional settings to learn “what works, where, and why”? On the array of SME finance policies and interventions that exist, only a handful of rigorous impact evaluation studies are available. While an extensive literature exists on how finance can affect corporate investment and overall economic growth, comparatively little is known on the effect of finance on labour market outcomes especially in the MSME sector. Evidences of the response to the research posers are therefore rather scanty.

³ See Moser and Moser,(2005):19; OECD,([2007](#)) for a discussion on the application of the term “policy evaporation” where genderrich policies tend to turn into gender-poor practice (Piálek, [2008](#)).

The MSME domain tends to be highly complex manifesting in heterogeneity in firm size, performance, specialisation, as well as in spatial dimensions, hence it continues to deserve more research to distil facts on its potential contribution to job creation and development, especially in Africa. The recent empirical evidence on the link between access to credit and employment is largely focused on the U.S. experience, leaving only little evidence on the impact of credit markets on employment in developing countries, notably Africa where financial institutions are even less developed. Micro and small enterprises have been touted to be the most vital job creators in developing countries as well as the most likely to experience credit constraints.



It is argued that the SME sector is one area that particularly possesses unexploited possibilities for impact evaluations (McKenzie, 2010). SME-focused evaluations typically carried out by governments and international financial institutions (IFIs) are said to be usually too expensive for researchers to fund themselves. As a result, there is a real knowledge gap and an opportunity that can be tapped in this area. To identify good practice models, it is critical to investigate if the results of certain policies can be successfully replicated in other environments in view of the importance attached to the sector as a potential job creator. As Duflo and Kremer (2005, 342) stated, “the benefits of knowing which programs work and which do not, extend far beyond any program or agency, and credible impact evaluations are global public goods in the sense that they can offer reliable guidance to international

organisations, governments, donors, and NGOs beyond national borders.” Where necessary, the support programmes may need to be redesigned to make them more appropriate for the sector they are intended to serve.

Furthermore, sceptics of microcredit programmes point to the large number of very small businesses (clients) which may be created but with only few of them maturing into larger businesses (Barnerjje and Duflo 2013). Yet rigorous evidence that could help to arbitrate between the viewpoints of proponents of microcredit schemes and those that are sceptics of such are quite modest. While literature shows different perceptions on enterprise growth, studies of how financing with microcredit contributes to MSE capacity to generate employment especially in the specific context of African local communities are particularly few.

Specifically, it is important to have robust evidence that supports or rejects the continued existence of development financing by public institutions in the area of MSE development especially for the goal of job creation in different contexts. This research is therefore significant in that it examines the continued relevance or otherwise of public sector finance support for MSEs. Ultimately, the effect of access to finance on employment growth is an important empirical question, given the concerns of jobless growth in the Nigerian economy over the past few years. This study is expected to contribute to applicable knowledge for understanding the dynamics of finance for MSE development.

Further work is also needed on relevant assessment techniques for MSME finance policies and interventions especially in the microenterprise subsector. This study therefore found it auspicious to also provide a framework for monitoring and evaluation of same in order to guide policy decisions within the context of local economic development. The rigor expected of a doctoral research supports this motive.

1.5 Definition of Key Terms and Constructs under Investigation

1.5.1 Policy

Policy has been described variously. It is essentially a laid down principle of conducting an affair that is believed to be necessary for a particular purpose, especially as formally expressed by any authoritative body such as government. (Boundless, 2015). Specifically, public policies can therefore be described as: “*a set of guidelines and decisions of government to attain a specific vision and or changes across spheres or in a particular sphere or sector of government*”. (Ile et al 2014)

The linear model of policy making dating from the 1950s views the process as a smooth, top down and essentially rational process, which has distinct phases of formulation and implementation. (Brock *et al* 2004) It is assumed that at the formulation stage, expert policy makers and probably with the support of researchers gather knowledge and information for crafting policy, which is then handed down to

implementers that are usually seen as bureaucrats and technocrats. The linear model seems to remain popular but has been critiqued for over forty years (Crew and Young 2000:2). A number of other models have therefore evolved to suggest that policy making is not as rational a process as presented in the linear postulation but rather that it contains a myriad and complex set of stages and policy networks that are at the heart of real world politics which tend to obscure the linear process⁴.

1.5.2 Evaluation of Policy Effectiveness

Evaluation is the activity through which we develop an understanding of the quality value and usefulness of a policy, programme or project. Evaluation involves an empirical assessment to find out whether a program or policy has realised the set objectives against which it was designed. Policy evaluation therefore applies evaluation principles and methods to examine the content, implementation or impact of a policy. It helps policy makers to attach a value to the results of different policies with a view to designing the most effective interventions such as regulations, projects and programmes. It also helps to improve targeting, and refining those interventions to align better with the set objectives.

Ultimately evaluation is viewed as a tool for dynamic learning such that the use of scarce resources may be optimised across programmes, and it also supports an understanding of the underlying mechanisms interventions through the feedback that

⁴ Other models include those provided by Dunn (1994) Mutahaba *et al* (1993) Wissink (1991)

it provides. Policies can be evaluated during the implementation phase or after they have been implemented. Tracking the outcomes of a policy during the course of its implementation, is known as real-time evaluations as it provides opportunities for policy adjustments in a way the achievement of intended results is achieved. Evaluations may sometimes be difficult to undertake when policies aim to accomplish broad conceptual goals, when they have competing objectives or possess multiple objectives. When evaluation assessments are undertaken thoroughly, the design, implementation and outcomes of policies, regulations, and programs can be enhanced.



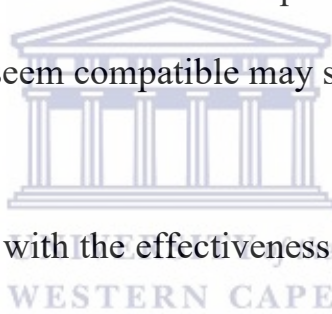
A number of different research methods could be employed to systematically investigate the effectiveness of policy interventions, implementation and processes. Policy evaluation can be undertaken substantively through objectively processed feedbacks from those affected by policies, though research of a more formally organised nature may provide better empirical evidence that relates to the effectiveness of policies.

In order to carry out effective evaluation processes, all stakeholders involved in policy delivery ought to be aware of the evaluation that is to take place. During or after the evaluation the emerging results could be used as the fulcrum for dialogue with policy makers, such that better policy outcomes can be achieved. The findings of the evaluation may be found useful as an input into dialogues concerning the

appropriate ways for governments and other concerned authorities to assist the target population for better outcomes of interventions.

However due to assessment difficulties, many policies fail to be evaluated and therefore the tendency of the policy process to favour the status quo. Difficulties may arise as a result of different reasons such as resource constraints, skills gap, inertia etc.

Some policies aim to accomplish broad conceptual goals or contain multiple objectives that may be subject to different interpretations. The evaluation of policies that do have objectives that seem compatible may still be problematic.



The concern of stakeholders with the effectiveness or otherwise of public policies in developing countries has resulted in the popularity of an interest in evaluations.

Along this interest, a growing body of rigorous evaluation resources is becoming available. At the same time organisations are increasingly getting involved in the production, coordination and promotion of evaluations of development interventions. In this vein,

an independent body, International Initiative for Impact Evaluation (www.3ieimpact.org) was established in 2008 to fill a gap in knowledge and resources by funding the production of rigorous evaluations in low and middle income countries. This study has benefited from the insights of this effort.

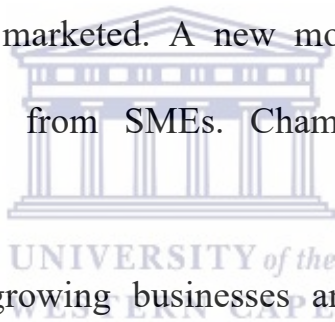
1.5.3 Micro and Small and Medium Enterprises (MSME)

From the 1990s, micro, small and medium enterprises (MSMEs) are gaining renewed recognition among policy makers and scholars in developing countries as a result of public sector rationalisation processes which governments have been adopting including the shrinking of public sector labour force. Many observers therefore see MSMEs as a source of alternative employment provision. Time-series statistics on the stock of people working in MSMEs in many countries reveal that the number has increased over the past decade or more. On the one hand this trend can be viewed as a sign of success, reflecting a response on the part of entrepreneurial individuals to tap profitable and productive opportunities. Also it may reflect people's desperate search for compromise alternatives, despite the low and declining returns that self-employment may tend to generate. (Mead 1999)

Although in many parts of Africa the acronym MSME is commonly adopted, it is not so in South Africa where SMME is used. Definition of MSME often varies from country to country and sometimes even within countries depending on the agency or economic sector in question. Indicators typically used in definitions include the number of employees, turnover, or fixed assets. In the United States of America, European Union, Canada and Brazil, microenterprises are regarded as those enterprises that employ 1-9 employees and in Mexico it is up to ten while for developing countries, UNIDO adopts 5 employees.

Generally speaking, many studies regard MSEs as those enterprises which employ 50 or fewer workers. Within the MSE category, microenterprises are those with ten or fewer workers; small enterprises range in size from 11 to 50. (McPherson 1996). This definition has been used in various projects and studies in different countries (Nitcher and Goldmark 2005).

MSEs are often defined as “income-generating activities other than primary production” (NBS, 2012). Home-based enterprises are also included as long as at least half of the output is marketed. A new movement differentiates small and growing businesses (SGB) from SMEs. Championed by Aspen Network of Development



Entrepreneurs, small and growing businesses are defined as “commercially viable businesses with 5 to 250 employees that have significant potential for growth and whose managers desire to grow them” (Aspen Network of Development Entrepreneurs 2009). This differentiation becomes important as many SMEs tend not to survive beyond a few years of establishment, while the growth of many of the surviving ones stagnate. Secondary sources and Enterprise Survey data across OECD and Latin American developing countries that were consulted in a study by Tewari (2013) revealed that 60 per cent of firms were found to have exited by the seventh year since they started business, about 20 per cent do not move beyond the scale of self-employment or single proprietor firms while 15 per cent are small and medium firms that experience low or stagnating growth paths.

The remaining less than five percent segment of the cohort are firms with a strong growth history that have the potential for good growth. They can be reckoned with as engines of innovation and are called competitive SMEs. Their contribution to the growth of economies are substantial, but their needs and the constraints they face do not seem to be captured by broad SME policies. Their demands may for instance include relatively bigger amounts of finance beyond what traditional banks may ordinarily be willing to offer at the early stages of firms' development. Likewise, such firms may need other forms of support that are specific to the nature of their operations such as the need for internationalisation, yet this does not constitute a major concern for a vast majority of firms. Lastly, the competitive SMEs may need support of a different form from the conventional forms in order to enhance their ability to complement large firms such that they can together propel growth in economic productivity.

In Nigeria the microenterprises sub sector has been defined by the Central Bank for the administration of Micro, Small and Medium Enterprises Development Fund (MSMEDF) in the context of the revised Microfinance Policy, Regulatory and Supervisory Framework as enterprises with less than 10 employees and a total asset of less than N5 million (excluding land and buildings) and operated by a sole proprietor while small and medium enterprises (SMEs) are defined as entities with asset base of N5 million and not more than N500 million (excluding land and buildings) with labour force (employees) of between 11 and 200.

This proposed study will adopt the definition provided in the MSME Policy (SMEDAN, 2015) as shown in the table below which regard Micro Enterprises as those with less than 10 employees and less than N 10 million assets excluding land, for small enterprises employment size ranges from 10 to 19 and asset size is between 10 and 100 million Naira excluding land, while medium enterprises are those with 50-199 employees.



Table 1.1: Definition of MSME

Size Category	Employment Size	Assets (N Million) Excluding Land
Micro Enterprises	Less than 10	Less than 10
Small Enterprises	10-49	10 to 100
Medium Enterprises	50-199	Less than 1,000

Source: SMEDAN, 2015

The employment size forms the primary basis of MSME classification in the Policy, especially when there is a conflict between the employment and assets criteria. (The sub sector of particular interest to this study is that of the micro and small enterprise category.



1.5.4 Microfinance

Microfinance deals with the provision of financial services to low income clients who are traditionally not served by the conventional financial institutions. It is offered by different types of service providers such as existing commercial banks that have microfinance as added products to their portfolios; specialised microfinance institutions (MFIs); and non-governmental organisations (NGOs) (Ledgerwood, Earn 2013, Gardeva, Rhyne 2011, www.microfinancegateway.org) In many contexts, the term has been used more narrowly to refer to small loans and other services from service providers generally called “microfinance institutions” (MFIs) (www.microfinancegateway.org). These institutions use new delivery methods which emerged over the last 30 years.

Attempts to formalise microfinance have for long been largely focused on enterprise lending (loans for enterprise formation and development). Broadly speaking, new paradigm microfinance refers to a world where households with low incomes have permanent access to a range of financial services that are affordable including savings, credit, insurance, remittances, payments, and other services. These are offered commercially by a range of service providers that make financial support available on commercial terms for income-generating activities and to create assets, smoothen consumption and provide protection against risks. Controversies surrounding microfinance in recent times seem to suggest that microfinance may not have an obvious capacity for microenterprise growth and poverty reduction, but rather that it enables the poor to manage symptoms of poverty (O'Dell, 2013). However, a few studies are emerging to challenge further unpacked this assertion in different contexts. This informs part of the rationale for the present study.

1.5.5 Local Economic Development

Local economic development (LED) refers to a process through which public, business and nongovernmental sector partners may work together to create better conditions for economic growth and employment generation. (www.worldbank.org). The purpose is to build up the economic capacity of a local area such that its economic future and quality of life of all improves. LED aims at creating jobs especially for the poor as key stakeholders take decisions to grow the local economy by creating more businesses in the area. (www.etu.org.za) South

Africa is a major active promoter of the concept, where under a LED strategy, local communities respond to their needs in many ways and a variety of options and approaches are adopted especially the provision of support and resources including financial services.

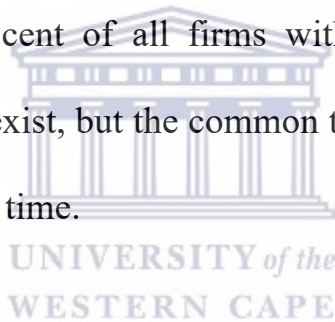
1.6 Assumptions of the Study

For the purpose of this study, MSE growth is defined in terms of a rise in the number of employees over a specified period. For simplicity this measure is frequently used in MSME research because it is believed to yield the most dependable and comparable data. During a survey research, owners of enterprises may find it easy to remember their number of employees over time, even if they lack reliable management information systems (MIS).

Other indicators apart from employment figure, such as revenue and productivity, may also be used to measure the growth of firms. However, in the case of young firms, noticeable increase in employment is a key indication of demand for the firm's products or services and in turn, growth. Using the number of employees also reduces the need to apply deflators or currency adjustments to revenue and other monetary measures. (Mead and Liedholm, 1998) Preference for growth in employment is therefore viewed as a good proxy of firm growth. Moreover, as indicated in an earlier section, staff count forms the primary basis of MSME

classification by SMEDAN (2015), especially when there is a conflict between the employment and assets criteria.

The OECD-Eurostat Manual on Business Demography Statistics (2007) defines a high-growth enterprise as one with average annualised growth greater than twenty per cent per annum, over a three-year period. Growth is measured by the number of employees and by turnover. The 2007 OECD countries study to analyse the impact of high growth firms on employment creation, found that high growth firms constitute three to six per cent of all firms with at least ten employees. Other variations of this definition exist, but the common thread is the concept of consistent firm growth over a period of time.



The researcher chooses to concentrate on Micro and Small Enterprises because they form the bulk of enterprises in Nigeria, yet little is known about the dynamics surrounding their capacity to generate employment.

CHAPTER TWO

RESEARCH CONTEXT: THE NIGERIAN ECONOMY, UNEMPLOYMENT AND MSME POLICY FRAMEWORK

2.1 Country Background

Nigeria is the most populous country and the largest economy in Africa with a population of over 170 million people. The economy which grew rapidly over the past decade, promises to be Africa's growth centre if appropriate policies are effectively implemented and routinely assessed against set goals, for learning and reform. The economy was heavily dependent on oil and natural gas, which generated 70% of government revenue, but now that the international oil price has collapsed with prices dropping from US \$100 per barrel in June 2015 to US\$45-50 in the first quarter of 2016, growth prospects of the Nigerian economy have been dismal. The economy recorded impressive real Gross Domestic Product (GDP) growth rate of 5.4% in 2013 and 6.3% in 2014. GDP growth declined to 2.7% in 2015 and by the Second Quarter of 2016, the nation's Gross Domestic Product (GDP) declined by 2.06% (year-on year) in real terms.

Nigeria has a total adult population of 93.5 million, 40% of which derive their main income from farming and own business while only 9.2% operate in the formal sector. The remaining 50% have unclear sources of income. Unemployment rate by the second quarter of 2016 is 13.3% from 12.1% in the first quarter, being the seventh consecutive rise since the fourth quarter of 2014. Youth unemployment rose

rapidly to 49.5% from 35.1% in the corresponding period. (www.nigerianstat.gov.ng).

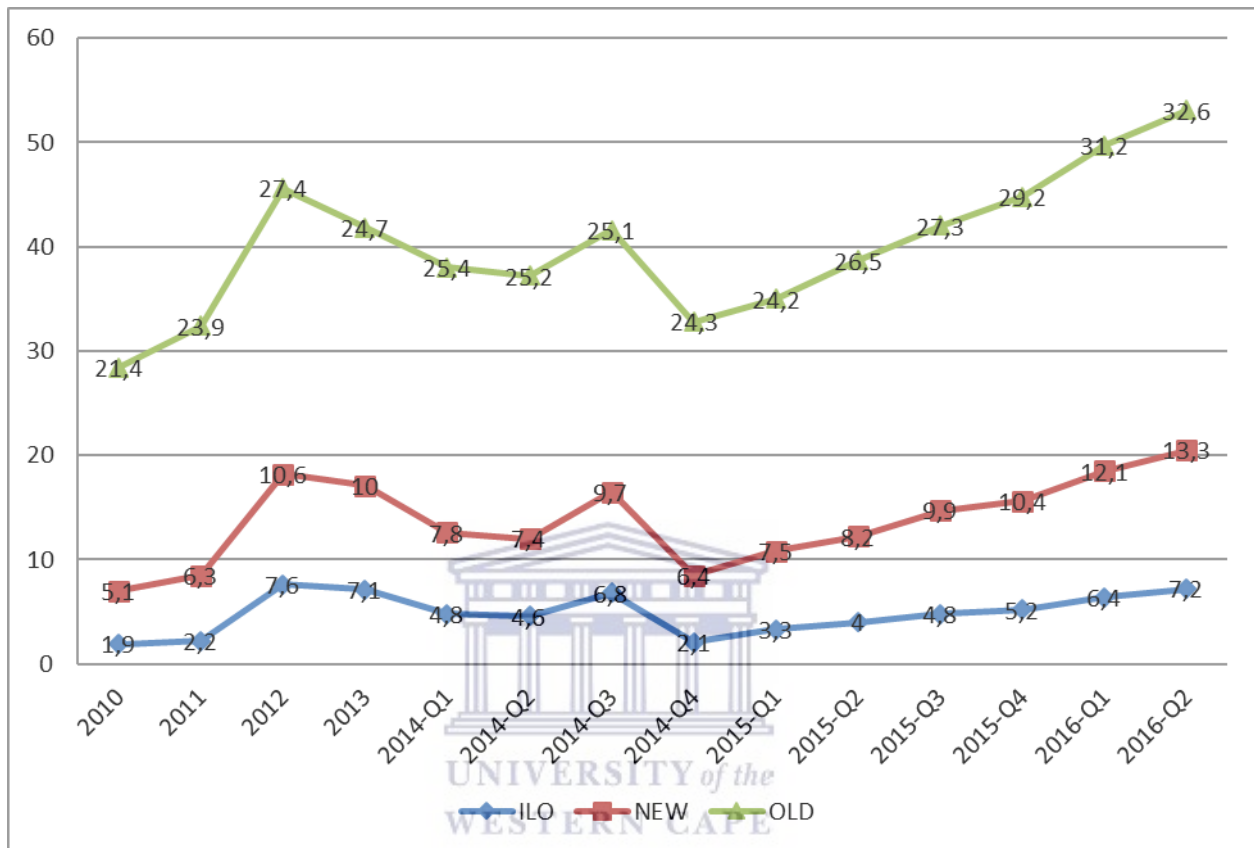


Figure 2. 1: Nigeria Unemployment Trend 2010-2016

Source: NBS 2017

It is therefore imperative for a new growth path to be charted in the economy, that which is capable of energising the vibrant population and generating inclusive growth by giving adequate attention to the non-oil sector to boost the economy.

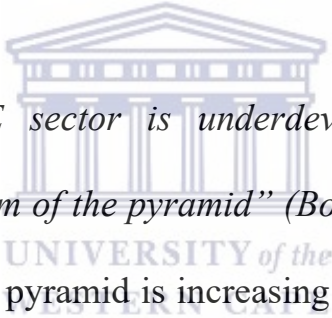
Non-oil sectors experienced an average 6.5% growth between 2015 and 2016, indicating a potential dynamism that can be achieved in these sectors far beyond the country's past historical mainstay of oil and gas. The country is now a potential

investment destination of note for some of the largest brands in the world, yet to live up to its expectations as a top emerging world market, a number of obstacles have to be addressed. These include the need for economic diversification, job creation and a more effective generation of better incomes for the country's population apart from the need to attend to serious infrastructural deficits especially that of poor electricity generation.

The country's huge network of micro, small and medium-sized enterprises (SMEs) form the potential backbone for the achievement of growth prospects in the economy. Nigerians are noted for their entrepreneurial dynamism while MSMEs operations span a wide range of activities. According to the National Bureau of Statistics (2013), there are over 37 million MSMEs in Nigeria and the breakdown reveals that *micro businesses constitute over 99%, of them and the small and medium enterprises segment make up 0.12% and 0.01% respectively*. Hence, SMEs without the microenterprise component together represent only 0.13%. The microenterprise cohort is mainly made up of those who engage in wholesale & retail trade, repair of motor vehicles and household goods which accounts for about 54.67% followed by manufacturing (13.21%). Minimum total employment of microenterprises is 57.84 million.

As at the last national survey in 2013 there were about 37 million microenterprises in Nigeria. (SMEDAN, 2013) By sector, wholesale and retail trade constitute about 55% of all microenterprises and in terms of employment generation, MSMEs on the whole

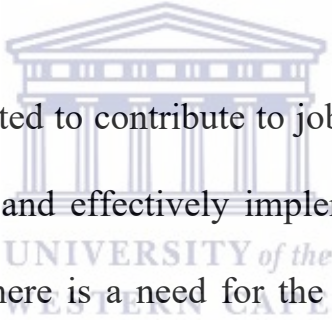
employed about 60 million people, representing 84.02% of the total labour force. The perpetuation and growth of the MSME sector are mainly due to the weak capacity of the formal sector to generate adequate employment and incomes that can support the high rates of labour force growth and the corresponding rural - urban migration. Many microenterprises however operate within the informal sector where 95.99% of them are not registered, making it difficult to keep track of the development and needs of these small businesses as well as regulating them and generating tax revenue from them. (SMEDAN 2013)



By implication the *MSME sector is underdeveloped because a majority of enterprises are at the “bottom of the pyramid” (BoP)*. Moreover, NBS (2013) study shows that the bottom of the pyramid is increasing rather than reducing, with only a few enterprises transiting in the economic ladder. It is however generally believed that *if only a modest percentage of these firms have the capacity and opportunity through appropriate interventions such as access to skills and finance “to scale up enough to hire a few employees, this would manifest in significant job creation”*.(www.nber.org)

Finance has been identified as a major constraint impeding the growth of these enterprises. Studies have shown that the bulk of start-up funds for MSMEs are obtained from personal savings and *less than 5% of start-up finance is derived from financial institutions* (EFINA, 2012). The EFINA survey further revealed that less

than 1% of MSMEs have been able to access bank finance in the three years before the 2012 survey. According to Central Bank of Nigeria (2014) about 60 million Nigerians in the informal sector are also said to be totally excluded from the financial system. This is partly because of the perceived risk associated with MSMEs by conventional financial institutions. Analysis of the share of commercial bank credit to small-scale industries shows decline in annual trend from about 7.5 per cent in 2003 to less than 1% in 2006 a further decline in 2012 to 0.14 per cent and further to 0.12 in 2016. (CBN 2017)



If the MSME sector is expected to contribute to job creation, there is need to design appropriate, well integrated and effectively implemented and tracked policies that can address this concern. There is a need for the adoption of people-centered and resultsbased evaluation of policies in this regard in Nigeria, because so far, monitoring and evaluation systems are at best modest across board despite the fact that a Monitoring and Evaluation Scorecard framework exists for all Ministries, Departments and Agencies (MDAs) at the Federal level in Nigeria.

Therefore, in the MSME policy corridor as in all other areas of public policy, the need for judging policy on grounds of demonstrable effectiveness is quite apparent. This research hopes to address this concern by evaluating the real time effect of MSME

Policy on job creation in Nigeria in relation to the provision of financial products by Bank of Agriculture. Towards this end it is important to take an initial cursory look at the integrated MSME policy in relation to the goal of job creation.

2.2 Review of MSME and Financing Policy and Goal of Job Creation in Nigeria

2.2.1 Introduction

National and regional governments as well as international organisations - such as the World Bank European Union and the OECD have increasingly recognised the need for designing integrated MSME policies. The stand-alone measures which were adopted before for providing support to MSMEs are now being integrated into what has become a relatively new field of policy known as “small business development policy”. The policy framework has become a popular governance tool at all levels attracting an increasing amount of financial allocations to the direct and indirect policy measures to support small enterprises.

These policies include among other strategies, those related to the provision of an enabling regulatory framework for enterprise development and facilitating financial inclusion. It is against this background that the Federal Government of Nigeria established development banks such as Bank of Agriculture and Bank of Industry to serve a different ‘niche’ market and fulfil a need that the Deposit Money Banks (DMB) sector does not generally address. These institutions serve to provide soft

loans to active small and medium enterprises. A critical question for this research is whether the establishment of these schemes have been justified in terms of results.

A well-articulated and robust MSME Policy that is focused on *job creation/employment generation* is in place in Nigeria. The Federal Government crafted the first National MSME Policy in 2007, but a number of challenges affected the overall implementation of the policy including inter alia:

- “Weak buy-in by stakeholders (public and private sector institutions)
- Poor commitment to MSME development by all tiers of government
- Weak synergy among relevant institutions
- Ineffective funding of the MSMEs development process.
- Weak capacity among MSMEs” (SMEDAN, 2015)

These observations led to a review of the policy in 2012 and the new National Policy on MSMEs for 2015-2025 was enacted in May 2015. Recommendations of UNCTAD's Entrepreneurship Policy Framework were extensively integrated in the revised MSME policy and entrepreneurship strategy.

2.2.2 Vision and Mission of Micro, Small and Medium Enterprises Policy

The 2015 MSME Policy **Vision Statement** maintains the stance of the 2007 policy document and states that:

*“The National Policy envisions an MSME sub-sector that can deliver maximum benefits of **employment generation**, wealth*

creation, poverty reduction and growth to the Nigerian economy". (SMEDAN, 2015: pg.23)

The **Mission** of the Policy is

*“to enhance the contribution of MSMEs to national output, **employment** and poverty reduction and build the MSME subsector as a solid foundation for the competitiveness, growth and sustainability of the Nigerian economy*”. (SMEDAN, 2015: pg.23)



That employment generation is a consistent policy concern in Nigeria is not in doubt. This is reflected in the two MSME policy documents and likewise the same strand of concern is portrayed in associated policy documents such as the existing Microfinance

Policy and Regulatory Framework, National Enterprise Development Policy (NEDEP), Agricultural Transformation Agenda (ATA) and the Financial Inclusion Strategy. Therefore, upfront, employment generation constitutes a major focus of visioning in the MSME sector related policies. In order to further reinforce the job creation policy concern, the broad strategy of MSME policy focuses on “supporting enterprises to move up to higher value addition layer/level in the value chains, particularly for *labour-intensive* and low technology-based enterprises”.(SMEDAN, 2011)

2.2.3 Fundamental Objectives and Strategies of MSME Policy

A further glean at the **Fundamental Objective** of the new MSME Policy reveals a sustained orientation for employment generation:

*“The objective of the policy is to facilitate and sustain a vibrant MSME sub-sector that will be the major driver of national economic growth and **employment**” (SMEDAN 2015, pg.23).*

This objective is to be accomplished among other plans by:

- “Accelerating the profitable expansion of existing MSMEs along the value chain, ensuring the transition from micro to small enterprises, small to medium enterprises and medium to large enterprises, thereby enabling them to increase their contribution to GDP and employment generation.
- Fostering the emergence of new MSMEs in Nigeria, especially among women and the youths”. (SMEDAN 2015, pg.23)

The **Overall Objective** of the National Policy on MSME is:

*“to create, nurture and promote the necessary conditions for the growth and development of MSMEs. The strategies pursued are expected to boost local economies and contribute to **job creation**”.* (SMEDAN 2015, pg.23)

Sector Focus: The importance of the focus on employment generation in the MSME Policy is further reinforced in determining the key sectors of focus for the growth of the economy. Four criteria were used in selecting the priority sectors to include:

- “Growth potential of the sector – defined by the potential of increase in the sector’s contribution to National GDP and trade including the *prospects for employment generation*.”
- Capacity to serve at least one basic human need (food, shelter, clothing, health) as well as improve the quality of life through technology and entertainment.
- Availability of raw materials with consideration for the most competitive use.

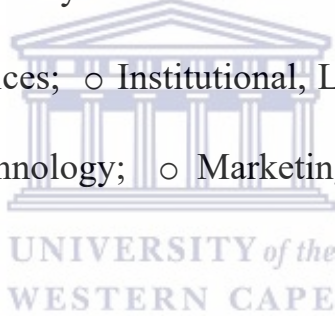
The eight sectors identified as priority sectors are: agriculture, solid minerals, building & construction, wholesale and retail, ICT and real estate, renting and business activities, manufacturing (especially those that have the capacity to add value to local agricultural and mineral raw materials) and the creative industries”.

It is evident from the all the above that job creation/ employment generation feature consistently and therefore constitute front burner concern of the MSME Policy which is expected to be implemented by a multiplicity of MDAs and levels of government. Correspondingly, for BOA specifically (the agency being studied in this research), there are clear **mandates** that target employment generation in the activities of the institution. On the institution’s website as at the time of the study, it is stated that: *“when our job is done we would have food security, alleviated incidence of crushing poverty, **generated employment** and created wealth.”* (www.boang.gov)

Therefore, *job creation* is an obvious goal in the MSME policy document as some relevant elements in the document have shown, but so far *evidence on whether the policy is being tracked or effectively addressing the concern is not obvious*, as will be shown in later sections.

2.2.4: General Micro Small and Medium Enterprises Policy Areas

The MSME Policy has designed seven policy and programme areas as well as corresponding support programmes and projects to boost the MSME sector. The programme areas are specifically: ○ *“Finance* ○ Research and Development; ○ Extension and Support Services; ○ Institutional, Legal and Regulatory Framework; ○ Skills Development; Technology; ○ Marketing; ○ Infrastructure and Cost of Doing Business”.



Finance stands out clearly as a major policy area in the MSME Policy because many financial problems act as constraints to the development and performance of MSMEs in different parts of the world. The next section is therefore devoted to an examination of finance as a major area of focus in the MSME Policy.

2.3 Finance as a Micro Small and Medium Enterprise Policy Area

The programme area on *Finance* is articulated against the background of the finance gap that is perceived among MSMEs. Many of them are said to “lack a strong asset base and viable securities” while the “development of complementary financial options such as insurance, equipment leasing, and hire purchase, private equity and

venture capital is weak and further limiting financing opportunities for MSMEs”. The *Microfinance Policy and Regulatory Framework* for Nigeria, under the auspices of the Central Bank of Nigeria forms the major strategy for this policy area. Some other measures designed to enhance access of MSMEs to finance include inter alia:

- Development of tax and other incentives to encourage high ranking financial institutions that engage in MSME financing services.
- Promotion of Business Development Services (BDS) for enhancing the capacity of MSMEs such that they can be facilitated to effectively demand for debt and equity finance.
- Encouragement of the creation of more venture capital options and angel investors and the reorientation of existing financial operators to finance MSMEs
- Creation of MSME Rating Agency and more Credit Bureaus and facilitation of better cooperation with SMEDAN.
- Creation of private-public sector driven Micro, Small and Medium Enterprise Development Funds.
- Sensitisation and support of MSMEs to form Cooperative Societies, Associations and Clusters for accessing loan and credit facilities.
- Support for the establishment of non-governmental microfinance institutions and microfinance banks.

- Encouragement of groups of MSMEs to initiate collective self-help through mutual funds and other credit institutions.
- Stimulation of financial institutions to provide specialised products for women, youths and other disadvantaged/challenged groups.

One of the key strengths of the policies relating to Finance in the MSME sector is the low interest rates applied to the loans in various government Intervention Funds.

Some of the funds also have relaxed moratorium terms.

As part of specific measures to address the finance gap and to supply innovative and diverse financial services for the MSME sector, two major *state development banks*, namely *Bank of Industry (BOI) and Bank of Agriculture (BOA)* being funded by the Federal Government through budgetary allocations, are to administer both wholesale and retail banking activities to MSMEs in the agricultural, trading, manufacturing and industrial sectors of the economy. Notably, the MSME Policy is to encourage the institutions

“to device instruments to be able to lend not less than 80 percent of their portfolio to MSMEs”. (SMEDAN, 2015, pg 37)

In spite of the acknowledged strengths of the new MSME Policy in terms of the avalanche of intervention funds created by the Federal government, a major drawback is the near absence of evaluation systems that can be employed to assess the successes and weaknesses of the funds. The policy document claims that

periodic assessment of the National Policy are to be undertaken to compare achievement with benchmarks, diagnose problems/limitations and recommend possible solutions, while an annual MSME Development Report will be published. A review of the implementation of this rhetoric constitutes part of the objectives of this research where it is assessed how BOA specifically is keeping a tag on the aspiration of the MSME Policy to use the agency's intervention as a "policy space" for job creation in Nigeria.

2.4: The Microfinance Policy, Regulatory and Supervisory Framework

The Microfinance Policy, Regulatory and Supervisory Framework (henceforth referred to as Microfinance Policy) is a major policy framework designed for MSME financing and development and it is committed to **employment generation**. The Central Bank of Nigeria (CBN) introduced the framework in 2005 to enhance the access of micro entrepreneurs and low income households to financial services required to improve their operations for them to be able to contribute to rapid economic growth, deepen financial inclusion in the country as well as provide a framework for those lending to people at the Bottom of the Pyramid (BOP). The rationale for the Policy was based on the logic that "no inclusive growth can be achieved without improving access of this segment of the economic strata to factors of production, especially financial services" (CBN 2005). In 2010, it was estimated that SME loans accounted for only 5% of commercial banks overall loan portfolio and this dropped to less than 1 % in 2012, hence this policy continues to be relevant in addressing the apparent gap.

The Microfinance Policy was revised in 2011 and CBN licensed over 800 micro finance banks- though their record of effectiveness has been questionable in many cases. The microfinance industry in Nigeria had experienced many different challenges since inception in December, 2005. This is because many of the licensed banks are those that were unable to meet the requirements of the banking sector consolidation of 2005 that required banks to have a minimum capital of 25 billion Naira to register as deposit money banks. Many of such banks that rushed to establish microfinance banks which had much lower minimum requirements operated like ‘mini-commercial banks’ catering for the larger end of small enterprises rather than providing financial services to microenterprises and low income households. Yet part of the reasons why there is focus on this sector is the view that micro, small and medium enterprises (MSMEs) are known to contribute to poverty alleviation through their *employment generating potentials*.

In Nigeria, the employment generation potentials of small businesses is seen to have been seriously constrained by lack of access to finance, either to start, expand or modernise their present scope of economic activities. It is believed that multiple channels of financial services would be required to deliver on employment generation and poverty alleviation by MSMEs. These channels include inter alia, deposit money banks (DMBs), non-bank financial institutions, NGO MFIs,

Development Finance Institutions (DFIs) (*such as BOA*), cooperatives and especially microfinance banks.

An improved microfinance framework is seen to be essential for the attainment of this goal. Such framework is expected to provide a platform to achieve the following specific objectives.

2.4.1 Microfinance Policy Objectives

The objectives include inter alia:

- i. “Provision of timely, diversified, affordable and dependable financial services to the economically active poor; ii. *Creation of employment opportunities* and increasing the productivity and household income of the active poor in the country, thereby enhancing their standard of living; iii. Promotion of synergy and mainstreaming of the informal Microfinance subsector into the formal financial system; iv. *Enhancement of service delivery to micro, small and medium enterprises (MSMEs)*;
- v. Mobilisation of savings for intermediation and rural transformation; vi. Promotion of linkage programmes between microfinance institutions (MFIs), Deposit Money Banks (DMBs), ***Development Finance Institutions (DFIs)*** and specialised funding institutions; vii. Provision of dependable avenues for the administration of the microcredit programmes of government and high net worth individuals on a nonrecourse basis; and viii. Promotion of a platform for

microfinance service providers to network and exchange views and share experiences”. (CBN, 2011)

In the Microfinance Policy, *job creation* is recognised to be a front burner issue as Objective ii) is specifically on creation of employment opportunities as a way of enhancing the standard of living of the active poor. It is expected that the importance attached to this objective would equally generate corresponding specific targets, but this is not so as will be observed in the later section below.

2.4.2 Policy Targets

Based on the objectives listed above, Policy Targets of the Microfinance Policy, Regulatory and Supervisory Framework are as follows:

1. “To increase access to financial services of the economically active poor by 10 per cent annually;
2. To increase the share of microcredit as percentage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and the share of microcredit as percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020;
3. To ensure the participation of all States and the FCT as well as at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities by 2015; and
4. To eliminate gender disparity by ensuring that women’s access to financial services increase by 15 per cent annually, that is 5 percent above the stipulated minimum of 10 per cent across the board”. (CBN, 2011)

It appears as if there is a subtle assumption that if all the targets of the Microfinance Policy are met, jobs would be automatically created. Though all the targets are set towards increasing access of the economically active poor to financial services, job creation may not necessarily be achieved. This is one of the issues that this present research investigated in relation to BOA microloans facilities.

2.5 Background of Bank of Agriculture

Bank of Agriculture Limited (BOA) is the foremost Nigerian agricultural and rural development finance institution incorporated in 1972 and first named Nigerian Agricultural Bank (NAB) at inception. As a Development Finance Institution (DFI), BOA was established to support those segments of the Nigerian society which lack or have limited access to the services of conventional banks with affordable credit facilities, especially in the agricultural value chain. The Bank also maintains savings deposit from customers and encourages people at the grassroots to have banking habits. Bank of Agriculture (BOA) (as it is presently called after several name changes and mergers), is wholly owned by the Federal Government of Nigeria. 40% of its shares are held by Central Bank of Nigeria (CBN) and Federal Ministry of Finance Incorporated (MOFI) hold the remaining 60%. With authorized share capital of N50 billion (not fully paid), BOA is a registered limited liability company under Companies Allied Matters Act (CAMA). The Bank is supervised operationally by the

CBN and administratively by the Federal Ministry of Agriculture and Rural Development.

2.5.1 Roles and Functions of BOA

The mandate of the Bank is to provide low cost credit to smallholder and commercial farmers, and *small and medium rural enterprises and small and medium scale nonagricultural enterprises*. This is to ensure effective delivery of agricultural and rural finance services on a sustainable basis to support the national economic development agenda, including food security, poverty reduction, ***employment generation***, reduction in rural to urban migration, less dependency on imported food items, and increase in foreign exchange earnings. These objectives are perceived to constitute potential Key Performance Indicators (KPIs) of the institution, which as will be seen later do not seem to feature in the performance measurement practice of BOA.

Specifically, the Bank's key mandates are:

1. "Provision of credit to support all activities in the Agricultural Value Chain;
2. Provision of non-agricultural micro credit to the poor segment of the society comprising rural artisans, petty traders etc.;
3. Capacity development for the promotion of co-operatives and agricultural information systems;
4. Provision of technical support and extension services;

5. Boosting of opportunities for self-employment in the rural areas to stem rural-urban migration and
6. Inculcation of banking habits at the grass-roots of Nigerian society”.
(www.boang.gov)

Bank of Agriculture is expected to create opportunities for self-employment in the rural areas, to reduce rural-urban migration. The Bank facilitates government efforts to diversify the productive base of the national economy apart from the promotion of capacity building through the provision of relevant training and advisory services, encouraging cooperative societies formation at all levels, and engendering an accelerated growth of the agricultural and rural economy. BOA offers credit facilities to MSMEs at concessional rates through different groups of entrepreneurs.

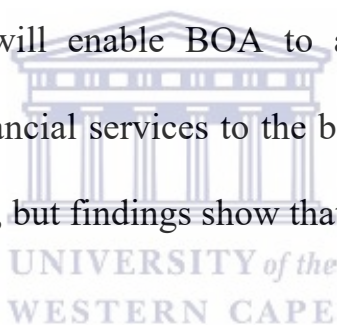
The credit functions involve:

- “Direct lending to qualified loan applicants engaged in agricultural and nonagricultural small businesses;
- Providing credit facilities to issuing organisations through on-lending service and
- Monitoring the flow of ground level rural credit”. (www.boang.gov)

2.5.2 Scope of BOA Credit Services

(i) Micro Loans Scheme: Here the Bank provides credit facilities for micro agriculture and micro non-agricultural activities of traders, artisans, fish farmers, arable/field crops farmers, agro-processors, livestock farmers, agricultural produce marketers and tree crop farmers. These may be individuals, Cooperative groups,

Selfhelp groups etc. that are entitled to a maximum loan of N250,000 per person. The Bank has direct outreach to over 350,000 microfinance clients under this scheme and also recently designed other different products for strengthening its direct microfinance portfolio. A model being adopted focuses on the market layers located below its current direct microfinance market, by targeting households whose entry level loan requirements range between N20,000 and N30,000. The model is being adopted to ensure that sustainable microfinance services are available to about 1 million households at the lower levels of the rural microfinance market over a 10-year period. It was expected that this model will enable BOA to achieve self-sustainability and offer scalable and sustainable financial services to the bottom layer of the rural microfinance market through the platform, but findings show that this has been rarely achieved.



(ii) *SME Agribusiness Loan Scheme:* This product is for financing small, medium and large scale agribusiness projects across the Agriculture Value Chain.

(iii) *On-lending Loan Scheme:* In this scheme, the Bank forms partnership with States, Local Governments and agencies such as Agricultural Financing institutions, Non-Governmental Organisations (NGO), Community Based Organisations (CBO), Self Help Groups (SHGs) etc. through financial interventions such that larger segments of Nigerians especially the underprivileged and rural poor will be reached with micro credit for enterprise development.

The focus of this study will mainly be on the Micro Loan Scheme.

2.5.3 BOA Administrative Structure

BOA has the highest rural operational outlets comprising of all Nigerian development financial institutions with 136 outlets, 6 Zonal Offices and the Head Office, spread across the 36 States of Nigeria and the Federal Capital Territory. The Bank has a three tier administrative structure: The Head Office closely followed by the Zonal Offices and the State Offices.

Table 2. 1: BOA Zonal Headquarters

	Zone	Headquarters
1	North Central	Abuja (FCT).
2	North East	Bauchi, Bauchi State.
3	North West	Kano, Kano State.
4	South East	Enugu, Enugu State.
5	South South	Port Harcourt, Rivers State.
6	South West	Ibadan, Oyo State.

Source: Compiled from Data of BOA National Headquarters, Kaduna

2.5.4 Zonal and Branch Offices

The Bank Headquarters is in Kaduna in the North Central Zone of Nigeria. There are six Zonal Offices covering the 6 (six) Geopolitical Zones in the country. (Fig. 2.1)

The Bank has a network of 136 outlets (Rural Branches and Urban/Semi Urban) across the 36 states and Federal Capital Territory. The six Zones report to the Head office while the Branches report to the Zonal Offices.

2.5.5 MSME Policy Implementation Structure and Microfinance Institutional

Linkage

The Microfinance Policy recognises the importance of wholesale funds for microfinance institutions (where bigger financial institutions access funds to on-lend to smaller units) for expanding their outreach. Towards this end, the CBN has put in place modalities for fostering linkages between Deposit Money Banks (DMBs), development financial institutions (*DFIs such as BOA*), specialised finance institutions, Donor Agencies and MFIs in general. This is to enable the MFIs to gain access to wholesale funds and refinancing facilities to on-lend to their clients. BOA is one of such institutions that provide wholesale financing services to Microfinance Institutions (MFI) for on-lending to their clients especially MSMEs. The linkages that exists among DMBs, DFIs, NGO-MFIs, MFBs and other micro-enterprise finance institutions is supposed to be institutionalised and is expected to be strengthened in order to increase the flow of funds to clients. The policy also recognises informal financial institutions in the microfinance subsector and provides opportunities for them to be mainstreamed into the national financial system.

The revised MSME policy has an institutional framework for policy implementation and monitoring in place, and SMEDAN has the primary responsible to administer it.

SMEDAN has overall responsibility to coordinate the implementation of the National MSME Policy and the agency is expected to drive the overall development of the

MSME sub-sector including, among other things, the publication of an annual MSME Development Report. The National Council on SMEs was also established as the apex organ for MSME development. An action plan and institutional framework for implementation also exists in the Policy. Figure 2.2 shows the different levels of actors involved in the MSME Policy implementation.

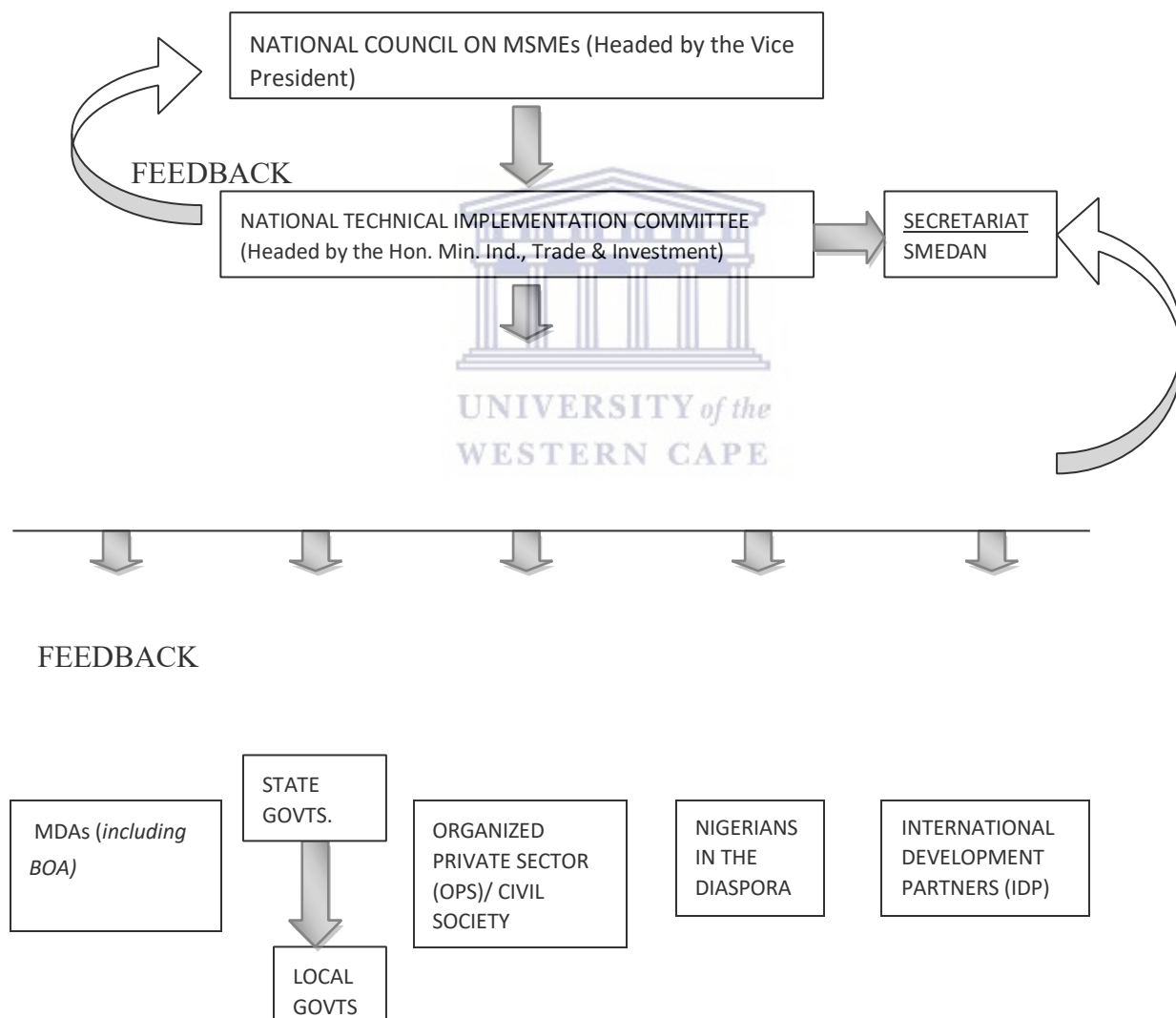


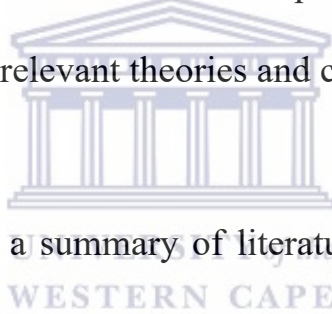
Figure 2. 2: Different Levels of Actors Involved in MSME Policy Implementation

Source: Adapted from SMEDAN (2011)

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

It is important to review literature in relation to the role of MSMEs in job creation and gain an understanding of MSME growth dynamics as well as determinants of the growth patterns in this sector in different contexts. In particular, it becomes imperative to examine the results of earlier studies on the effects of finance interventions on MSME growth. This chapter therefore summarises relevant aspects of literature which has helped to define the basis of the present research, identify existing research gaps, and inform the development of an applicable conceptual framework that is guided by relevant theories and constructs.



Firstly, Section 3.2 presents a summary of literature on the role of MSMEs in job creation. The review then examines in Section 3.3 those studies which have identified the determinants of MSME growth and then focuses on those which have explored the issue of finance as a determining factor in the growth of MSMEs. In Section 3.4 the review explores areas of the theory of firm growth which have been applied as rationale for the nature of MSME policy intervention in different contexts. Section 3.5 then reviews findings of past microfinance impact assessment studies in Nigeria and other countries. Finally, Section 3.6 presents a discussion of theories and constructs from economic and development literature which explains and guides the nature of this study. This discussion then informs the adoption of the theory of change and its associated tools as an applicable conceptual framework.

3.2 Role of Micro Small and Medium Enterprises in Job Creation

Since the work of David Birch (1979, 1981, and 1987), researchers have been provoked to pay much attention to the role of small businesses in job creation. Birch's central thesis was that small firms are the most important source of job creation in the U.S. economy where 66% of all net new jobs during 1969-1976 were created by firms with 20 or fewer employees. The thesis first brought out the idea that many small but fast growing firms are making great contribution to job creation.

In the decades that followed, the increasing attention on small firms resulted in coining Birch's term -"Gazelles", to describe a small group of high-growth firms that generated most of the new jobs in the economy. Birch *et al.* (1995) therefore defined

Gazelle as "a business establishment which has achieved a minimum of 20% sales growth each year over the interval, starting from a base-year revenue of at least \$100,000". Many other variations of this definition have thereafter emerged, but they mainly revolve around the concept of consistent firm growth over a period of time. Related studies on firm size, growth and contribution to employment have tended to support or extend the idea on Gazelles, and portray them as typically young and small firms. As a small portion of firms in the economy, this group generates disproportionately large amount of net new jobs.

There are very many small firms in developing countries, but very few of them develop to a point at which they grow enough to hire additional employees, yet many interventions have been designed to spur growth in this sector. Empirical evidence that focuses on the capacity of small firms to create employment and reduce poverty is however generally mixed. Some studies argue that SMEs are responsible for a large part of job creation (Sleuwaegen and Goedhuys 1998, Mead 1994), but others suggest that while SMEs may be creators, they are also destructors of jobs, thus implying a minimal net impact (Davis *et al* 1994, Van Biesebroeck 2005). In low income countries, the policy interest in job creation from microenterprises especially comes from the vast number of self employed in these countries.



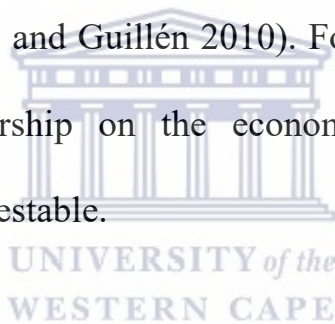
Much of the research on entrepreneurship in the developed world regards self employment as a decision, but the question is a very much debated issue in relation to the developing world context. In developing countries, record of formal social protection programmes is chequered, so people who are neither employed nor engaged in subsistence agriculture become poor and vulnerable. Many of such people may therefore end up starting their own microenterprises to earn at least the minimum that that they need to survive. A great number of micro and small enterprises (MSEs) in developing countries especially Africa, are therefore owned by self-employed survivalists who operate more or less at the level of mere subsistence to eke out a living, while very few of them grow to a point where they are able to hire additional employees.

This pattern has been exposed to analysis since the seminal work by Baumol (1990), where it has been shown that “Schumpeterian” innovative entrepreneurs coexist with “defensive and necessity entrepreneurs.” The latter group is seen to enter a new business not necessarily because of market opportunities and innovative ideas but because of their survival instinct—they just need income to survive. Baumol (1990, 2010) therefore note the need to distinguish opportunity entrepreneurs from “revolving door” start-ups. The former are innovative, having the capacity to contribute to economic growth, while the latter group is susceptible to failure early in life and they generate only “precarious and temporary jobs”. Some earlier studies have even generated results that reject the view that small businesses propel employment creation and economic growth (Rosenzweig, 1988, Brown *et al*, 1990, Liedholm and Mead, 1987)

“Survival-driven” self-employment is seen to be particularly diffused in developing countries (Naudé 2009, 2010; Desai 2009), where as a result of poverty and a lack of opportunities for formal employment in the wage sector, a large number of people are forced into “entrepreneurial” activities spanning street vending to traditional and personal services mostly in the informal corridor of the economy. (Ihrig and Moe 2004; Maloney 2004; Sonobe, Akoten, and Otsuka 2011).

Karnani (2007) notes that some individuals start a microenterprise and borrow from microfinance institutions but in reality may actually prefer to find employment at

steady wages. They choose to turn to self-employment when wage jobs are unavailable. These individuals may lack the skills or motivation to operate as successful entrepreneurs, a factor that could account for part of the reason that recent microcredit evaluations show mixed results (e.g., Banerjee *et al* 2010, Crépon *et al* 2011). Karnani (2007) and others even argue that “micro” is too small (e.g., Dichter 2006), to make any meaningful impact. The prevalence of survival-driven entrepreneurs in developing countries may also be associated with their choice to stay small and informal rather than participating in the formal sector of the economy (Desai 2009; Klapper, Amit, and Guillén 2010). For these apart from other reasons, the effects of entrepreneurship on the economic performance of developing economies appear to be contestable.



Scoar (2010) also distinguishes between self-employment and business ownership, where entry into the former is marked by low human capital and a strong commitment to provide support to families members, and the latter by higher level of human capital and higher willingness to take risks. The importance of this distinction is justified in the context of developing countries where as suggested by the author, entrepreneurship and self-employment often generate informal and transient activities that may not be very different from “disguised unemployment”. In creating BRAC Bank, Fazle Abed had this to say: “microfinance clients don’t create jobs for others; they create work for themselves, which is called self-

employment.... If some people show signs of light in their lives and need bigger loans, they can go to BRAC Bank.

We are providing them with a ladder to get out of poverty” (Bauchet and Moduch 2011)

The different types of opportunity or choice-induced self-employment enterprises typically exist simultaneously in different proportions in different economies and they are called by different names in the different contexts. For some kinds of firms, growth is in fact a “voluntary choice” (Masurel and Montfort, 2006). But a particular segment of firms are definitely bound to be outperformers, having strong growth trend and good prospects for job creation. *Therefore, a number of empirical microeconomic research has established that the bulk of net new job creation is accountable to a relatively small number of high-growth firms*, (Henrekson and Johansson 2009; 2010, Acs 2011, and Stam *et al.* 2012).

From surveys across Southern Africa for example, Rogerson (2001) speculated that less than 1% of firms will ‘graduate’ from the microenterprise level to the stage where they will employ more than 10 workers. From a relatively recent study released by the

US Small Business Administration (Spencer & Tracy Jr.,2011), spanning 2004 to 2008, a mere 6.3 per cent of all US companies are categorised as Gazelles, where 94 per cent employ less than 20 employees, and they generate all the net new jobs created in the economy.

In relation to the survival of small firms, some research on business expansion have shown that in spite of the attraction generated by the micro and small enterprises sector as a job creating sector and despite the interventions meant to spur growth in the sector, only few firms graduate into larger businesses. Some authors therefore believe that microenterprises may not be able to generate general economic growth as expected (Berner, Gomez and Knorringa (2012). This supports an earlier view that survival rates of new firms are seen to be low as available econometric evidence suggests that more than half of new firms exit the market within the first five years of activity (Dunne, Roberts, and Samuelson 1989; Reid 1991; Geroski 1995; Mata, Portugal, and Guimaraes 1995; Audretsch and Mahmood 1995; Audretsch, Santarelli, and Vivarelli 1999a; Johnson 2005).

Results across OECD and Latin American developing countries, using secondary sources and Enterprise Survey data in a study by Tewari (2013) show that by the seventh year since starting, a majority of firms (60 per cent) have exited, about 20 per cent of firms remain self-employment or single proprietor firms, while 15 per cent are small and medium firms but with low or stagnating growth. The last segment that make up less than 5 per cent of the cohort have a strong growth history and prospects.

Those are the ones considered as powerful engine of new growth and innovation.

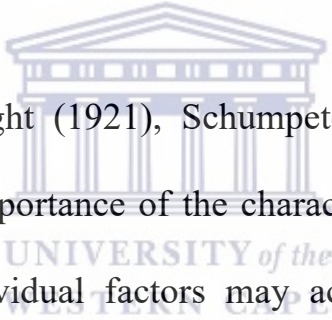
For Storey (1994a) firms are classified into three groups: “failures”, “trundlers” and “flyers”. “Failures” are described as those firms that exit after entering the market. “Trundlers” are firms that do survive up to the observed period but their sizes do not significantly change, while “Flyers” are firms that actually contribute to job creation and experience an increase in size. It is therefore viewed that unless the differences between the types of entrepreneurs are more clearly understood, many policy interventions may have unintended consequences or may even have an effect that is opposite to what policy intended on the economy.

In summary, empirical evidence on the capacity of small firms especially microenterprises to generate employment is mixed but there is consensus on the fact that a small segment of small firms is bound to grow and create more jobs. The factors responsible for the growth of this segment therefore need to be unpacked.

3.3 Determinants of MSME Growth

What factors constitute the determinants of potential transformational entrepreneurship? An understanding of this nature has a broad economic and policy relevance, in view of the importance of growth-oriented enterprises as a source of job creation and revenue generation in market economies (Parker, 2004; Valliere, 2006).

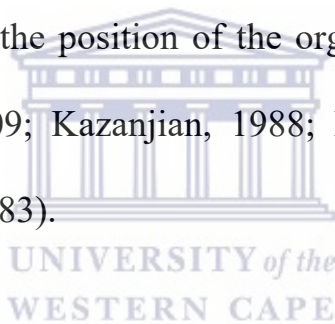
Three dimensions have been identified to influence microenterprise success. These are: the individual dimension, the business dimension and external factors with special emphasis on networks and external business environment (including access to finance). The individual dimensions include factors such as personality traits; risk taking propensity; competencies; growth motivation and personal background. The organisational dimension deals with issues such as innovation strategy, risk taking, formal/informal, entrepreneurship orientation etc. For external dimension, an enabling business environment and social networks are important factors.



Early authors such as Knight (1921), Schumpeter (1934, 1939), and Oxenfeldt (1943) had identified the importance of the characteristics of the founder of a new firm, where important individual factors may act as determinants of enterprise success and may be related both to environmental circumstances and to the potential founder's personal characteristics. For Audrech (2012) a review of literature concerning the determinants of high-growth firms reveal two specific types of determinants. The first set of determinants are specific to the firm while the second are determinants that are location specific. The findings of this study suggest that high growth firms, which represent just a small share of the overall firm population, manage to constitute a considerable share of the employment created.

Using the life-cycle and resource based theories as an analytical tool of the firms' growth, several researchers have argued that organisations experience several

development stages and different problems manifest from different management styles, priorities and resources. Ferreira (2008) developed an empirical taxonomy of small medium enterprise (SME) growth in the service sector. It was concluded that the firms could be clustered in three life-cycle stages when the data were subjected to bivariate and multivariate analyses in order to develop and test an empirical life-cycle model. Many researchers (Grant, 1991; Hall, 1993; Miller & Shamsie, 1996; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984) however suggest that the essential factors to the growth process include the level of resources and capacities of enterprises and these affect the position of the organisations within their life cycle (Collis, 1991; Ferreira, 2009; Kazanjian, 1988; Lyden, 1975; Miller & Friesen, 1984; Quinn & Cameron, 1983).



In a study of the determinants of microenterprise success in the urban informal sector of Addis Ababa, Garoma (2012) argues that growth process is not simple and that if external factors are considered together with internal factors, a different result is bound to emerge than when each factor is analysed separately. This was shown by regressing growth against each category of factors separately and then by bringing all factors together in a multidimensional analysis. It was found that personality traits seem to influence growth when they stand-alone but the inclusion of firm character and other external factors immediately diminishes the impact of personality traits on growth. The implication of the findings is that success studies give better results if a multidimensional approach is used.

Gilbert *et al.* (2008) examine the impact of cluster location on growth for a sample of 127 newly founded firms which were located in a broad spectrum of geographic regions in the United States. The suggestion of the empirical evidence generated is that when firms are located within a cluster they exhibit a higher growth rate than do their counterparts that do not benefit from such location.

On the other hand, in one of the other few studies that relate locational characteristics to the location of high-growth firms, Acs, Parsons and Tracy (2008) find that high impact firms can be found in almost all regions, states, MSA and counties in the United States. The share of all firms that are high-impact firms in most of the geographic areas was found to vary between two and three percent. In another vein, however, Fritsch and Mueller (2007) observed that the specific local/sectoral labour market plays an important role, given that the vast majority of new founders in their study (approximately two-thirds of them) were previously employed or located in the same geographical area and in the same sector. Therefore, the study suggested that entrepreneurship may be strongly characterised by sectoral and locational inertia.

Using a 1-2-3- survey organised in three phases, Grimm *et al* (2013) used an innovative empirical strategy on a unique data set that is based on a representative sample of informal entrepreneurs in seven capital cities in francophone West Africa.

The study identified three rather than 2 groups of entrepreneurs: a group of

acknowledged top performers; a group of survival entrepreneurs with characteristics that were fundamentally different from the first and finally a control group of entrepreneurs that were regarded as “constrained gazelles” who share certain characteristics such as education, language skills, sector choice and some basic management abilities with top performers. The latter are potentially capable of being successful but not (yet) successful because they are constrained and had remained unrecognised and inadvertently lumped with the survivalists.

Further analysis demonstrates the added value of combining the qualitative characteristics of informal entrepreneurs with their returns to capital in one representative data set in the study. The authors propose an econometric methodology based on the rich set of characteristics that the self-employed and their enterprises possess, which allows them to identify those self-employed among the unclassified

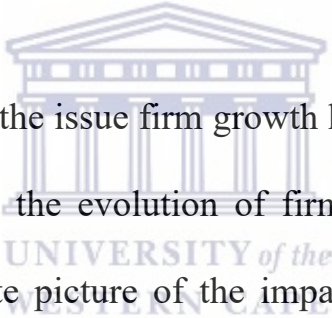
“top performers” whose characteristics are found to be most similar. The empirical strategy enables the authors to design criteria for identifying and separating out constrained gazelles, such that they can be targeted to benefit from interventions that may unlock their potential. As the study findings are based on a representative sample, the extent of the general applicability of these criteria to identify potentially successful entrepreneurs was also discussed.

To support the school of thought that all small businesses may not be growth-oriented and that growth may be a “voluntary choice” (Masurel, Montfort, 2006) for certain firms, an empirical study of SMEs’ growth pattern (Kolvereid, Bullvag, 1996) concluded that growth intentions may be used to predict actual growth, that past intentions have an effect on later intentions and that change in growth intentions are associated with changes in growth patterns.

The socio-economic factors that influence the capacity of SMEs to alleviate poverty in the south-western part of Nigeria was examined by Bowale and Akinlo (2012). Using primary data derived from 700 sampled small and medium scale enterprises in three states (Lagos, Ogun and Oyo) in the south-western region of Nigeria, descriptive statistics and inferential techniques revealed a substantial increase in the number of SMEs that have grown in terms of employment and had grown from microenterprises to small scale firms over a five-year period. The choice of the three states was based on size and concentration of SMEs while the study concluded that business registration, business size, nature of business and sources of capital constitute major factors determining both income and employment generation potentials of SMEs.

Lastly, a broader conceptual framework of opportunities and capabilities are considered to be important in MSE growth as shown in the works of Nichter and Goldmark (2005). Although at an aggregate level, MSEs are seen to be generating

growth especially in comparison to larger firms in many contexts, many individual MSEs may not grow at all or grow at a rather slow rate. Overall growth rates may be attributable to the rapid expansion of a few high performing MSEs referred to earlier as “gazelles”, that have opportunities and capabilities to grow. In the submission of these works, opportunities for profitable business activities tend to shape the ability of a microenterprise to expand operations and generate growth. Likewise entrepreneurs must possess appropriate capabilities, such as skills, resources or technology in order to take advantage of business opportunities,



The complexity surrounding the issue firm growth have resulted in the emergence of various theories that predict the evolution of firms. No single theory is however capable of giving a complete picture of the impact and evolution of firm growth phenomenon. In the absence of a complete theory of firm growth dynamics therefore, an empirical approach has therefore been recommended in order to derive stylised facts in different contexts (Coad, 2009).

3.4 Microfinance as a Determinant in MSE Growth

Economic growth has been a longstanding public policy goal, but the microeconomic foundations are only just being unpacked. The important role played by high performance micro and small enterprises are now emerging. They have been variously referred to as “high growth firms”, “high performers”, “competitive SMES”, “transformational enterprises”, “gazelles” etc. Many policy makers

perceive that they can be relied upon as powerful engines of new growth and innovation and that therefore they justify to be an important segment of policy support.

In developing countries, micro and small enterprises (MSEs) are increasingly considered as having the potential to play an important role in employment creation and fostering the development of local economies. However, their growth seems to be hindered while several factors account for the wide variation observed in their performance. Financial sector development is seen by some authors to constitute a “robust determinant of growth” (e.g., Johnson *et al.*, 2002, Levine *et al.*, 2000, McMillan and Woodruff, 2002, and Cull and Xu, 2005). The works of de Mel, McKenzie and Woodruff (2008) show that finance constraints in particular can be so binding that businesses that have potential rates of return far above market rates can go unfinanced while their growth opportunities remain wasted. Other obstacles are also important, but lack of access to finance consistently emerges as one of the most quoted important underlying factors constraining firm growth. In view of this constraint in many economies, various microfinance programmes, with differing levels of effectiveness are being implemented to support MSEs. This section will explore the different perspectives on the role of finance in MSME growth.

Beck *et al* (2006), from a survey of 10,000 firms in 80 countries conclude that size is a major determinant of financing obstacles of firms. Smaller firms are seen to face

larger constraints and this implies that credit constraints could disproportionately impact on MSMEs' growth prospects (Beck *et al.*, 2005b; Aghion *et al.*, 2007; Beck *et al.*, 2008). Studies of SMEs such as Beck and Demirgüç-Kunt 2006 implicitly or explicitly compare them to large firms. Data on the profile of microcredit borrowers is surprisingly scanty, and there is also not enough data that can be matched to comparable surveys of SME employees.

Various researches have established that SMEs can face large financial constraints. (Beck and Demirgüç-Kunt (2006) provide a review of literature) and that these constraints limit their growth prospects. An emerging literature has also addressed the notion that smaller firms may find it harder to access external funding, implying that these constraints could impact disproportionately on MSMEs' growth prospects (Beck *et al.*, 2005b; Aghion *et al.*, 2007; Beck *et al.*, 2008). It is noteworthy however, that few empirical studies are known to have explicitly examined the positive link between access to finance and firm growth or success rates. (Nitchter, Goldmark, 2005)

Some of the earlier evidences on the effects of credit on a firm's growth performance are mainly in the form of descriptive statistics from national surveys of MSEs. The studies are typically comparative of the average growth rate of firms that had received credit to that of firms that did not receive any. This approach was adopted by Ngwira

(1993), Parker and Torres (1994), Minot (1996), USAID (1998), and Ebony Consulting International (2000), where it is found that in developing countries, access to credit leads to better firm growth prospects. This approach is however simplistic and does not control for other factors.

A large body of literature has noted how important lending relationships are for small and new firms as it compensates for their lack of credit history (Berger and Udell, 1998). This literature has observed that those firms with access to financial capital resources tend to exhibit higher growth rates (Audretsch, Keilbach and Lehmann, 2006). Demirguc-Kunt & Maksimovic (1998) provide evidence that well-developed credit markets reduce the obstacles that impede firm growth rate. But how can financial policy be shaped to influence the choice of enterprises that have the capacity to generate employment and which could be supported? It is believed that the capacity of capital markets to identify, select and finance the enterprises with the most potential may distinguish the level and quality of entrepreneurship across countries especially developing economies. (Kerr and Nanda 2011; Klapper, Amit, and Guillén 2010).

Through the use of a large panel of firms in emerging economies, Ayyagari *et al.* (2007) find that a heavier reliance on external finance has a close relationship with higher innovation, even after controlling for potential endogeneity, especially when the funds come from foreign banks. Recent experiments with microenterprises also

suggest that positive liquidity shocks lead to increases in enterprise profits which are sustained over the longer term (de Mel *et al* 2008, 2012; Field *et al* 2012). But there is little evidence that liquidity alone allows microenterprises to reach a different growth path that can ultimately lead to an increase in scale to the extent that additional employees would be needed to run the business. In other words, capital leads to higher incomes, but may not necessarily lead to employment generation.

A very recent and highly representative study by Ayyagari *et al* (2016) investigates the effect of access to finance on job growth among 50,000 firms across 70 developing countries. In this study credit bureaus are introduced as an exogenous shock to the supply of credit and the findings show that increased access to finance leads to higher employment growth, especially among micro, small, and medium enterprises. The results are robust with the use of variables of firm fixed effects, industry measures of external finance dependence, propensity score matching tested on complementary panel data set of over four million firms in 29 developing countries. These findings have policy relevance for interventions aimed at producing job growth in micro, small, and medium enterprises.

Other studies have shown that once an MSE has been started, it appears that they may face a number of other obstacles to growth even where the enterprise has access to finance which is regarded as a major obstacle to many of them. Definitely, access to microfinance institutions' loans has tremendous benefit for MSE growth but has

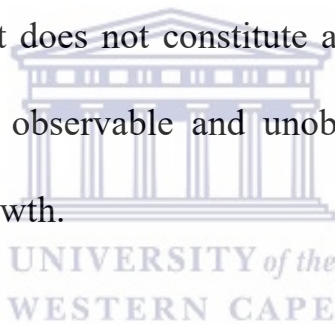
not been seen to spur an entrepreneurship revolution in developing countries as much as is being touted.

Banerjee and Duflo (2008) attempted an action research introducing two policy changes, one that included, and one without, some mid-size Indian firms from a direct lending program. They observed firms that had access to the lending program were able to expand production and increase sales and profit, showing the effect of credit constraints on the firms. Some more recent experiments with microenterprises also suggest that positive liquidity shocks lead to increases in sustained enterprise profits over the longer term (de Mel *et al* 2008, 2012; Field *et al* 2012). There is however little evidence that liquidity alone would cause microenterprises to reach a different growth path such that an increase in scale would ultimately reflect in the hiring of additional employees to run the businesses. Again, it is shown that capital may lead to higher incomes, but not necessarily to employment generation.

The quality of jobs created by supported enterprises constitutes another research question. Critics of Muhammad Yunus' Bangladesh microcredit model argue that if larger businesses (small and medium enterprises) are supported, more and better jobs may be created for poor individuals than microenterprises (e.g., Karnani 2007, Dichter 2006). That may be possible, however, if those larger enterprises engage poor workers in large numbers. The data shows that SME employees work long weeks, a pattern which for example imposes employment barriers on women with

child-raising responsibilities. The findings align with those which demonstrate the lack of a robust correlation between the growth of SME and poverty reduction that was found in cross- country data (Beck *et al* 2005a).

Macpherson (2007) examines the common assumption that access to credit from formal financial institutions forms an important determinant of firm level growth. Data results from a survey in East Java comprising of 858 small businesses using a full information maximum likelihood approach known as discrete factor method, indicate that access to credit does not constitute a significant determinant of small firm growth, instead, other observable and unobservable characteristics of firms appear to account for the growth.



Likewise, Babajide (2012) investigates the effects of microfinance on micro and small business growth in Nigeria. Employing panel data and multiple regression to analyse a survey of 502 randomly selected enterprises which are financed by microfinance banks in Nigeria, the study exhibited strong evidence that access to microfinance may not necessarily have a positive effect on the growth of micro and small enterprises in Nigeria. However, other characteristics at the firm level such as size and location of business are found to have positive effect on enterprise growth.

Karnani (2007) suggested that individuals who start a microenterprise and obtain credit from microfinance institutions may in fact prefer to find employment at

steady wages, but they may turn to self-employment when wage jobs are unavailable. These individuals may not possess the required skills or motivation to be successful entrepreneurs even if they have access to capital. This is probably one of the possible reasons why recent microcredit evaluations are showing mixed results (e.g., Banerjee *et al* 2010, Crépon *et al* 2011).

The message that seems to be coming through from randomized evaluations of microfinance is that poor people face various limitations and their ability to capitalise on opportunities varies greatly. (Bauchet *et al* 2011, Nitcher and Goldmark, 2005). It must be realised that not all microcredit borrowers even want to grow a business or have the capacity to do so. Hence like other factors influencing growth, access to finance is seen to constitute a necessary but not a sufficient condition for growth. (Nitcher, Goldmark 2005)

It is therefore evident that not all small businesses are growth-oriented and can create jobs with or without access to finance. There exists in literature stylised evidence that few firms transform from microenterprises into small or medium enterprises. This stagnation comes despite a plethora of microcredit programmes and projects from government, NGOs and social businesses. Some of these evidences reveal that microcredit may generate important impacts but not transformational positive impacts on firm size (see Attanasio *et al.* 2011; Augsburg *et al.* 2012; Banerjee *et al.* 2011; Karlan and Zinman 2011; Karlan and Zinman 2010). While

literature shows different perception on enterprise growth, there is a paucity of studies of how financing with microcredit contributes to MSE growth and employment creation.

3.5 Evaluation of the Effectiveness of MSME Policies

The importance of the need to assess development outcomes of policy processes is now a front burner issue in development circles consequent upon policy failures. Andrews (2018) examines World Bank failure rates and concludes that policy organizations like the Bank base policy success on whether planned products are delivered through an efficient process; rather than judging whether policies solve the problems that interventions were meant to address in the first place, or whether the policies promoted development outcomes. This study is curious to know whether MSME job creation policies are actually creating jobs and whether such investigation is routinely undertaken by the bank, hence the need to consult literature relevant to the evaluation of policy effectiveness.

Olaoye (2010) examined why policies fail in Nigeria using as a case study the failure of agriculture policies from 1972-1985. Factors such as lack of proper policy formulation, implementation and evaluation apart from socio economic factors were seen to have led to policy failure in the agriculture sector in Nigeria

On the issue of evaluation in the SME sector, McKenzie (2010) argues that the sector is one area that particularly has possibilities for impact evaluations which

have not been adequately exploited and that SME focused policy evaluations are typically carried out by governments and international financial institutions (IFIs). These exercises are usually too expensive for researchers to fund on their own. As a result, a real knowledge gap is apparent and this creates an opportunity that could be tapped. It is further believed that if governments and IFI operations staff can work with researchers in evaluating the many projects being implemented, there is a possibility that many of the policies being carried out for SMEs could be evaluated rigorously to learn where modifications of existing strategies would be needed. This way, policy failures could be minimized. As Duflo and Kremer (2005, 342) state, “the benefits of knowing which programs work and which do not, extend far beyond any program or agency, and credible impact evaluations are global public goods in the sense that they can offer reliable guidance to international organisations, governments, donors, and NGOs beyond national borders.” Where necessary, support programmes may need a redesign to make them more appropriate for the sector that they are intended to serve.

McKenzie (2010) offers insights from a survey of impact evaluations from the perspective of a broader area of finance and private sector development, making a strong case for impact evaluations in the private financial development area. Sceptics of microcredit programmes point to many very small businesses created, with few growing into larger businesses (Barnerjie and Duflo 2013). However rigorous evidence that may help to arbitrate between the viewpoints of proponents

of microfinance and the sceptics are quite modest. While literature shows different perceptions on enterprise growth, studies of how financing with microcredit contributes to MSE capacity to generate employment especially in the specific context of African local communities are particularly few.

In recent years, impact assessment has gained prominence in development activity as agencies, and particularly aid donors, have sought to ensure that funds are well spent. Aid effectiveness is particularly trending. As microfinance programs and institutions have become an important component of poverty reduction programmes and likewise promotion of micro and small enterprise development, attention has begun to focus on them. But knowledge about the successes of such initiatives have been scanty and contested where they exist.

Goals of impact assessment studies commonly incorporate both “proving” impacts and “improving” interventions, but they are more likely to prioritize the proving goal better than was done in the evaluations of the 1980s. Hulme (2000) presents a useful dichotomy of the two objectives, which involves different approaches and outcomes. An ability to prove impact is often useful for the purpose of making resource allocation decisions, in which case there is a need for rigorous results that are capable of demonstrating causality. There is no “one size fits all” approach to impact evaluation of an intervention but the approach will depend on the operational features of the policy being considered.

One example of an emerging sector-wide learning agenda is the smallholder Impact Literature Wiki developed by The Initiative for Smallholder Finance. The intention of this initiative is to provide a living resource for its community that “helps smallholder farmers capture, organise, and easily access the growing body of literature”. The tool helps new entrants to the field to have a quick understanding of the elements of smallholder finance that have been proven to drive impact and in what context, as well as the gaps that remain in our understanding.

Robust evidence that supports or rejects the continued existence of different forms of development financing models for job creation by MSEs is scanty, in different contexts and therefore creates a gap in knowledge. This present research is therefore significant in examining the continued relevance or otherwise of MSME Finance support especially by the public sector. Ultimately, the effect of access to finance on employment growth is an important empirical question, given the concerns on jobless growth in the Nigerian economy over the past few years. The study is expected to contribute to applicable knowledge which can be incorporated into a working framework for understanding the dynamics of MSME development as well as guide policy decisions within the context of local economic development.

3.6 Applicable Theories and Conceptual Framework

This section starts with discussing the theoretical framework motivating the choice of conceptual framework and methodology to be adopted. In order to effectively

undertake an evaluation of the effect of micro, small and medium enterprise (MSME) finance policy on job creation in Nigeria this study is hinged on three major theories:

Financial Inclusion, Market Failure Theory and the Agency Theory.

3.6.1 Financial Inclusion

The issue of growth and inequality has been long constituted a global policy concern. In recent times the concept of inclusiveness in the growth process and the distribution effects have been discussed widely. Economic growth is inclusive if it provides employment opportunities and helps to reduce poverty. It is generally about the provision of equality of opportunity and empowering people through education and the provision of resources. World Bank considers growth as inclusive when it is

“sustainable, long run and broad based” across the sectors, in which case large parts of countries’ labour force participate. From an equality principle perspective therefore, inclusive growth comprises both **outcomes** and **processes**, involving **participation** and **benefit-sharing**. (www.ipc-undp.org). In this regard, policy must ensure that poor people actually benefit from growth and although inclusive growth is sometimes used interchangeably with definitions of pro-poor growth, it is however a much broader concept.

Inclusive growth is therefore meant to allow everyone, irrespective of their status the opportunities to participate in the growth process and also ensuring that benefits could

also be shared. The poor face challenges including access to financial services which impair their conditions and limit their opportunities. Growth to be inclusive both in terms of benefits enjoyed and, access to opportunities for participation, ought to benefit everyone as it reduces the disadvantages that they face. The lack of access to financial services prevents poor and low-income people from making everyday decisions that most people take for granted. (Helms, 2016) Theoretically the case for **financial inclusion** is therefore made “based on the potential loss of contribution to growth and poverty reduction, from those who are denied access to finance” (e.g. MSEs and the poor) (www.undcf.org). “Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance–delivered in a responsible and sustainable way” (www.worldbank.org/en/topic/financialinclusion)

Studies have found depth/penetration, availability and usage of financial services to be inversely associated to poverty. In Anand and Kuldip (2013), the depth ratio emerged as leading contributor in the value of financial inclusion index among all the three variables across the world as a 1 per cent increase in financial inclusion led to on an average 0.142 per cent increase in the value of human development index (cross-country data).

Different strategies are therefore designed by governments and other stakeholders to support the poor segment of the population to enable them have accesses to affordable financial services. Banerjee and Duflo (2011) however point out that if

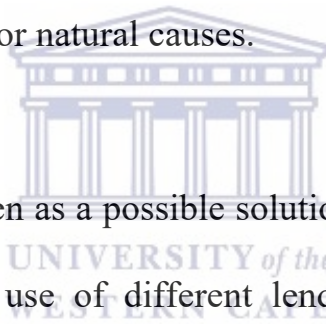
the objective is to create wealth and jobs, only entrepreneurs that are transformative in nature and have both the attitude and ability to grow their business and so create jobs for others should be given access to credit services such as microfinance loans.

3.6.2: Credit Market Failure Theory

Credit is one of the key financial services that promote growth, yet the poor generally lack access to this product. The theoretical issues that surround credit market failures and the ways of employing microfinance to help solve these were formally raised in Bardhan and Udry (1999) and Ghatak and Guinnane (1999). It is assumed in microeconomics that if markets were operating in a perfect form, with full information and no contracting problems and transaction costs, then everyone, even poor people, would ordinarily be able to save and borrow at the equilibrium market-determined interest rate for investment, working capital or their needs for consumption-smoothing. This means that informed judgments will be on the basis of returns on investment projects and preferences over the inter-temporal allocation of resources. Yet in practice, credit and insurance markets are highly imperfect especially in developing countries where access to information is constrained, and these imperfections are particularly disadvantageous for micro and small enterprises.

Information asymmetry and contracting problems are therefore prevalent as lenders have incomplete information on the characteristics of potential borrowers both in terms of the value of their investment projects, their personality and or

entrepreneurship skills capacity. Firstly, from the perspective of the credit institution, lack of information on potential clients' personality and characteristics is a classic example of "hidden action" and the potential possibility of moral hazard: once a loan is given, it is possible that it will not be used for the intended purpose, but for other "lower effort" activities, in which case default in repayments may occur. This therefore raises the possibility of adverse selection: when lenders may not be able to effectively tell whether borrowers are the types prone to default or not. Lenders may also not be able to tell whether the cause of lack of repayment is due to deliberate, accidental or natural causes.



Microfinance is therefore seen as a possible solution to market failures in the formal financial sector, hence the use of different lending methodologies that are less stringent and more concessionary than in the formal sector. Tirole (2006) and Armendariz and Morduch (2000) argue that through different methodologies and innovative contracts such as group liability models, microfinance practice tries to solve the informational asymmetries that hinder the formal financial sector to serve MSMEs and thus overcome lending constraints that they face. Through these alternative methodologies, MFIs are able to serve clients who have otherwise been considered too risky to deal with by commercial banks.

According to Armendáriz de Aghion and Morduch (2000), the absence of formal credit institutions in rural economies is often attributed to agency problems which

are significant when individual clients do not have sizeable collateral, and when legal enforcement mechanisms are weak. Asymmetric information being a feature of many agency relationships in the microfinance market necessitates a systematised role of monitoring and evaluation on the part of the principal. To achieve this objective, it is important to adopt a theory-based set of activities.

3.6.3: Agency Theory in Microfinance Markets

Agency theory refers to a situation where principals delegate authority to agents to make decisions and many of these decisions affect the principal financially. Building on the work of other earlier theorists, Jensen and Meckling (1976) developed an economic model to capture the essence of the principal-agent relationship, by assuming that each party to the contract will always act so as to promote their own self-interest as motives may differ. Differences of opinions and in priorities and interests may emerge and have profound impacts on business decisions by the agent and outcomes. Though this assumption is controversial among economists and this fact is acknowledged by the authors it remains the major position of agency theory.

Development financing may sometimes create problems where there is attempt to balance commercial interests with social objectives. Where commercial interests are unduly compromised at the expense of government development objectives, there is a possible area for conflict.

In microfinance markets, governance is a term used to refer to the mechanisms through which donors, equity investors and other providers of funds such as governments ensure that their funds are being used for the intended purposes. Control mechanisms of this nature are important because programme managers and the providers of funds may have differing preferences and objectives- a phenomenon referred to as the “agency problem” in corporate governance literature.

The manager is an Agent, and unlike the Principal, does not have ownership of the resources of the firm. The Principal owns the resources and therefore bears the “residual risk”; hence the Principal constitutes the “residual claimant” of the firm’s wealth (Jensen and Meckling, 1976). Costs associated with the “agency problem” are called “agency costs”. They represent costs which residual claimants have to bear before they can benefit from the professional services of managers. Many governance mechanisms therefore aim at minimizing agency costs by ensuring that the objectives of the Owner-Principal are aligned with the objectives of the Manager-Agent such as striking an appropriate balance between financial benefits and development interests of government.

In summary the theories as applied to this study show the BOA microloan scheme as an attempt to enhance financial inclusion among low income earners through the provision of concessional terms that attempt to address the apparent credit market failure in the economy. BOA being a development finance institution of government (the principal)

has development objectives, but in order to be sustainable on the long run, this interest may conflict with those of the more commercial motives of the management (agent).

Overall, the survey of the literature by the researcher as well as a consideration of the theoretical basis for the study therefore leads to the adoption of the conceptual framework presented below.

3.6.4 Conceptual Framework

Taking inspiration from the theoretical models explored above, the conceptual framework employed for the research recognises the importance of defining a clear theory of change that explicitly links development outcomes with MSME financing policy objectives, systemic change in the market, and the funder's intervention.

Theory of Change Approach: Researchers have been attempting to find evaluation strategies and methodologies that correspond well to the goals and designs of MSME finance policies and initiatives. Such strategies are expected to meet both the need to estimate these initiatives' effects on interim and longer-term outcomes and the need for information on how the interventions produce those outcomes.

A theory of change approach can sharpen the planning and implementation of an initiative as it has the ability to facilitate the measurement and data collection elements of the evaluation process. Weiss (1995) simply defines a theory of change as “a theory of how and why an initiative works”. In applying this to evaluation of

programmes therefore, a theory of change approach is “a systematic and cumulative study of the links between activities, outcomes, and contexts” of an initiative. By articulating a theory of change from the beginning of the evaluation process and gaining agreement on it by all stakeholders, some of the problems that may be associated with causal attribution of impact can be reduced.

It is argued that stakeholders of complex community interventions may find the nature of the change process unclear and therefore unmindful of the early and midterm changes that are required to reach a longer term goal. The theory of change in its application to evaluation is therefore a form of critical theory that ensures the inclusiveness of many perspectives and participants in achieving solutions, rather than being a mere research methodology.

White (2009) identifies the following six principles to successful application of a theory-based approach to impact evaluation: “1) map out the causal chain (programme theory); 2) understand context; 3) anticipate heterogeneity; 4) rigorous evaluation of impact using a credible counterfactual; 5) rigorous factual analysis; 6) use mixed methods”.

An element of the theory of change is the programme theory which explains the way in which an intervention’s (a project, a programme, a policy, a strategy) contribution to the results chain which produce the intended or actual impacts is understood.

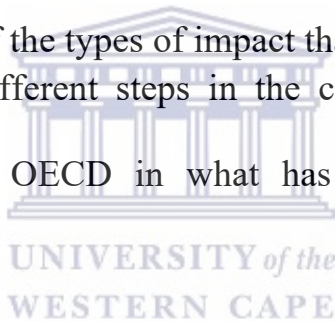
Through the use of different types of diagrams, programme theory is a good tool that

can provide a conceptual framework for monitoring, evaluation, or for an integrated monitoring and evaluation framework. A programme theory can also be a very useful means of collating existing evidence about a programme, and clarifying areas of agreement and disagreement about perceptions on the way the programme is working, and where gaps exist in the evidence.

There are three main elements to a conceptual framework:

- a model of the impact chain that the study is to examine,
- the specification of the unit(s), or levels, at which impacts are assessed, and
- the specification of the types of impact that are to be assessed.

In terms of process, the different steps in the conceptual framework have been systematically outlined by OECD in what has been termed Standard Results Measurement.



Standard for Results Measurement: The Standard for Results Measurement (DCED 2014) is designed by OECD as a process standard widely used by market development programs in a variety of industries. Standard for Results Measurement (DCED 2014) comprising of eight elements can be adjusted for different programmes to define relevant indicators for the type of changes sought in the market and to assess plausible influence of the program on the market. DCED Standard steps at a glance is as follows:

1. “Articulating the Results Chain
2. Defining indicators of change
3. Measuring changes in indicators

4. Estimating attributable changes
5. Capturing wider changes in the system or market
6. Tracking programme costs
7. Reporting results
8. Managing the system for results measurement”

Steps 1 and 2 can be articulated at this stage of the thesis while the other steps will be discussed under the methodology chapter.

Articulating the results chain: The results chain is the beginning of assessing attribution. By assessing what changes are expected at each level, the study can build up a plausible story of attribution of the programme intervention being studied. The diagram below depicts the programme logic/results chain associated with the theory of change of Microloan Scheme of Bank of Agriculture.

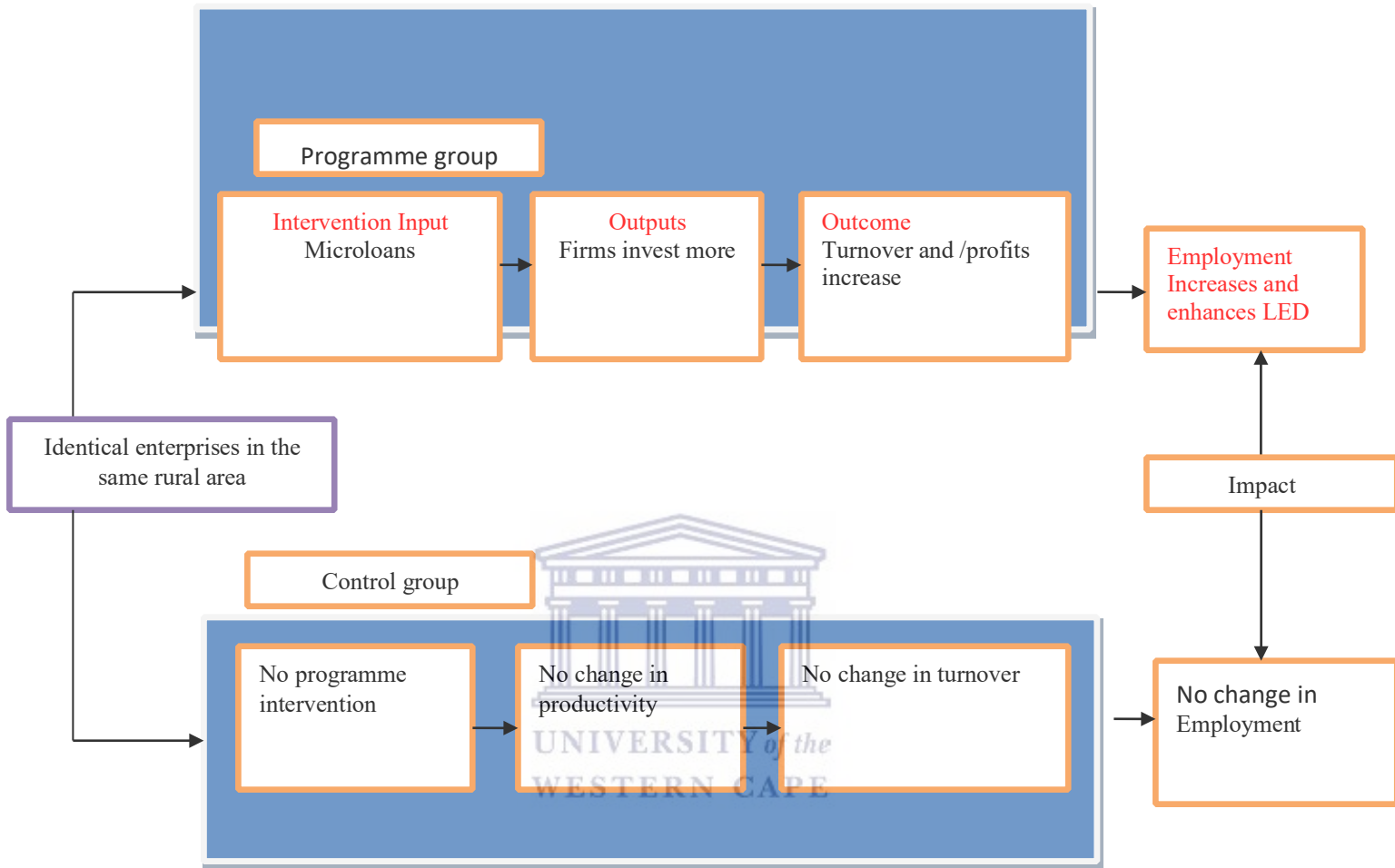


Figure 3.1: Results chain for the Evaluation of MSME Finance Policy

<p>“Ponies” Lack Capabilities to Harness Existing Opportunities</p>	<p>“Gazelles” Fast Growth Enabled by Opportunities and Capabilities</p>	<p>High Opportunities</p>
<p>“Tortoises” Lack Opportunities and Capabilities</p>	<p>“Caterpillars” Lack Opportunities to Apply Existing Capabilities</p>	<p>High</p>
<p>Capabilities</p>		

Figure 3. 2: Typology of MSE Growth Profiles

Source: Nitcher and Goldmark (2005)

Defining Indicators of change: In the context of young firms, it is assumed that significant increase in employment is an indication of noticeable demand for the firm’s products or services. Preference for growth in employment is therefore viewed as a good indicator of the firm’s healthy growth. *Most traditional approaches to results measurement overlook the wider changes in the market – although this is where the best impacts and scale are often to be found.* The DCED Standard consequently encourages programmes to attempt to capture these wider changes so that they do not under-report their performances.

It is assumed that financial inclusion can enhance job creation and in turn inclusive growth. In other words, job creation can be achieved if MSMEs, especially those that have the capacity for productivity have access to finance. However only a small proportion of microfinance borrowers are seen to develop into “transformational entrepreneurs” (“gazelles”) or even desire to grow their businesses beyond the

subsistence level. Nitchter and Goldmark (2005) suggest that gazelles (small and growing businesses) as depicted in the blue section of Figure 3.2 are likely to experience high growth as enabled by their access to opportunities and capabilities.

3.7 Conclusion

Many studies have shown that once an MSE has been started, it appears that they may face a number of other obstacles to growth even where the enterprise has access to finance which is regarded as a major obstacle for many of them. Theoretically, access to microfinance institutions' loans is perceived to have tremendous benefit for MSE growth, typified by employment growth, but so far findings are mixed on whether this is seen to have spurred an entrepreneurship revolution in developing countries.

While literature shows different perceptions on enterprise growth, there, evaluation studies on how financing with microcredit especially by DFIs contributes to MSE growth and employment creation are rather scanty. This section has therefore summarised available literature on the issue, ahead of the study findings. Empirical evidence on the capacity of small firms especially microenterprises to generate employment is mixed but there is consensus on the fact that a small segment of small firms is bound to grow and create more jobs. The findings of this study are bound to contribute to filling the apparent important research gap and lead to the development of a refined monitoring and evaluation framework for MSME Finance policy.

CHAPTER FOUR

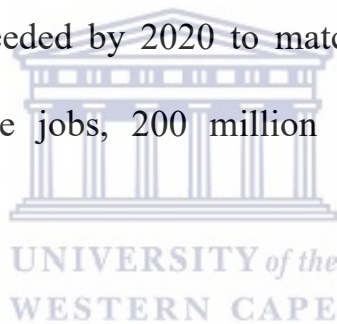
THE GLOBAL LANDSCAPE OF PERFORMANCE MEASUREMENT IN THE IMPACT INVESTING SECTOR

4.1 Introduction

There is a rapidly growing industry all over the world being propelled by investors who are committed to the generation of social and environmental impact apart from financial returns. “The intention to generate measurable social and environmental impact alongside a financial return”⁵ constitutes what is now popularly known as impact investment. Impact investing is about releasing huge private investment capital to complement public resources and philanthropy for the purpose of solving emerging global challenges in sectors such as sustainable agriculture, *microfinance*, renewable energy, conservation, as well as affordable and accessible basic services including healthcare, education and housing. Impact investments are therefore made into companies, organisations and funds towards achieving this aim. The term is seen to have been formally adopted at a gathering hosted by the Rockefeller Foundation at their Bellagio Retreat Center in 2007. Thereafter the marketplace for impact investing is growing, though at a modest proportion in relation to the global financial market. It is however generating a new movement of investors that are engaged in redefining the role of capital and channelling its full power to create a better world. (www.thegiin.org)

⁵ Definition as provided by the Global Impact Investment Network (GIIN)

Impact investing therefore contests the commonly held belief that social and environmental issues can only be addressed through funding that is provided on philanthropy or other charitable platforms. In principle this form of investing is expected to generate a financial return on capital or, a return of capital at the very minimum in addition to an investor's intention to have a positive social or environmental impact. Many investment activities do exist that attempt to generate such impact and return. *A major intention being pursued by such investments has been job creation* to address worldwide poverty. The World Bank has estimated that 600 million jobs will be needed by 2020 to match the rate of population growth globally—and that of these jobs, 200 million will be required in developing economies.



The creation of quality jobs will however remain a major challenge for almost all economies even beyond 2015 because having a job does not imply that the ability to escape from poverty is guaranteed. After microfinance, support to small and growing businesses (SGBs) is the next popular instrument used by impact investors to encourage job creation. They have been shown to be “critically linked to GDP growth and poverty reduction in developing countries”⁶. SGB growth is therefore expected to help poor people through two mechanisms—by creating jobs, which provide income by encouraging GDP growth, which in theory, supports the overall health of the economy of a country and reduces poverty.

⁶ McCoy J, 2013. Impact Investing: The Challenge of Job Creation. <http://rsfsocialfinance.org>

Investors globally are undertaking impact investments in order to release the potential of capital for good; help their investees make better-informed business decisions and to manage their investments for greater impact. Impact considerations are thus beginning to be integrated into investment management as well as integrating the implementation of impact management into firms' day-to-day operating practices. In the impact investment community, government investors and development finance institutions that are targeting specific social and environmental goals such as job creation also feel a sense of responsibility to prove the financial viability of their investments to private-sector investors in order to attract them to the commitment for social mission orientation.



Impact investors are therefore defined as those having the following three characteristics:

- “Expectation of a positive financial return on investment over the life of the investment.
- Stated intention to create positive social or environmental impact and
- *Commitment to measure and track social and/or environmental impact of investment*”. (www.giin.org)

Although the impact investing sector in Nigeria is larger than in other countries in the region, the community of investors has a relatively small size compared to the

size of the market. The GDP of Ethiopia, for example, is less than a quarter the size of

Nigeria's but has almost three times (58) the number of non-Development Financial Institutions' (DFIs⁷) impact investors in Nigeria (28 including 20 non-DFI and 8 DFI investors). As at 2015, only seven of the 28 identified impact investors have a local presence in Nigeria because of the high cost of living and operating businesses in the country. The business environment is however improving as Nigeria now ranks 145 out of 190 countries on the 2018 World Bank Doing Business⁸ index from a worse position of 169 in the 2017 report. The Tony Elumelu Foundation is the only identified impact investor that relies majorly on local sources of capital. BOA which is the focus of this study is a government-backed DFI that provides wholesale and retail finance to the agriculture and non-agriculture sectors especially micro, small and medium enterprises in Nigeria, with a stated intention to create social impact, but as will be seen later, the intention to track and measure such impact has been faulted.

4.2 Impact Objectives and Performance Measurement

During the UN General Assembly in September 2015, The Sustainable Development Goals (SDGs) agenda was formally adopted by world leaders to build on the progress achieved under the Millennium Development Goal (MDGs). The 2030 Agenda embraces the three dimensions of sustainability – economic, social

⁷ DFIs are government-backed financial institutions that provide finance to the private (and in some cases public) sector for investments towards the promotion of development.

⁸ World Bank "Doing Business 2018: Reforming to create jobs".

and environmental. Currently, the goals represent an important focus for the development community, hence stakeholders are not just thinking about SDGs as the sole effort for governments and NGOs but that investment capital could play a critical role in the achievement of the SDGs. Investors are therefore beginning to consider the issue of SDGs and how to connect them to their investment strategies because opportunity does exist for contributing towards achievement of the SDGs through making impact investments. The objectives against which investors intend to make impacts however need to be clear. Impact objectives are well-defined social and/or environmental goals that an organisation seeks to achieve through its products, services or strategy. Table 4.1 presents a list of the 17 Sustainable Development Goals as agreed by the United Nations, with a highlight on Goal 8- Decent Work and Economic Growth, which constitutes the goal of interest of the present study.

Table 4. 1: “Sustainable Development Goals”

Goal Number	Goal
Goal 1	“No Poverty
Goal 2	Zero Hunger
Goal 3	Good Health and Well-being
Goal 4	Quality Education
Goal 5	Gender Equality
Goal 6	Clean Water and Sanitation
Goal 7	Affordable and Clean Energy
Goal 8	<i>Decent Work and Economic Growth</i>
Goal 9	Industry, Innovation and Infrastructure
Goal 10	Reduced Inequality
Goal 11	Sustainable Cities and Communities
Goal 12	Responsible Consumption and Production

Goal 13	Climate Action
Goal 14	Life Below Water
Goal 15	Life on Land
Goal 16	Peace and Justice Strong Institutions
Goal 17	Partnerships to achieve the Goal”

The focus of the present study is related to the pursuance of Goal 8: Decent Work and Economic Growth which aims to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”⁹. Decent work and the four pillars of the Decent Work Agenda are:

- “employment creation,
- social protection,
- rights at work, and
- social dialogue” (www.un.org)



These became integral elements of the new 2030 Agenda for Sustainable Development. The statements and action plans of leaders of the EU, African Union, G20, G7 and other multilateral and regional bodies support the view that *decent work* is significant in the quest for crisis recovery and sustainable development. This study is investigating the first pillar i.e. employment creation.

The Targets for Goal 8 are the following:

1. “Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries;

⁹ <http://www.ilo.org/global/topics/sdg>, www.un.org/sustainabledevelopment

2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on highvalue added and labour-intensive sectors;
3. *Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and **growth of micro-, small- and medium-sized enterprises, including through access to financial services;***
4. Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead;
5. *By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value;*
6. By 2020, substantially reduce the proportion of youth not in employment, education or training;
7. Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms;

8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment;
9. By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products;
10. *Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all*
11. Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries;
12. By 2020, develop and operationalise a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organisation”¹⁰.

Impact objectives vary from firm to firm and they are derived from broad impact themes in which organisations are interested. Respondents in a study on the State of Impact Measurement and Management Practice¹¹ indicated which impact themes they adopt, as aligned with the 17 U.N. Sustainable Development Goals (SDGs). Most investors target more than one impact theme and the average investor targets four. The highest proportion of sample AUM is allocated to ‘decent work and economic growth’ (24%) i.e. Goal 8 of SDGs. This pattern is consistent with the interest of

¹⁰ www.undp.org/content/undp/.../sustainable-development-goals ¹¹ Mudaliar A. *et al*, 2017

this study which focuses on the issue of job creation. Sixteen percent of AUM is allocated to ‘climate action’, followed by ‘sustainable cities and communities’ (11%) and ‘good health and wellbeing’ (7%). Impact objectives that are clearly defined and are aligned between the investor and the benefitting organisation provide focus and help to guide strategy while also facilitating decision-making rationale and processes, as well as help stakeholders in measuring progress toward stated goals. This study is specifically situated around the 3rd, 5th and 10th targets which have been marked in italics. They relate to job creation equal opportunities for employment, entrepreneurship, growth of MSMEs as well as financial inclusion.



4.2.1: The State of Performance Measurement in Impact Investing

Impact investors are designing strategies to measure the social and environmental performance of their investments, using this data to have a better understanding of the impact that their investments generate for people and the planet; (re)channel their investments to realise better impacts and help their investees to make better-informed business decisions. The practice of impact measurement and management is now becoming more sophisticated and the data being generated from the exercises are enabling impact investors to manage their impact performance in manner that is akin to what is done for financial performance. Much effort has been undertaken to develop such measurements. Investors therefore now have the opportunity to strengthen the evidence base for understanding the impact results of their impact

investments, share lessons with others and address critical problems facing society and the environment. The year 2017 marks a watershed in the impact investment industry when impact measurement became a strategic imperative for investors and most impact investors are committed to reporting some form of their impact performance. About 70% of impact investors have started to produce publicly available impact reports. (www.giin.org)

A study by Mudaliar *et al* (2017) provides data from 169 investors on their motivations, strategies, and perceptions of impact measurement and management (IMM). The report serves to provide resource for impact investors for guiding how their IMM practice compares to industry standards. In the report, 59% of the responding impact investors set targets to measure their progress on social and/or environmental indicators. Most of those that set targets (71%) observe that their employees are intrinsically motivated to achieve these impact targets while 56% note the same for their investees. Some are seen to further incentivize their employees by reflecting the achievement of impact targets in employee performance evaluations (16%) or linking their compensation to the achievement of impact targets (13%). To incentivize investees, some investors require the achievement of impact targets as a prerequisite for disbursing follow-on capital (31%), receiving initial investment (23%), or meeting loan covenants (23%). Based on the study findings, the GIIN encourages all impact investors to consider the following opportunities for strengthening their practice and further deepening their impact:

1. Investors should recognise that the impact of every investment is multifaceted. Though many impact investors currently measure only the positive impact of their investments, investors can obtain a better understanding of the total impact of their activities by monitoring negative externalities as well. This information can then be used to find ways of addressing the needs of the various stakeholders affected by their investments.
2. Impact investors can improve their impact strategies by setting and embedding targets into business practices (as practiced in financial performance targeting). About 60% of impact investors now set targets for the impact they aim at achieving. Goals setting facilitate the collection of clear data, drives performance management, and ensures accountability. Incentives similar to those employed for encouraging financial performance can then be applied to motivate staff and investees to meet set social impact targets.
3. Investors can also strengthen the evidence base for understanding the impact results of impact investments and share lessons with other stakeholders to solve critical problems if they make more of their impact data available to key stakeholders. (Mudaliar *et al* (2017))

More than 60% of the 169 impact investors surveyed in Mudaliar *et al* (ibid) measure impact because of its business value. “The increasingly sophisticated practice of impact measurement and management is enabling impact investors to

manage their impact performance with the same data-driven approach they apply to financial performance.”¹¹ Impact investors can enhance the rigour of impact strategies if they set targets and embed them into their business practices (just as it is standard to set financial performance targets). Currently, about 60% of impact investors set targets for the impact they seek to achieve. (www.giin.org) In general, components of impact measurement best practices in the field of impact investing include the following:

- (i) Establish and state social and environmental objectives to relevant stakeholders.

Set goals and expectations: Goals should consider the effects which an investment may have on people and/or the planet and balance investor expectations for risk, return, liquidity and impact. Having specific goals helps to inform data collection efforts, propel performance management, and ensure accountability.

- (ii) Define strategies:

There are many pathways to achieving impact goals and meeting expectations. It is necessary to consider what pathways would be more relevant to the portfolio, investment expertise, or client demand under consideration.

- (iii) Select metrics and set targets:

¹¹ GIIN’s Managing Director, Amit Bouri on *ImpactAlpha*. [Understand, expand, and deepen your impact](#). GIIN, 2017.

Relevant output, outcome, and proxy indicators should be used to set targets (as appropriate), track performance, and manage towards success. Wherever possible, existing standardized performance metrics/targets related to the objectives of choice could be modified for use as appropriate¹². Impact metrics should ultimately deliver investment decision information, facilitate learning and pivoting when necessary, and strengthen the performance of portfolio and investment strategy.

- (iv) Measure, track and use the data to report performance to relevant stakeholders: Monitoring and managing the performance of investees against selected targets. Impact measurement and management is beyond counting the metrics. It is meant to inform learning about risks, returns, and impact for improving investment decision-making. Reporting may be based on the result of a mix of qualitative and quantitative techniques and enriched by the use and sharing of best practices.

On the whole the impact measurement process is determined by the considerations around the question of whose gains should be counted, how to structure assessment, and what forms of assessment are considered as legitimate.

¹² A metrics framework is a blueprint of both the metrics and the logic for how they are applied across a portfolio. What is relevant to one organisation may be very different from that of another.

4.3 Leveraged Frameworks of Impact Measurement

Impact investors are targeting diverse types of impact and they frequently use social performance and impact data to make and decisions that drive business value using a variety of tools and frameworks, and then applying the information to portfolio decision-making in many different ways. Metrics used to measure social and environmental impact also vary for each DFI, hence it may be difficult to make data comparisons across institutions. For non-DFI impact investors however, measurement and reporting of social and environmental impact is more or less ad hoc in nature and may be inconsistent depending on the nature of the management system in place. Many individualised internally-defined frameworks are applied across different industries and firms depending on the reporting requirements dictated by particular investors, or the level of compliance capacity exhibited by the enterprises in which non-DFI actors invest.

Many enterprises lack the capacity to track and report on social metrics aside the financial metrics they are normally required to track. Non-DFI investors may also lack the capacity to conduct their own impact tracking across the large variety of sectors and enterprises in which they invest¹³. Many of them resolve this dilemma by just setting a basic set of metrics such as number of jobs created, number of clients serve and client incomes which may be defined through a collaborative process between them and enterprises that they support.

¹³ Koyama, L *et al*, 2015

Currently there are several industry initiatives working toward the goal of standardising metrics. These include: Impact Management Project; GIIN’s Navigating Impact; the Organisation for Economic Cooperation and Development’s (OECD) Data and Transparency initiative; and the Investment Leaders Group, among others. The GIIN is committed to working with other market builders to improve IMM practice by developing guidance, reducing fragmentation, and promoting best practices. Below are some of the major players in the field that currently display impact measurement frameworks.



4.3.1 IRIS and the “Global Impact Investing Network”

IRIS is an initiative of the Global Impact Investing Network (GIIN), a nonprofit organisation created in 2009, dedicated to increasing the scale and effectiveness of impact investing. IRIS serves as the GIIN’s catalog of generally accepted performance metrics used by a majority of leading impact investors to measure and manage social, environmental, and financial performance and evaluate deals. IRIS was originally jointly managed by The Rockefeller Foundation, Acumen, and B Lab, with technical support from Hitachi, Deloitte, and Price Waterhouse Coopers.

Impact measurement is recognised as a core characteristic of impact investing by GIIN hence the offering of IRIS as a free public good to support transparency, credibility, and accountability in impact measurement practices across the impact

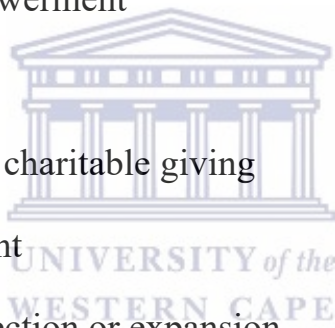
investment industry. IRIS metrics are designed to measure the social, environmental and financial performance of an investment and IRIS measures operational performance of organisations in the following areas:

- “Financial performance, including standard financial reporting metrics such as current assets and financial liabilities
- Operational performance, including metrics to assess your investees’ governance policies, employment practices, and the social and environmental impact of their day-to-day business activities
- Product performance, including metrics that describe and quantify the social and environmental benefits of the products, services, and unique processes offered by your investees
- Sector performance, including metrics that describe and quantify impact in particular social and environmental sectors, including agriculture, financial services, and healthcare
- Social and environmental objective performance, including metrics that describe and quantify progress towards specific impact objectives such as *employment generation* or sustainable land use”. (iris.thegiin.org/metrics)

The Social Impact Objectives pursued by IRIS are the following:

- “Access to clean water and sanitation
- Access to education
- Access to energy
- Access to financial services

- Access to information
- Affordable housing
- Agricultural productivity
- Capacity building
- Community development
- Conflict resolution
- Disease-specific prevention and mitigation
- *Employment generation*
- Equality and empowerment
- Food security
- Generate funds for charitable giving
- Health improvement
- Human rights protection or expansion
- Income/productivity growth” (iris.thegiin.org/metrics)



A user of IRIS is expected to filter the catalogue based on investment priorities and focus areas. IRIS metrics are designed and structured in a manner that reflects data that is feasible to collect, decision-relevant, and useful for aggregate analysis.

Organisations are encouraged to report the metric in conjunction with the metrics’ Theory of Change and targets in order to provide supporting details on the activities, inputs, outputs, outcomes, and impacts in pursuit of the relevant objectives. The principles that govern the IRIS metrics development process are outlined below:

“Stakeholder Engagement and Balance of Interests”: Multiple stakeholders participate in the development of metrics. These stakeholders include investors, investees, topic experts, representatives of other standard-setting bodies, or others with relevant domain expertise. The IRIS initiative solicits inputs from individuals and organisations with a diverse set of interests apart from engaging working groups to provide expertise in specific topic areas.

“Public Comment and Meaningful Opportunities to Contribute”: Likewise, the IRIS website offers the public a platform for providing feedback on the metrics in the catalogue.



“Transparency”: The IRIS initiative is public about the metric development process including modifications as well as individuals that are participants in IRIS working groups.

“Additive Value and Consistency with Other Frameworks”: The IRIS initiative serves as a meta-standard, aggregating and building on relevant metrics from across the investing, development and non-profit fields. Wherever possible, IRIS builds on widely accepted standards and the outcomes are the most widely used from across the field as the development management of the catalogue is in accordance with best practices for designing credible social and environmental metrics systems. The

leveraged frameworks provided the basis for metrics, definitions and usage guidance for the IRIS Catalogue.

IRIS also publishes Data Briefs that present the performance data from more than 4,000 mission-driven portfolio companies. Apart from data that show overall characteristics of the reporting organisations, the “Employment Data Brief” presents focused set of analyses related to employment. The organisations reported are generally small and growing. 75% of them employ 175 or fewer permanent employees, and the majority (63%) have had positive annual employee growth. On average, 38% of the permanent employees at contributing organisations are women, though the number varies considerably by region. Organisations based in South Asia on average report that 17% of permanent employees are women, while organisations based in East Asia and the Pacific on average report that 47% of permanent employees are women.

4.3.2 “Organisation for Economic Cooperation and Development”

The Organisation for Economic Cooperation and Development (OECD) which provides a platform for nations to collaborate towards improving the economic and social well-being of their citizens operates with the support of 34 member nations. and The nations work in partnership to encourage economic development and world trade representing 80% of global trade and investment. OECD’s extensive indicator set is used to model and compare the citizen well-being in nations across the globe.

The IRIS catalog uses OECD definitions for several terms related to sustainable business practices and inclusive finance while several IRIS metrics were created with OECD indicators as the foundation.

4.3.3 “The Consultative Group to Assist the Poor”

The Consultative Group to Assist the Poor (CGAP) is a group of 34 leading organisations – mainly development banks and foundations – that have the goal of advancing global financial inclusion. CGAP engages in research for advancing investment in microfinance and the network actively engages policy-makers and financial service providers to pilot and scale innovative approaches. As part of this work, CGAP undertakes annual surveys of international funders to facilitate understanding of cross-border funding to microfinance, to help funders identify gaps in capital deployment, and to mobilise efforts to fill those gaps. CGAP also develops methodologies for measuring the impact of inclusive finance on micro- and macro-levels. In line with the principle of additive value and consistency with other frameworks, IRIS leveraged CGAP's research in metrics development for measuring outputs of financial services - both microfinance and micro insurance, and sourced definitions of inclusive finance terms that are included in its glossary.

4.3.4 International Labour Organisation

The International Labour Organisation (ILO) is a specialised agency of the United Nations, that is responsible for researching and promoting international labour

rights. Part of the work of ILO is to develop labour standards backed by a supervisory body in each member nation and work to with those bodies in order to ensure nations' compliance with those standards across the globe. The ILO also midwives several standards that measure the labour market at national levels, the most prominent of which is the "Key Indicators of the Labour Market" (KILM). This indicator aims to provide a foundation that helps to address critical challenges encountered in developing productive employment and decent work, for all nations. In line with the SDGs, the ILO has also developed an agenda for the community of work, looking at issues such as job creation; rights at work; social protection and social dialogue, with gender equality as a crosscutting objective¹⁴. Again IRIS leveraged on ILO's standards and definitions as a basis for the development of labour and employment metrics.

4.3.5 "World Economic Forum"

The World Economic Forum has started to convene an "Accelerating Impact Measurement and Management" working group that leverages existing industry initiatives for the purpose of focusing on the broad construction of impact measurement and management standards¹⁵. The group is aiming at simplifying the approaches relevant for measuring different impact goals and to explore a holistic convention and toolkit for guiding industry players. This initiative is aimed at facilitating industry-wide collaboration for achieving coherence and accelerating the

¹⁴ <http://www.ilo.org/global/topics/decent-work>

¹⁵ World Economic Forum (2017)

efficacy of impact measurement and management. Key stakeholders are therefore expected to share knowledge to identify all the needs as well as critical gaps and opportunities for greater coordination. This present research presents an opportunity to contribute to this objective.

4.4 Chapter Summary and Conclusion

This Chapter has described the emerging field of impact investment which deals with investments that have “the intention to generate measurable social and environmental impact alongside a financial return” It is about releasing huge private investment capital to complement public resources and philanthropy for the purpose of solving emerging global challenges in sectors such as sustainable agriculture, *microfinance*, renewable energy, conservation and affordable and accessible basic services including housing, healthcare and education. Impact investing contests the commonly held view that social and environmental issues can only be addressed through funding that is provided on philanthropy or other charitable considerations and platforms. Impact investors are those investors that have expectation of financial return, intention to create impact and *commitment to impact measurement*. *Job creation* constitutes one of the primary intentions being pursued by such investments in order to address worldwide poverty.

BOA-the case study institution, is a government-backed development financial institution that provides wholesale and retail finance to the agriculture and

nonagriculture sectors especially micro, small and medium enterprises in Nigeria. The institution is expected to generate returns that at the least cover operational costs while among other objectives, the operations are expected to *facilitate the creation of jobs by enterprises that benefit from the Bank's credit facilities*. In order to gain experience on measuring the effect of BOA Microloans operations on *employment generation* in Nigeria (in line with SDG 8), the present Chapter highlighted the existing sources of impact measurement frameworks on which this research leveraged.

The Chapter concludes on the note that there is need for industry-wide collaboration to improve the performance measurement practice in the field of impact investment, with a view to working towards coherence as much as possible. In this regard, key stakeholders are expected to continue to share knowledge to identify all parties' needs as well as critical gaps and opportunities for greater coordination. The findings of this study present an opportunity to contribute to that objective. Hence the examination of frameworks such as GIIN/IRIS, OECD, ILO, CGAP and World Economic Forum influenced to a great extent, the nature of the methodology that was adopted in this study.

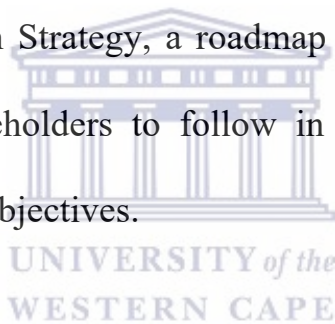
CHAPTER FIVE

PERFORMANCE MEASUREMENT FRAMEWORKS IN THE MICROFINANCE AND JOB CREATION INSTITUTIONAL ARCHITECTURE IN NIGERIA

5.1 Introduction

Several reports have acknowledged Nigeria's rich culture of policy articulation but records of effective implementation, performance measurement and reporting have been at best only modest. (Olaoye, 2004) Beyond rhetoric, empirical evidence on the contribution of MSME sector support to job creation and poverty reduction is also largely unavailable. Yet it is believed that if effective performance measurement systems are institutionalised, the amount of colossal loss that has been experienced in many MSME support programmes and indeed government interventions would have been put in check. Parkinson (2004) gives a perspective of why policies fail, arguing on the deliberative process. In the argument, the failure or success of any given policy is influenced by its institutional setting and the extent to which a *deliberative approach* is used in the policy cycle. It is also argued that the use of deliberative advocates (gate keepers) at various key points in the policy process could engender a successful policy making cycle. Olaoye (2004) advocates for the use of research as a recurrent activity in the policy system to alleviate the incidence of policy failure.

This chapter is therefore devoted to an examination of the status of and use of performance measurement frameworks within the MSME financing and job creation institutional architecture in Nigeria. The first part deals with an analysis of the framework for performance measurement in the Microfinance Policy, Regulatory and Supervisory Framework policy document. The second part discusses the Micro, Small and Medium Enterprises Development Fund (MSMEDF) which is an offshoot facility that was designed in line with Section 6.10 of the Microfinance Policy, Regulatory and Supervisory Framework. Next comes the examination of the National Financial Inclusion Strategy, a roadmap of actions agreed and defined at the national level for stakeholders to follow in the financial sector in order to achieve financial inclusion objectives.



An examination of the National Enterprise Development Plan follows. This is a programme designed by the Jonathan Administration that preceded the Buhari Administration, as a holistic plan that cuts across all tiers of enterprise to provide the tools to assist enterprises grow from micro to small, small to medium and medium to large. Lastly the Strategic Framework and Implementation Plan for Job Creation and Youth Employment in Nigeria was examined as the framework for job creation during the course of this research. Essentially, its relevance as a cross cutting framework for job creation becomes important within the institutional architecture of MSME Development in Nigeria and its relevance in the research topic is unequivocal.

5.2 “Performance Measurement Framework in Microfinance Policy, Regulatory and Supervisory Framework”

The Microfinance Policy has been presented in Chapter 2, hence this section is devoted to an analysis of its performance measurement framework. In the whole arena, the Policy seeks to “*harmonise operating standards*” (CBN, 2011) and provide a strategic platform for the evolution of microfinance institutions particularly MFBs. Existing non-deposit taking service providers such as NGO microfinance institutions, which continue to operate outside the regulation and supervision of the CBN are also encouraged to “*make periodic returns on their operations for statistical purposes to the CBN*”.(CBN, 2011) However, looking at the contents of the guidance manual provided for the Microfinance Policy, the returns to be made to the CBN are expectedly, to a large extent financial analysis data which do not effectively capture the whole range of the underlying social objectives of the policy including job creation.

Although MFBs and other microfinance service providers are also required/encouraged to include in their periodic returns to CBN, “disaggregated data on the level of patronage of their products and services” (CBN, 2011), there is no requirement for them to measure and document the social outcomes of the provision of their services for any authority such as the Boards. Even on the level of patronage of their products and services, there is no cross reference to the MSME Policy which encourages “*the institutions to device instruments to be able to lend*

*not less than 80 percent of their portfolio to MSMEs” (SMEDAN, 2015), as these are expected to boost local economies and contribute to **job creation**.*

The policy document is also silent on how to track indicators associated with job creation that may be attributable to the credit operations of microfinance institutions.

Yet the policy document suggests that the mission and vision of MFIs should be clear and focused on the poor, women, or vulnerable groups. In order to ensure lending /outreach to women they are expected to “encourage formation of and linkage with women groups and ensure annual incremental loans to women as a proportion of the bank’s portfolio and client outreach” (CBN, 2011).



In line with statutory provisions of key regulatory and supervisory laws and regulations, MFBs are required to render statutory returns, among other purposes:

- “as monitoring tool for effective supervision by CBN and Nigerian Deposit Insurance Company (NDIC) to provide feedback on general performance;
- to aid policy formulation for financial system stability;
- for planning such as for regulatory intervention,
- to enhance financial inclusion for example, through monitoring growth of outreach (branches and customer base);
- for aiding in-house performance monitoring and evaluation by the MFBs;
- as tool for appraising MFBs’ performance in assessing grants, aids and on-lending facilities;

- for assessing the performance of MFBs for the purpose of grants and aids by Development Partners and Non-Governmental Organisations” (CBN, 2011).

The Microfinance Policy provides guidelines relating to Corporate Governance for Microfinance Institutions one of which is that:

“Board of Directors of Microfinance Banks shall be primarily responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities and the means to attain same, as well as the mechanism for monitoring Management’s compliance”. (CBN, 2011)



Recommended Minimum Operational Template is provided for microfinance institutions to guide the operators on corporate governance, business planning, products, services and risk management. The National Microfinance Policy Consultative Committee (NMFPC) has been constituted by the CBN to give direction for the implementation and monitoring of the Policy. Membership of the Microfinance Policy Committee is determined from time to time by the CBN while the Development Finance Department of the CBN serves as the Secretariat to the Committee. Government is expected to undertake periodic reviews of the Microfinance Policy and the Regulatory Guidelines to address emerging issues.

On the whole there is no clear commitment to performance measurement in relation to the fundamental social objectives of microfinance- key among which is job creation. Yet microfinance is a development product aimed at addressing unemployment and poverty and many of the policy objectives are socially inclined. The next subsection discusses Micro, Small and Medium Enterprises Development Fund (MSMEDF), which is an offshoot of the Microfinance Policy.

5.3 “Micro, Small and Medium Enterprises Development Fund” (MSMEDF) Guidelines

5.3.1 Introduction

The Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria (2011) in Section 6.10, stipulates that “a Microfinance Development Fund shall be set up, primarily to provide for the wholesale funding requirements of MFBs/MFIs” (CBN, 2011). The Central Bank of Nigeria therefore launched the Micro, Small and Medium Enterprises Development Fund (MSMEDF) on August 15, 2013. This was in recognition of the significant contributions of the micro, small and medium enterprises (MSME) sub-sector to the economy. The Fund took off with seed capital of 220 billion Naira and 60 per cent of the Fund has been earmarked for the provision of financial services to women in line with the provisions of Section 4.2 (iv) of the Policy, which stipulates that women’s access to financial services should increase by at least 15 per cent annually to eliminate gender disparity. 2% of the wholesale component of the Fund shall go to economically active persons with disabilities (excluding mental disabilities).

5.3.2 Analysis of MSMEDF Objectives

The broad objective of the Fund is to channel low interest funds to the MSME subsector of the Nigerian economy through Participating Financial Institutions (PFIs) to:

- “Enhance access of MSMEs to financial services
- Increase productivity and output of microenterprises
- Increase employment and create wealth
- Engender inclusive growth” (CBN, 2013)

Again, the third objective of the fund is to increase employment and create wealth, while social performance targets that include gender considerations and the inclusion of people with disabilities were also clearly stated as shown above. The

Fund has Commercial and Developmental components. The Commercial Component

constitutes 90 per cent of the Fund being disbursed in the form of Wholesale Funding for on-lending to MSMEs by Participating Financial Institutions (PFIs).

The remaining 10% is the Developmental component, 9.75% of which is earmarked as Grant to support general development of the MSME sub-sector. It is expected to be in form of incentives targeted at institutions that demonstrate good loan repayment culture to enable them attain more capacity for expanded outreach. PFIs shall qualify for the grant component based on their ***“performance rating in poverty reduction, job creation and financial inclusion”***¹⁶. This is a reiteration of the Fund’s commitment to and focus on these social objectives. However, the modalities

¹⁶ (CBN,2013) MSMEDF Guidelines pg 4

for the said performance rating are not provided as will be seen later in the monitoring and evaluation framework.

5.3.3 Implementation Strategy

The Fund shall have a Steering Committee constituted in line with its approved shareholding structure and chaired by the Governor, Central Bank of Nigeria. Other members shall include:

1. “The Deputy Governor, Financial Systems Stability
2. Representatives of:
 - Federal Ministry of Finance Incorporated (MoFI)
 - Federal Ministry of Agriculture and Rural Development(FMA&RD) - RUFIN
 - Nigeria Deposit Insurance Corporation (NDIC)
 - National Association of Microfinance Banks (NAMB)
 - Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN)
 - Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
 - The Banker’s Committee
 - Ministry of Women Affairs and Social Development(MWA&SD)
 - Director, Development Finance Department of CBN
 - Head, MSME Development Fund Office, Development Finance Department, CBN (Secretary)” (CBN, 2013)

Participating Financial Institutions include the following:

- “All Microfinance Banks
- Non-Governmental Organisations-Microfinance Institutions (NGO-MFIs)
- Financial Cooperatives
- Finance Companies
- *Development Finance Institutions (Bank of Agriculture & Bank of Industries)* and
- Deposit Money Banks.” (CBN,2013)

The Bank of Industry (BoI) and Deposit Money Banks (DMBs) will participate under the SMEs window. In recognition of State Governments/FCT’s strategic role in “grassroots” economic development, the Fund expects their indirect participation through the PFIs in their respective jurisdictions. In this regard a State Government/FCT is expected to establish a “Micro Credit/MSME Special Purpose Vehicle (SPV)” for the purpose of coordinating applications by PFIs for the Fund. The PFIs shall be solely responsible for the administration (disbursement and recovery) of the Fund. On the roles and responsibilities of stakeholders, the role of the CBN apart from providing the funds and other coordinating roles, is to provide capacity building programme from the Grant Component to PFIs in the areas of loan appraisal, disbursement, *monitoring* and recovery among others.

5.3.4 Monitoring and Evaluation Framework of Micro Small and Medium Enterprises Development Fund

An M and E framework has been developed to monitor the operations and utilisation of the Fund towards the achievement of the Fund's objectives. The following shall apply:

- a. "On-site verification and monitoring of projects under the Fund by the CBN and PFIs during the loan period.
- b. Off-site ICT based reporting system to provide up-to-date information on the Fund's activities.
- c. Reports of the monitoring exercise shall be shared with the concerned PFIs and state governments (for state projects).
- d. CBN and State SPVs shall leverage Apex Associations' capacities and information in monitoring and evaluation.
- e. CBN shall periodically evaluate the activities of the State SPV and PFIs to ensure achievement of the objectives of the Fund." (CBN,2013)

Although the M and E framework clearly states that CBN shall periodically evaluate the activities of the State SPV and PFIs "***to ensure achievement of the objectives of the Fund***", yet the framework concentrates on the submission of financial analysis returns, but is again silent on the issue of social performance rating in monitoring and evaluation as was also observed in the scope of the capacity building programme. The CBN is to provide capacity building programme from the Grant

Component to PFIs in the areas of loan appraisal, disbursement, *monitoring* and recovery among others, but there is no mention of capacity building in the area of the prescribed “*performance rating on poverty reduction, job creation and financial inclusion*” which is a core requirement for qualification for grants under the Development Component of the Fund. Likewise, while PFIs are to monitor funds utilisation of borrowers, there is no requirement, perhaps such as moral suasion, to encourage PFIs to monitor borrowers’ performance in relation to job creation and poverty reduction which constitute specific objectives of the Fund. It is to be noted however that the participating States/FCT have to present a convincing annual framework/roadmap on their empowerment programme for prospective target groups, as a basis for measuring performance of the loan. In conclusion, there is an absence of social performance reporting compliance to support established requirements.

5.4 “National Financial Inclusion Strategy”

5.4.1 Introduction

“Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way”¹⁷. Financial inclusion is seen to be an enabler for 7 of the 17 Sustainable Development Goals. Since 2010, more than 60 countries have either launched or are

¹⁷ <http://www.worldbank.org/en/topic/financialinclusion/overview>

developing a national strategy to ensure that resources and actions are put in place to achieve those commitments. The Nigerian Financial Inclusion Strategy was crafted in October 2012. For the purpose of the strategy, "financial Inclusion is achieved when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at affordable cost"¹⁸. The services include but are not limited to payments, savings, loans, insurance and pension products.

National Financial Inclusion Strategies (NFIS) can therefore be defined as “roadmaps of actions, agreed and defined at the national or subnational level, for stakeholders to follow in order to achieve financial inclusion objectives”. (www.worldbank.org) Among other opportunities, the strategies present an evidence-based and more comprehensive approach to accessing and utilising financial services by the population. NFIS can enhance a more focused broad based access to financial services and the achievement of Universal Financial Access. The World Bank Group is working with several countries to support the design or implementation of National Financial Inclusion Strategies or Action Plans.

5.4.2 Barriers to Financial Inclusion

The major barriers to financial inclusion in Nigeria include low and irregular income, lack of physical access to financial services, financial illiteracy and affordability and eligibility issues.

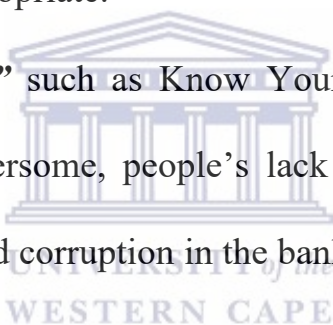
¹⁸ CBN. Nigeria Financial Inclusion Strategy 2012

The EFINA Access to Financial Services in Nigeria 2010 Survey groups these barriers to financial inclusion into the following three categories:

“Demand-side barriers”: For different reasons such as lack of employment and irregular income, as well as low literacy levels, people may not use financial services.

“Supply-side barriers”: Occasioned by the long distances that people have to travel to reach access points. Cost of services may be too high and products offered may be inappropriate.

“Regulatory barriers” such as Know Your Customer requirements (KYC) which may be cumbersome, people’s lack of trust in the financial service provider and perceived corruption in the banking sector.



In 2010 a total of 32 million adults, (that is 46.3% of the adult population) were financially excluded. Of this number, women are 54.4% and youths (below 45years) account for 73.8%. In 2016 the percentage of the financially excluded people is the highest at 41.6% in Sub Saharan Africa. The financially excluded population grew from 36.9 million to 40.1 million between 2014 and 2016.¹⁹ About 34.0% of them are without formal education while 80.4% of rural residents were financially excluded. The need for a strategy that can address these barriers effectively therefore

¹⁹ EFINA 2016 ²¹“The Maya Declaration is a statement of common principles regarding the development of financial inclusion policy made by a group of developing nation regulatory institutions during the 2011 Alliance for Financial Inclusion (AFI) Global Policy Forum held in Mexico. Nigeria is a signatory to the declaration”. (CBN, 2012. Pg. IV)

becomes important. The Financial Inclusion Strategy was therefore designed against this background with the aim of reversing the trend.

5.4.3 Goal of the Financial Inclusion Strategy

The goal of Nigeria's Financial Inclusion Strategy is to "reduce the number of Nigerians that are excluded from financial services from 46.3 % to 20.0 % by 2020" as committed to in the Maya Declaration²¹. Under this strategy, it is expected that the number of Nigerians that are included in the formal sector would have increased from 30.0% in 2010 to 70.0% by the year 2020. Figure 4.1 below shows the stakeholders that have major roles in enhancing Financial Inclusion as: "Banks, Other Financial Institutions, Insurance, Regulators, Technology/Telecommunications firms, Public Institutions and Development Partners/experts. Other financial institutions include deposit houses, pension fund administrators and development finance institutions (DFIs)" including BOA.

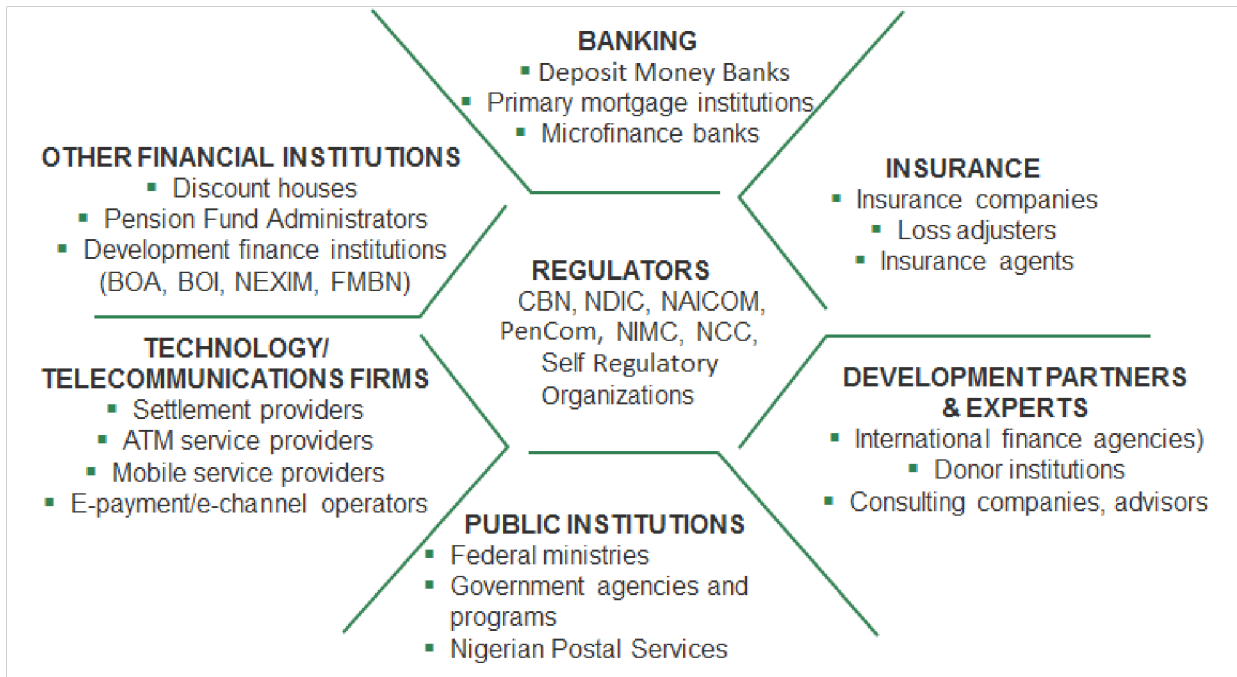


Figure 5. 1: Financial Inclusion Stakeholders in Nigeria

Source: CBN, 2012



5.4.4 Development Finance Institutions (DFIs) and the Financial Inclusion Strategy

This section positions the relevance of BOA within the framework of the Financial Inclusion Strategy. The Development Financial Institutions (DFIs) in Nigeria are financial institutions that were deliberately established by government to channel financial resources to critical sectors of the economy, which the conventional banking sector may not ordinarily fund. They cater for sectors that demand special attention and possibly government funding intervention such as agriculture, MSME and housing sectors. BOA, BOI, Federal Mortgage Bank of Nigeria and Nigerian Export/Import Bank (NEXIM) are the development finance institutions in Nigeria.

The financial inclusion strategy can facilitate the harmonisation of their multiple interventions in a way that the impact on the economy can be meaningfully enhanced.

The proposed roles for DFIs such as BOA in the Financial Inclusion Strategy are to:

- “Provide wholesale funding for lending to low income clients;
- Provide capacity building to MSMEs to improve their financial literacy and credit worthiness;
- Implement targeted financial inclusion programmes e.g. credit guarantees, refinancing”. (CBN, 2012)

5.4.5 Nigeria’s Financial Inclusion Targets

It was not customary to set targets for financial inclusion but the Final Inclusion Strategy has now found it necessary to do so in order to ensure that the Nigerian financial system is focused to the extent that it will be ahead of its peers. Each financial product and channel was therefore benchmarked against comparator countries as well as against growth factors to define targets for Nigeria for 2015 and 2020. The targets relate to product use, channel penetration, gender and youth and enablers for financial inclusion.

According to Table 5.1, for credit use, a 70% target coupled with a single-digit interest cap by 2020 was originally set in the Financial Sector Strategy 2020. While the single digit interest rate is seen to be achievable and necessary for the growth of the economy, the credit use target of 70% was seen to be overambitious. This is in view of several contending variables and the efforts required to address the barriers to inclusion within the Nigerian economy as well as the fact that the credit penetration rate for South Africa- a comparator country is 32%. Hence the target

was revised downwards to 40%. It is expected that the emergence of mobile payments in Nigeria will drive payments to a level where by 2020, 70% of the population will be on epayments products. That means by 2015, the 16 million users of payment products in 2010 must increase to 49 million and to 73 million by 2020. Nigeria has one of the lowest penetrations in mobile money as at 2016. For savings, the proportion of the adult population using savings products is expected to grow from 24% in 2010 to 60% in 2020.

On the target for Channels, the target for 2020 is 7.6 bank branches per 100,000 people compared to 6.8 per 100,000 people in 2010. The expected growth is modest given the anticipated increasing use of non-branch channels. In the microfinance subsector, bank/branch expansion is targeted to grow from 2.9 to 5.0 branches per 100,000 adults, benchmarked against Bolivia. A network of 65,000 banking agents need to be established by 2020 as targeted in the strategy.

Bank of Agriculture is a peculiar channel in the financial landscape. As a development financial institution it is expected to cater for the financial needs of sectors that are targeted for specific developmental goals such as agriculture, rural and MSME development. With branches in all state capitals there are debates around the ability of the bank to meet the needs for which it was established and whether indeed the potential clients have easy access to the services. These issues will be considered further in the section on Results and Discussions.

On the issue of financial literacy, which is an enabler of financial inclusion, government institutions as well as development partners have attempted to address the low levels of financial literacy in Nigeria. These efforts are however yet to be assessed but it is envisaged that the mainstreaming of financial literacy in the school curricula is beginning to yield some results. The curricula will incorporate issues on financial products, services and markets to be used in 20% of primary schools, 50% of secondary schools and 100% of tertiary institutions by 2020.

Table 5. 1: Key Financial Inclusion Targets

	Targets	2010	2015	2020
% of total adult pop	Payments	21.6%	53%	70%
	Savings	24%	42%	60%
	Credit	2%	26%	40%
	Insurance	1%	21%	40%
	Pensions	5%	22%	40%
units per 100,000 adults	Branches	6.8	7.5	7.6
	MFB branches	2.9	4.5	5.0
	ATMs	11.8	42.8	59.6
	POS	13.3	442.6	850.0
	Mobile agents	0	31	62
% of pop	KYC ID	18%	59%	100%

Source: CBN (2012) Nigeria Financial Inclusion Strategy

5.4.6 Strategies for Achieving the Financial Inclusion Targets

In order to achieve the set targets, the following strategic areas are identified in the strategy:

- **“Agent banking”** – Here banking services are to be delivered outside traditional bank branches, through the use of additional touchpoints such

as retail stores and petrol stations or via technology such as 'Point of Sale' (POS) devices and mobile phones.

- **“Mobile banking/ mobile payments”** – Use of mobile phones that are either directly linked to a bank account or mobile wallets which serve as intermediary virtual money accounts to access financial services.
- **“Linkage models”** – Financial and business cooperation between conventional financial institutions (deposit money banks and *development finance institutions (such as BOA)*/government and microfinance banks/institutions will be enhanced for wholesale funding and on-lending transactions.
- **“Client empowerment”** – Coordinated national financial literacy initiatives that are complemented by consumer protection to improve the bankability of the population.

To implement the defined strategies, the following appropriate guidelines and frameworks are at different stages of execution:

- “Simplifying the existing uniform Know-Your-Customer (KYC) regulation into a Risk-based Tiered Framework that allows individuals that are currently without the required formal means of identification to enter the banking system.
- Provision of Regulatory Framework for Agent Banking to enable financial institutions to extend banking services to the currently unbanked in the country.

National Financial Literacy programme to increase awareness and understanding of the population on financial products and services.

- Consumer Protection Framework to safeguard the interest of clients and sustain confidence in the financial sector.
- Continued promotion of Mobile-Payment System and other Cash-less Policy efforts to reduce the cost and enhance the ease of financial services and transactions.
- Implementation of Credit Enhancement Schemes/Programmes to empower micro, small and medium enterprises.” (CBN,2012)

5.4.7 Framework for Monitoring and Evaluation in the Financial Inclusion

Strategy

The monitoring and evaluation process is designed such that the achievement of targets is supported by the Financial Inclusion Secretariat. This process consists of the following elements:

- “Biannual collection of a comprehensive data set from industry stakeholders;
- Distillation of key performance indicators from industry data;
- Comparison of results with defined indicator targets;
- Analysis of gaps and trends;
- Annual reporting to Financial Services Regulation Coordination Committee (FRSCC) and National Economic Council and

Suggestion of necessary measures, changes in priorities or partial review of strategic direction to increase rate of indicator achievement”.

“Key Performance Indicators” (KPI): To achieve the defined targets for financial inclusion in Nigeria, key performance indicators (KPIs) were selected to monitor the progress recorded on these targets and indeed financial inclusion. The KPIs were defined along the dimensions of financial inclusion as proposed by the Alliance for Financial Inclusion Data Working Group, to include access, usage, affordability, appropriateness, financial literacy and consumer protection.

Under the dimension of Usage of Financial Services for example, the KPI for Credit is the “Number of Adults Using a Credit Product and Frequency of Use” and this indicator is disaggregated by gender.

The FIS provides a framework for tracking and monitoring progress on financial inclusion vis-à-vis the targets set for measuring. Financial inclusion data is expected to be provided twice a year from the stakeholders concerned, on the assumption that they will all comply by submitting data generated from primary data gathering to the Financial Inclusion Secretariat. This is for the purpose of monitoring the pace of work and the progress towards Financial Inclusion. In this regard, *Development Finance Institutions such as BOA* are specifically expected to submit the following set of data:

- “Number of branches, by state

- Number of individual and SME accounts, by state
Number of accounts per product, by state
- Total transaction volume per product for the period under review
- Transaction volume per channel for the period under review
- Number of transactions per channel, by transaction type (e.g. withdrawal, deposit, transfer)
- Amounts outstanding on loans” (CBN, 2012)

From all the submissions of stakeholders, the National Bureau of Statistics will produce aggregate data on:

- “Level of banked and financially included persons annually, by state, gender and age
- Level of unbanked and financially excluded persons annually, by state, gender and age”. (CBN,2012)

In conclusion, in 2010, 46.3% of adult Nigerians were excluded from financial services, the key barriers to financial inclusion being long distance to access points, cumbersome eligibility requirements, low level of financial literacy, and high cost of financial services, among others. A National Financial Inclusion Strategy was developed against this backdrop specifically to reduce the adult exclusion rate from 46.3% to 20 % by 2020. The key initiatives to achieve this objective include tiered approach to KYC, agent banking, mobile payment, cash-less policy, development of financial literacy framework, consumer protection and implementation of credit

enhancement schemes and programmes. Specific targets were set for “payments, savings, credit, insurance, pension, branches of DMBs and MFBs, ATMs, POS, banking agents”, as well as for youth and women inclusion which formed the basis for measuring progress towards goal achievement.

The roles of stakeholders were identified in the implementation of the Strategy and it is envisaged that they would exhibit sufficient commitment in this regard under the coordination of the Central Bank of Nigeria as the lead promoter. A robust and replicable monitoring and evaluation framework was articulated accompanied with measurable key performance indicators. One may assume that if the targets set for financial inclusion are achieved, the economy will improve and more jobs would be created through enterprises that are able to gain access to financial services for startup and working capital. This is the hypothetical pathway for linking financial inclusion to job creation which forms the basis of the present study.

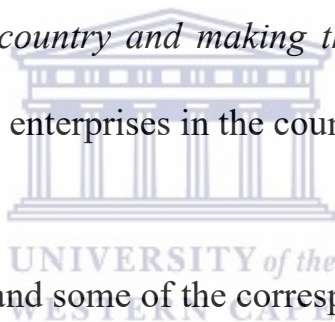
5.5 National Enterprise Development Programme (NEDEP)

5.5.1 Introduction

National Enterprise Development Programme (NEDEP) was designed during the Jonathan administration as a holistic strategic framework designed to deliver enterprise development in the country by directly addressing the identified critical factors that have acted as barriers to the growth of the sector. The Programme is a response to the challenges identified by the MSME Collaborative Survey of 2010

undertaken by SMEDAN and NBS. NEDEP cuts across all tiers of enterprises and provides the tools to assist enterprises grow from one level to a higher level. Essentially, NEDEP was expected to leverage off existing schemes to improve financing to the MSME sector as well as connect with the agenda of the Nigerian Industrial Revolution Plan (NIRP) in improving the entire financing value chain such that finance could be unlocked for local businesses.

The NEDEP aims “to create a minimum of 1million jobs annually by *strengthening the existing MSMEs in the country and making them employers of labour*” and by creating new and sustainable enterprises in the country.

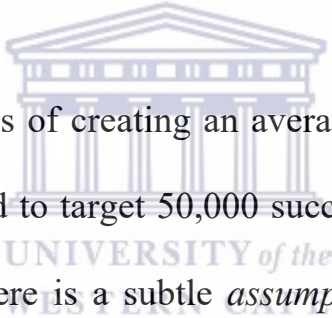


Specifically, the Objectives and some of the corresponding targets are to:

- i. “Create 3.5 direct million jobs in 3 years
- ii. Increase contribution to GDP to 54%
- iii. Increase MSME export by 100%
- iv. Reduce the formal – informal sector gap by 50%
- v. Increase youth participation in enterprise”.

For NEDEP, three agencies collaborated are under the Ministry of Industry, Trade and Investment (“The Ministry”) to address enterprise development. These implementing agencies are: Bank of Industry (BOI), Small and Medium Enterprises

Development Agency of Nigeria (SMEDAN) and Industrial Training Fund (ITF). They all have individually piloted schemes in some states but are now expected to combine these efforts and scale up these efforts to all states of the Federation under NEDEP. In the arrangement, the Industrial training fund (ITF) is to ensure that MSMEs are provide with the requisite skills. the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) is meant to provide business support services by working with MSMEs to prepare bankable business plans while the Bank of Industry (BOI) provides funding for eligible small businesses.



To fulfil NEDEP’s objectives of creating an average of one million jobs per annum, the programme was designed to target 50,000 successful business plans to be funded annually. It is likely that there is a subtle *assumption in this programme that each successful plan will lead to successful small and growing businesses that can create at least 20 jobs*. The BOI cooperative lending scheme provides the funding and NEDEP was sourcing funds from the private sector and international development partners.

5.5.2 NEDEP’s Priority Agenda

To achieve the objectives of NEDEP, the following is the priority agenda developed:

- (i) “Strengthening Institutional Framework
- (ii) Developing a revised national Policy on MSME
- (iii) *Implementation of a robust delivery and monitoring structure*

- (iv) *Increasing access to affordable finance*
- (v) Increasing access to markets
- (vi) Developing business development skills
- (vii) Developing technical skills
- (viii) Promoting Youth Inclusion
- (ix) Reducing High Operating costs”

“Institutional Strengthening”: A study of the institutional arrangement for the support of MSMEs revealed that SMEDAN reaches 20,000 MSMEs annually- a poor coverage compared to other economies and the share size of Nigeria. In order to foster the ability of the agency to reach enterprises in all areas of the country, SMEDAN offices were opened in each state of the federation with a leaner Secretariat in Abuja. New departments of Access to Finance and Markets and Innovation and Technology were established to improve access to finance through multiple sources and enhance innovation especially through linkages with technology universities.

Other efforts in this direction include the reduction in the turnaround time for business registration at the Corporate Affairs Commission as well as reducing the cost of registration of small businesses by 50%. This is with a view to enhancing the Ease of Doing Business. Building on this effort, the Buhari government has been able to bring Nigeria’s rank higher on the global ranking of Ease of Doing Business.

Bank of Industry has in a major paradigm shift committed to refocusing over 80% of its funding to the MSME sector with more relaxed lending conditions in a renewed move to enhance the growth of the sector and the economy at large. Another move in the direction of institutional strengthening involved the development of a revised MSME Policy. This was sequel to the review of the original National Policy on MSMEs that was developed and launched in 2007 with provisions for its review every 4 years. The original policy experienced a number of setbacks such as “weak stakeholder buy-in from public and private sector institutions, lack of strong commitment to MSME development by all tiers of Government, weak synergy amongst institutions involved in MSME development and ineffective funding of the MSME development process”.(Refer to Section 1.7.1)The revised policy is expected to provide the necessary solid framework and guidance for the MSME stakeholders similar to the well-structured and implemented National policy on SMEs in other comparator countries such as Malaysia, Brazil, South Africa and India.

“Increasing Access to Affordable Finance”: Among other strategies, NEDEP was designed to engage stakeholders that operate in the financial service ecosystem such that the MSME sector would be de-risked and the level of funding available to MSMEs would be scaled up. It is believed that *development finance institutions such as BOA and BOI have a responsibility to be providing wholesale funding to private sector commercial and microfinance banks.* (NEDEP, 2014) By this, the efficiency of the intermediation process will be enhanced and the reach of the DFIs expanded

rather than them narrowly performing retail funding. The reorganisation of these institutions to meet this need is still proceeding but the process is experiencing a number of operational constraints that are associated with change of thrust in the policy regime.

Access to Markets: NEDEP developed focused initiatives that can increase access to local, regional and international markets for MSMEs such as Supply Chain Programme, SPX Market, Diaspora Export Programme and NEDEP Marketplace-a virtual marketplace leveraging on Nigeria's capacity of having the largest internet users in Africa.



Infrastructure, Business Development and Skills: In a bid to revive and remodel the 23 existing Industrial Development Centres, NEDEP planned to convert them into industrial clusters that operate around products that have competitive and comparative advantages in the respective locations. This is in line with global best practices, hence the successive government is building on this foundation more critically. In this arrangement PPP is being encouraged where the structure of the clusters redeveloped will be promoted by Government to interested local and foreign investors. National Industrial Skill Development Programme is aimed at training and developing highly skilled entrepreneurial workforce for Small and Medium Enterprises (SMEs) in sectors where Nigeria has competitive and comparative advantages and reducing or minimising youth restiveness. Another initiative of NEDEP is the One Local

Government One Product (OLOP) initiative being executed by SMEDAN with the objective of revitalising the rural economy and improving employment opportunities. Cooperative development is also encouraged as platforms for engaging MSMEs.

5.5.3 NEDEP Implementation Structure

The implementation structure of NEDEP was developed to ensure effectiveness. At the top of this structure is the National Council on MSMEs to be headed by the Vice President and the council is saddled with the task of providing guidance and coordination in relation to the establishment of strategies and policies for the wholesome support of MSMEs development in Nigeria. Membership of the Council is drawn from key Ministries, Departments and Agencies, the private sector and the key MSME associations. The National Council is also expected to ensure linkages between NEDEP and all enterprise development activities in the country.

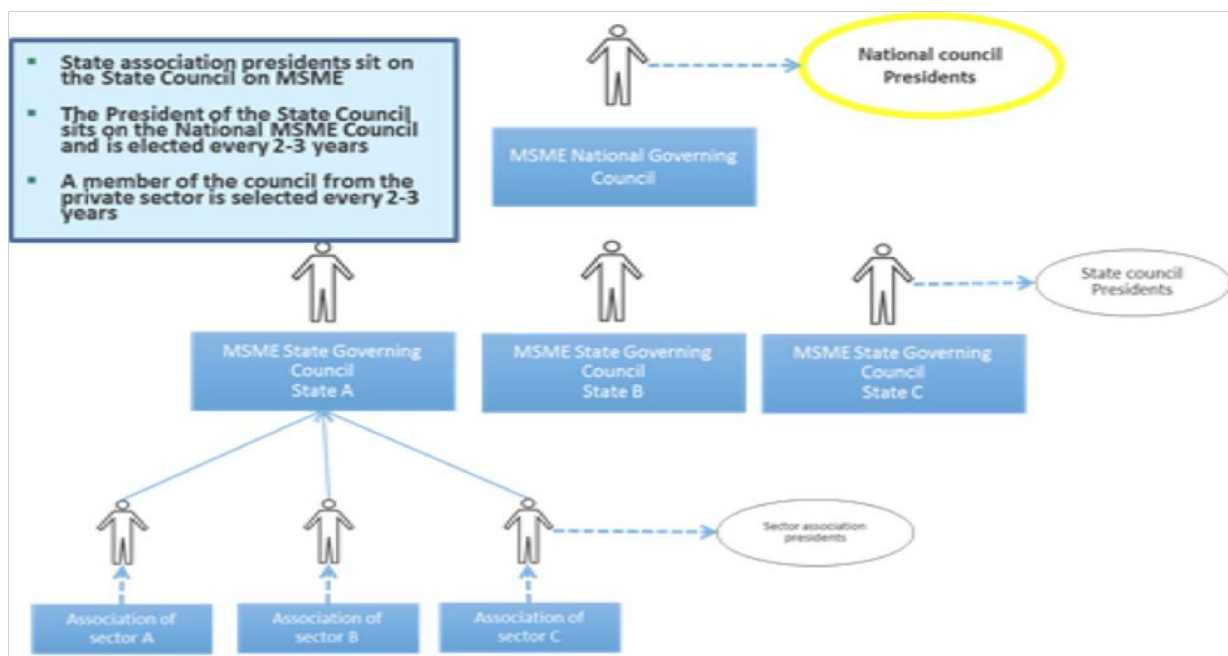


Figure 5. 2: National Council on MSME Structure

Source: NEDEP

At the State level, the State Council on MSMEs headed by the State Commissioner for Industry, Trade and Investment comprises of key representatives from the public sector and Presidents of key associations in the state to ensure that closer relationship are formed with the enterprises in the states and that concerns across the sectors in each state are addressed. While the programme existed, SMEDAN acted as the programme Secretariat in all the state councils and reported to the National Council. This was to ensure that interventions and policies being derived at the National level reflect the needs of the state businesses. Fig 4.3 is the organogram of the State Council.

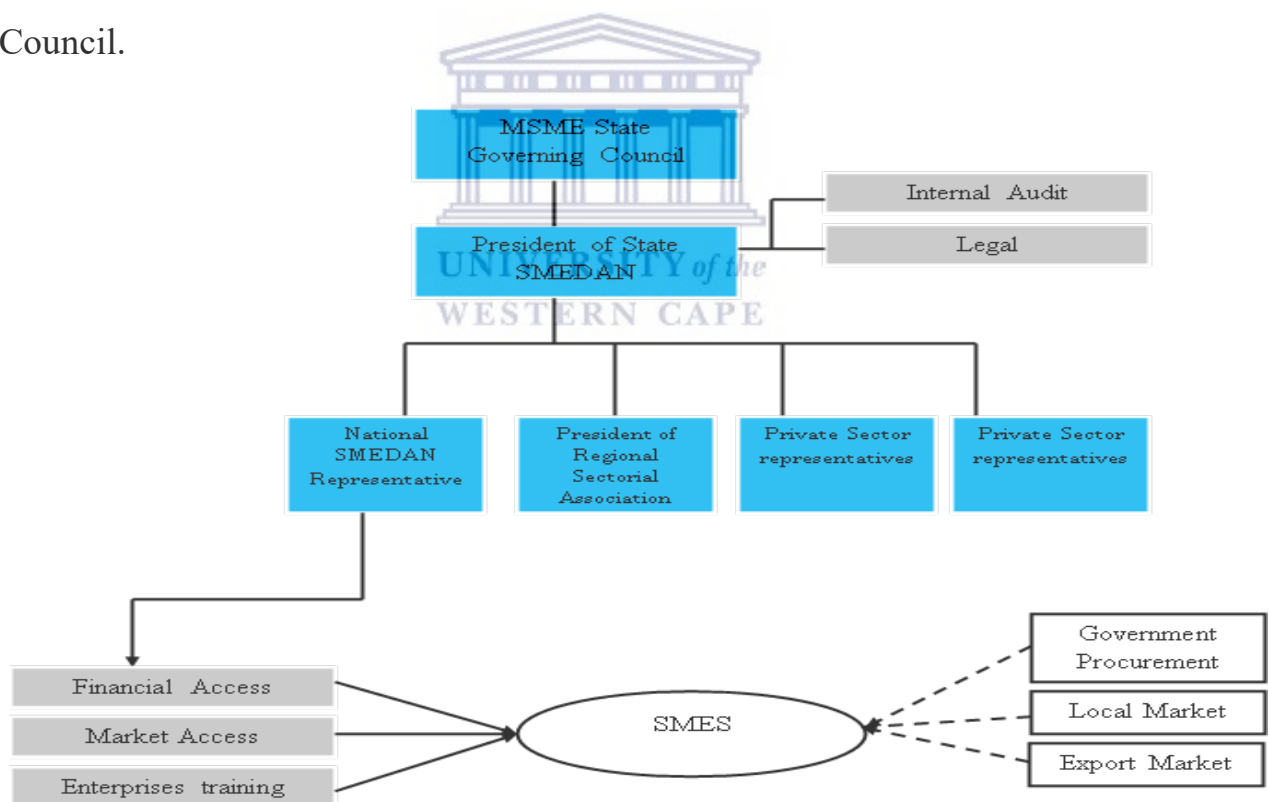


Figure 5. 3: Structure of State Council on MSME

Source: NEDEP

Among other tasks, the State Councils on MSME are to:

- “Coordinate the implementation of the National Policy on MSME in the

State.

- *Set specific targets of annual growth rate for the State and devise means of ensuring and measuring the attainment of these targets.*
- Provide linkages and synergy between and among all the stakeholders for the purpose of ensuring a seamless implementation of all MSMEs development programmes in the State.
- Provide input for the annual MSME report for the State to be published by SMEDAN
- Ensure that a report of the meetings/activities of the State Council on MSME is sent to SMEDAN/National Council on MSME for records and further actions.
- *Ensure the institution of an effective framework for monitoring and evaluating the impact of MSME policies, programmes, projects and initiatives.*
- Provide feedback to the National Council on MSME on challenges being faced in the key sectors in the state and on training needs and support required”.

5.5.4 Progress Monitoring

NEDEP was designed to have a project monitoring unit (PMU) that will monitor and report progress made on all the initiatives under the programme. The PMU while it lasted had as members, qualified personnel from each of the key implementing

agencies as well as independent bodies from the private sector. The PMU also worked with the National Bureau of Statistics to validate results obtained from the programme. The following indicators that correspond to the priority agenda of NEDEP were listed for tracking purposes:

- “The number of successful business plans approved by all partner funding agencies
- The number of newly registered MSMEs and cooperatives
- The number of trained enterprises every quarter
- The number of youths trained on technical skills acquisition
- ***The number of jobs created quarterly***
- The number of MSME retail on the NEDEP marketplace and other virtual market places
- The number of private sector partnerships
- The amount of funds available for disbursement under NEDEP and how much has been disbursed etc.”

In analysing this framework, NEDEP is seen to be one of the government programmes that has specifically attempted to create a ***key performance indicator to track the number of jobs created***, although the outcome of this attempt had not been documented by the time the government changed in 2015. Although under NEDEP, the machinery exists for providing evidence based planning for job creation in the

country, the extent to which this arrangement has adequate information upon which subsequent programmes could be implemented is circumspect.

The implementation timelines and deliverables for all NEDEP initiatives is to refer to the Implementation Plan in the National Policy on MSME for guidance. This reference indicates *some level of coherence and alignment in the policy architecture*. That implies that NEDEP was not meant to be a stand-alone programme but one that has a close connection with the MSME Policy. There is also an absence of contradiction or serious departure from the agenda of NEDEP and the Job Creation Programme of Buhari Administration. Both of them also have well laid out performance measurement frameworks as will be seen later although evidence is scanty on the use of these frameworks to assess performance.

5.6 Strategic Framework and Implementation Plan for Job Creation and Youth Employment in Nigeria

5.6.1 Introduction

A Job Creation Unit (JCU) was set up by the Buhari Administration within the Presidency as a response to the need for a strategic and deliberate approach to job creation. It is expected to effectively coordinate activities and interventions aimed at driving short to medium-term job creation across Nigeria. JCU therefore in principle acts in a coordinating capacity by targeting, facilitating and up-scaling growth strategies within specific clusters of economic activity that have been identified for

the potential stimulation of job creation. To achieve this aim, the unit spearheaded a collaborative effort involving stakeholders from the public, private and civil society sectors, to develop a framework that can guide the country's path to creating jobs and tracking same including youth employment over a three-year period (2016 – 2018).

The strategic framework has five key thrusts:

1. “Selection of **priority economic** anchor sectors for policy and programmatic interventions to catalyse job creation within and beyond the sectors.
2. Identification of **specific geographical clusters of focus** within each of the defined anchor sectors to leverage existing comparative advantages within the clusters and optimize resource allocation, while also ensuring equitable distribution of job creation interventions across Nigeria's regions.
3. Defining specific interventions to “**address skill development issues and talent supply gaps**” to ensure that in the short to medium term, the local labour force can occupy available and emerging job positions.
4. Identification of **policy and infrastructure enablers** that are necessary for addressing structural constraints towards attaining competitiveness across each of the focus sectors in the long term.
5. **Coordinated implementation of defined interventions** across federal and sub-national governments. This is to be driven by the Job Creation Unit, a

coordination hub in the Presidency and resourced by different stakeholders from the private, public and development sectors”.

5.6.2 Initial Sectors of Focus

In the effort at developing the strategic framework, four priority high-growth sectors were selected and evaluated to determine relevant interventions within selected sectors that could create mass employment opportunities and prepare for the transformation of Nigeria’s economy in the long run. These sectors are Agribusiness and Agro-allied industries, Wholesale and Retail Trade, Construction and ICT sectors. The basis of selection of focus sectors is the need to prioritize informal sector employment opportunities while ensuring that the focus does not neglect areas that are more vulnerable to the effects of youth unemployment (particularly in Northern Nigeria). The four selected sectors that are considered relevant in this regard and the rationale for their selection is summarised in Table 5.2 below. The sectors fit into two major categories: economic transformers and mass employers.

Across each of the sectors, specific clusters are considered as priority clusters of focus for interventions aimed at growth and employment generation. In the agriculture and agro allied sector, clusters have been identified in 10 locations/states, for wholesale and retail trade, five locations were identified while eight clusters of ICT were also identified. All states and the FCT have clusters for infrastructure development and housing construction. The expectation is that successful implementation of the

recommended priority interventions will create nearly 3.5million jobs over three years (2016-2018). The focus on targeted zones relies on ownership from state governments.

Expectedly, one ICT cluster has been identified in Lagos apart from seven other clusters of other sectors. The discussion in the study will concentrate on the mass employment sectors of agriculture.

Table 5. 2: Categorisation of Four Initial Sectors

ECONOMIC TRANSFORMERS	MASS EMPLOYERS
CONSTRUCTION	AGRIBUSINESS AND AGRO-ALLIED IND.
<ul style="list-style-type: none"> “-Required to respond to infrastructure and housing constraints -Significant program of works planned by public sector in upcoming semesters 	<ul style="list-style-type: none"> -Mass employer in formal and informal sectors nationally -Large domestic demand and potential for import substitution -Increased income potential through increasing yield and processing
ICT	WHOLESALE AND RETAIL TRADE
<ul style="list-style-type: none"> -Transformative impact on labour productivity and creation of new industries -Major emerging sector for employment and economic growth 	<ul style="list-style-type: none"> -Mass employer with low barriers to entry and potential for growth in the sector -Major lever for formalisation and improvement of market linkages”

Source: Dalberg 2016

5.6.3 Agriculture Sector-Specific Analysis and Cluster Identification

In agriculture and agro allied sector, clusters are identified for rice, tomatoes, citrus, pineapple, cassava, poultry and feed and aquaculture in a number of states.

Specifically, rice clusters have been identified in Taraba, Anambra and Niger, (Table 5.3)

Table 5. 3: Clusters for Intervention

Cluster Crop	State
Tomato	Kano
Rice	Taraba
Citrus	Benue
Cassava	Kogi
Abuja Crop Processing	FCT
Rice	Niger
Poultry and Feed	Osun
Aquaculture	Lagos
Pineapple	Cross River
Rice	Anambra

Source: Adapted from Dalberg (2016)

The 10 agriculture sector clusters have been selected for initial study based on their job creation potential, geographical advantage and planned private sector interest apart from the consistency of their gestation with the implementation time frame. Three key interventions targeted are anchored at the cluster level in a private sector processor and it is expected that these will sustainably drive inclusive agricultural growth. These interventions are 1) Processor-based out-grower model 2) Staple crop processing zone and 3) AfDB Enable Youth Agribusiness. A fourth complementary intervention is to support the growth of agropreneurs through incubation and finance

facilities. Each of the interventions involves a dual focus on the creation of new jobs and enhancing the quality of existing jobs. Table 5.3 shows a selection of agriculture clusters identified from Dalberg's (2016) research and highlighted by experts and stakeholders.

5.6.4 Job Potential of the Agricultural Sector

Agribusiness and agro-allied industry is one sector that employs the largest number of Nigerians, particularly in the areas most affected by unemployment— The agricultural sector creates approximately 30% of all employment in Nigeria. (Dalberg, 2016) Opportunities to boost employment creation in agribusiness and agro-allied industry is observed to be driven by the country's natural ecological endowment for agricultural commodities that can support the significant and growing domestic consumption. Likewise, import substitution opportunities, value addition/industrial processing opportunities, and existing or planned investments in Nigeria also drive opportunities for employment generation. The strategy will operationalise existing Staple Crop Processing Zone (SCPZ) master plans, expand existing processor-based out-grower models, finance youth agropreneurs, and pilot the Federal Ministry of Agriculture and Rural Development (FMARD)'s agro-industrial processing park concept. These are bound to support the job creation potential of existing agriculture clusters.

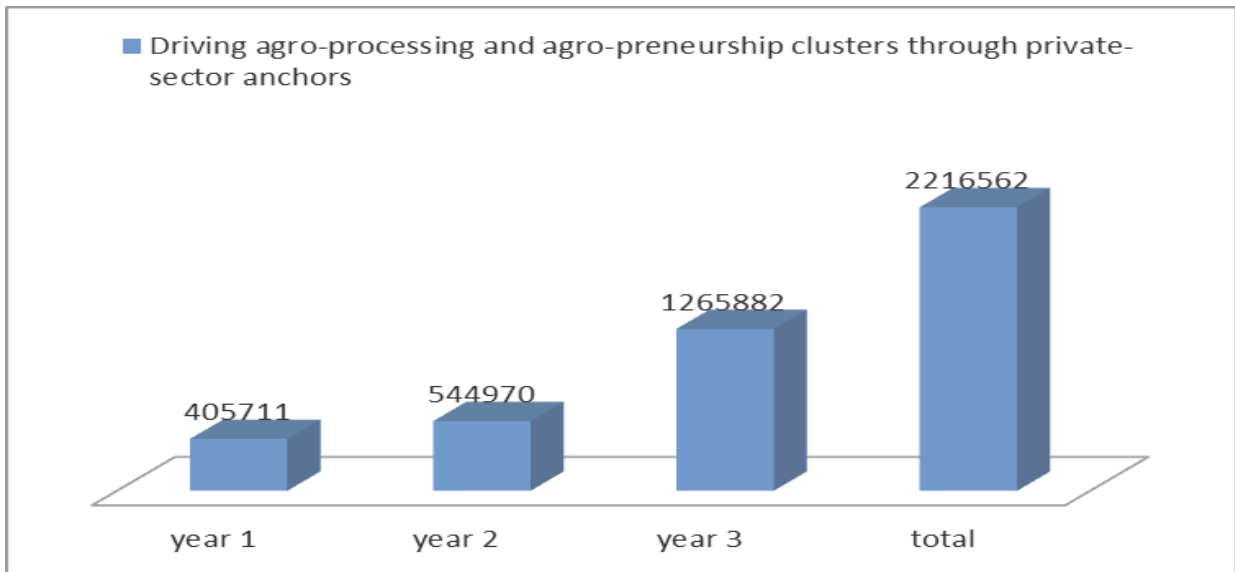


Figure 5. 4: Employment projections in agribusiness clusters

Source: Data Derived from Dalberg (2016)

This analysis was used as the basis for projecting potential job opportunities in the identified clusters. It is forecasted that over two million new jobs could be created within three years from the agriculture sector alone if a combination of these efforts are effectively implemented across select clusters. (Fig.5.4) The scope of skills distribution which point at the range of potential employment opportunities according to skill levels in the entire agricultural value chain are shown in Table 5.4. A gap analysis of the entire set was undertaken to determine the capacity building needs of different categories. It is expected that skills upgrading for the agriculture-and agro allied sector will depend mainly on practical learning, such as the training elements of the outgrower schemes and youth agropreneur financing / incubation initiatives.

Table 5. 4: Skills Distribution in Agribusiness and Agro-Allied Industries

Low Skill	Medium Skill	High Skill
Farmers Farm labourers Truck loaders Crop Sprayers Factory Hands and processors Retailers Aggregators Poultry Attendants	Farmers Drivers Agro distributors Machinery Operators (on farm and off farm) Mechanics Extension workers	Agronomists Mechanical/agricultural engineers Accountants Lawyers Extension Trainers Animal Scientists Vet Doctors

Source: Adapted from Dalberg, 2016

Finance Issues in the Job Creation Strategy

Finance is the main constraint to growth cited by Nigerian small and medium-sized enterprises (SMEs). (Augusto, 2015) The Job Creation Strategy document therefore places special emphasis on how the growth of innovative financing in Nigeria could possibly be unlocked. A range of products that can help to deepen investment flows and thereby support job creation potential were identified. These include “partial and full credit guarantees (for example, through structures such as NIRSAL), currency swaps, results-based financing (such as a social impact bond)”, etc. It was envisaged that these facilities and a range of others will be structured to facilitate capital flow to the targeted sectors of the economy by working with the Ministry of Finance and development actors active in Nigeria. The name of “Bank of Agriculture”, which is clearly suggestive of agriculture financing was however not mentioned specifically in the preliminary stakeholder list of the strategy document under discussion. Key players in financing include AfDB, NIRSAL and BOI, yet a major thrust of the strategy document is on agribusiness and agro-based industries. On the field however,

the involvement of the institution was seen to be visible as the Anchor Borrowers credit facilities were being administered by the Bank in some locations.

The strategy document has a thrust that justifies the need to deploy additional government funds — at the terms required, for business operations to support large businesses to grow more rapidly. However, it not expected that these intervention funds would be taken as long-term solutions but rather as a means to use the funds to catalyse bank activity into the sectors. Other innovative financing, especially private sector products are also recommended to include formal venture capital, equity finance of different rates, impact investment, more debt of different tenures and return targets, as well as providing further support to formal groups (cooperatives, associations, business networks) to pool capital and make individual investments. An important consideration is to ensure that the sources of capital are made to propel job creation in Nigeria.

In a related move, the Federal Government in 2018 initiated Focus Labs as part of the innovations of the Economic and Growth Recovery Plan (ERGP) to drive job creation. Here, participants from different clusters would be able to discuss progress and constraints being experienced in three key areas of agriculture and transportation, power and gas and manufacturing and processing. The Focus Labs “involve stakeholders from the public and private sectors working together in a single environment to think out practical and workable solutions for delivering the kind of

result Nigeria needs” The central objective of the Labs is to ultimately bring in private capital that can be used to finance projects across Nigeria. The launch of the Focus Laboratories is expected to generate about \$24 billion worth of investment for the country. Tracking of the outcomes of these initiatives as planned in the design is expected to support the achievement of the goal of job creation as envisioned.

5.6.5 Monitoring Plan in the Job Creation Strategy

Given the sheer size and complexity of Nigeria, the Job Creation Unit (JCU) is to operate as an information and resource hub, facilitating and coordinating execution of the implementation plan of the Job Creation Strategy, rather than implementing directly. In this regard, promising growth strategies are to be elevated in key sectors. The unit is expected to work closely with the MDAs responsible for implementation across the federal and state governments. It is important to point out that JCU has a primary mandate of ensuring that all stakeholders that have relevance in the execution of the plan have, (i) “***clarity of strategic direction***; (ii) access to information; (iii) access to resources and (iv) access to institutional support required for efficient execution” (Dalberg, 2016) of their respective responsibilities within the plan.

The performance of the country with respect to the execution of the strategy and implementation plan is to be guided by a ***performance dashboard*** and a detailed monitoring and evaluation plan. An inter-ministerial committee (Job Creation Steering Committee) made up of select government institutions (federal and state) and

private sector stakeholders selected from the four priority sectors, as well as the development community, will govern all activities of the unit. A potential risk was however identified in the possibility of lack of buy-in by the different levels of government. Yet for any of the above cluster interventions to be implemented successfully, state (and Federal) buy-in is seen to be critical. So far states are merely gradually settling down to buying in to the process. The JCU is well positioned to be a liaison between the private sector and government, to ensure that bottlenecks are minimized. The office is expected to convene regular meetings with the relevant players throughout the course of the implementation phase.

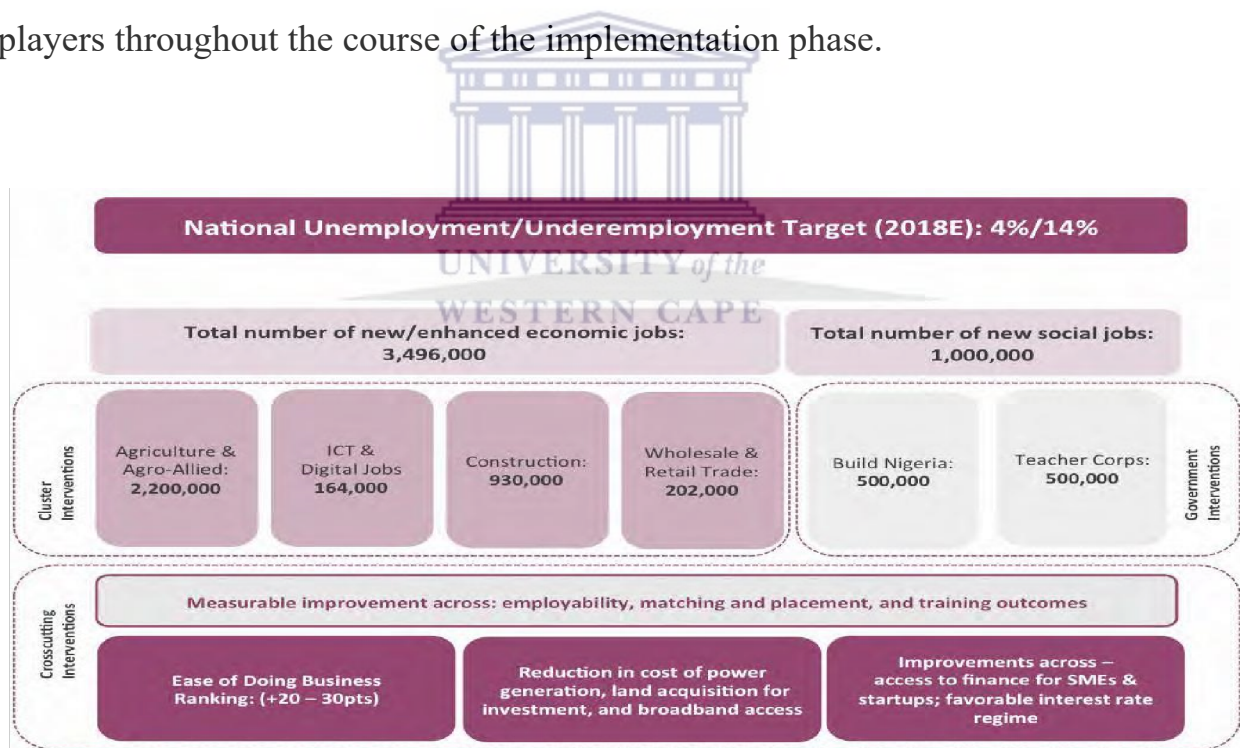


Figure 5. 5: “High level performance dashboard for Job Creation Unit”

Source: Dalberg (2016)

Fig. 5.5 shows the performance dashboard being employed by the JCU.

The monitoring and evaluation approach capitalises on JCU’s coordination role for job creation. The monitoring plan is expected to meet these objectives:

1. “Ensure that the reporting efforts are fully aligned with key activities outlined in the *strategic framework for job creation in Nigeria*, so that reporting can both guide the direction of key initiatives and inform future areas of improvement;
 2. Collect and present results transparently ***according to a standardised framework in order to support results based accountability***; The standard reporting template provides a means to capture and store qualitative and quantitative evidence across all of the reporting priorities; with these data, the JCU can then track and report on progress, both internally and externally.
 3. Incorporate the perspectives of a variety of stakeholders, including internal stakeholders; and;
 4. Execute using a straightforward, actionable process, accounting for the variety of stakeholders operating across a myriad of economic clusters”.
- (Dalberg,2016)

In order to ensure full alignment of reporting efforts with key activities as outlined in the strategic framework for Job Creation in Nigeria, the “Balanced Scorecard” concept was proposed such that partners (and the JCU) track a complete set of strategic priorities and not just individual programme outputs.



Figure 5. 6: Overview of Balanced Scorecard Approach to Monitor Progress

Source Dalberg (2016)

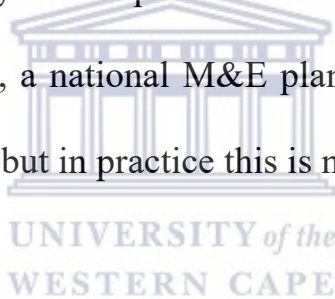
Essentially, the monitoring plan is structured to blend with selected partners' existing monitoring practices, rather than replace them. In this case key partners need to discuss their selected indicators such that JCU does not impose them, to allow the level of flexibility required across the ecosystem. Expected communication outputs include annual and monthly briefs on job creation as well as newsletters and fact sheets.

In conclusion, Job Creation Strategy of the Buhari Administration projected that over three million jobs could be created over three years from 2015-2018 if the cluster interventions are effectively implemented. As at the time of this research at the end of year 2017, evidence on the extent to which the monitoring approach has been successfully used to track the level of goal achievement was not available due to a number of operational constraints. It is expected that documentation which emerges

at the end of the Focus Labs which were on-going at the time of this research will create an opportunity for assessing the goal attainment of the job creation strategy and indeed the overall Economic Growth and Recovery Plan of the Buhari Administration.

5.7 A Note on the National Monitoring and Evaluation System in Nigeria

So far the study has demonstrated that the MSME Policy and indeed Bank of Agriculture do not effectively operate a M and E system that is focused on the attainment of goals generally and in particular the goal of job creation. The national M&E system (and therefore, a national M&E plan), requires all MDAs to be linked and aligned with each other, but in practice this is not found to be so.



While each MDA has a central M&E division in the parent ministry, there is a weak inter-sectoral co-ordination for a National M&E system. In Nigeria, some key policy initiatives have set the tone for the development of Monitoring and Evaluation. These include the increased demand by government for effective monitoring and evaluation at different periods. During the crafting of the 2004 National Economic Empowerment and Development Strategy (NEEDS) and that of the National Vision 20:2020 in 2009, this demand was apparent. Likewise initiatives for strengthening Public Finance Management such as the introduction of Medium Term Sector Strategy (MTSS, 2004) as a prerequisite for the development of Medium Term Expenditure Framework (MTEF) in 2004 required a national M and E system.

National Planning Commission coordination, including training workshops and Presidential directives towards the institutionalisation of monitoring and evaluation have also sought to embed M&E across all MDAs. Table 5.5 shows the Key findings of a Diagnostics Assessment of M&E System and Tools in 2014.

Table 5. 5: “Key Findings of the Diagnostics Assessment of M&E System and Tools”²⁰

<p>➤ INSTITUTIONAL ARRANGEMENTS</p>	<ul style="list-style-type: none"> • “Prominent in the Four Year Strategic Plans of key MDAs, however plans are not aligned with the budget. • each MDA has a central M&E division in the parent ministry, but there is a weak intersectoral co-ordination for a National M&E system.
<p>➤ M&E CAPACITY</p>	<ul style="list-style-type: none"> • NPC has M&E Department with trained key professionals to oversee M&E activities nationwide but MDAs lack key M&E staff due to poor funding for M&E. Training or trained staff is redeployed to non-M&E departments (staff mobility)
<p>➤ SYSTEMS AND TOOLS</p>	<ul style="list-style-type: none"> • MDAs have started the process of developing KPIs and scorecards, but KPIs not robust enough to capture the mandate of the MDAs. • Existence of key monitoring instruments for MDAs but in absence of National M&E Manual and inadequate M&E infrastructure these instruments are not used effectively”.

Source: National Planning Commission (2014)

To effectively conduct monitoring and evaluation activities, all projects and programmes must be designed according to results-based management principles and

²⁰ Diagnostic Assessment of the Monitoring and Evaluation System and Tools, April 2014, Dfid/Federal Public Administration Reform (FEPAR) Programme: Refocusing FGN on Results and Accountability through Key Agencies of government.

tools. Ideally, activities related to M&E should be planned by each agency or programme manager and then aggregated and validated first, at the level of the MDA. Subsequently, validation at the national level is important in order to produce a consolidated M&E work plan for all programmes. The introduction of Results Based Management (RBM) is however helping to bring about some level of rigour in performance measurement in some select government programmes in Nigeria. For the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL) for example, RBM is now the in-house tool for project evaluation and appraisal and it is mainstreamed in all 37 project offices across Nigeria.



Results-Based Management (RBM) gained prominence since the Paris Declaration on Aid Effectiveness in 2005 and it becomes imperative to create programmes that can measure progress and change. Programmes are meant to adapt themselves over time in order to ensure that results are achieved in Nigeria. This is expected to inform learning and facilitate the ongoing Economic Recovery and Growth Plan (ERGP) in Nigeria which is aimed at sustainable diversification of production, such that economy can grow and maximum welfare of the citizens is achieved. It is envisaged that an ensuing BOA reorganisation will include an effective M and E system.

5.8 Chapter Summary and Conclusion

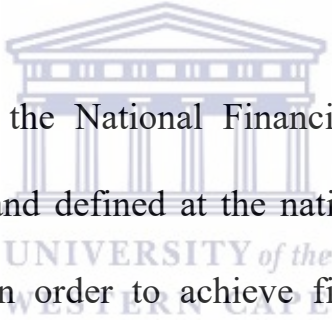
This chapter is devoted to the examination of performance measurement frameworks within the microfinance and job creation institutional architecture in Nigeria. The first part was an examination of the Microfinance Policy, Regulatory and Supervisory

Framework especially in relation to the framework that is in place for performance measurement in the policy document.

In the Policy, *employment creation* is recognised to be a front burner issue as Objective ii is specifically on creation of employment opportunities as a way of enhancing the standard of living of the active poor. It is expected that the importance attached to this objective would equally generate corresponding specific targets, but this is not so as observed in the content of the targets. It appears as if it is assumed that if all the targets are met, jobs would be automatically created. Though all the targets are set towards increasing access of the economically active poor to financial services, job creation may not necessarily be achieved. This is one of the issues that this present research investigated in relation to BOA credit facilities.

The second policy discussed is the Micro, Small and Medium Enterprises Development Fund (MSMEDF) which is an offshoot facility that was designed in line with Section 6.10 of the Microfinance Policy, Regulatory and Supervisory Framework. The CBN apart from providing the funds and other coordinating roles, is to provide capacity building programme to PFIs from the Grant Component in the areas of loan appraisal, disbursement, *monitoring* and recovery among others. However, there is no mention of capacity building in the area of *performance rating in relation to poverty reduction, job creation and financial inclusion* which is a core requirement for qualification for grants under the development component of the

Fund. Likewise, while PFIs are to monitor funds utilisation of borrowers, there is *no requirement for monitoring borrowers' performance in relation to job creation and poverty reduction* which constitute specific objectives of the scheme. In the policy, the returns to be made to the CBN are expectedly to a large extent financial analysis data which do not effectively capture the whole range of the objectives of the policy. Although MFBs are also required to include in their periodic returns to CBN, disaggregated data on the level of patronage of their products and services, there is no requirement for them to document the outcomes of the provision of their services.



Next is an examination of the National Financial Inclusion Strategy which is a roadmap of actions agreed and defined at the national level, for stakeholders in the financial sector to follow in order to achieve financial inclusion objectives. The document observed that of all adult Nigerians, 46.3% of them were excluded from financial services in 2010, the key barriers to financial inclusion being long distance to access points, unfriendly eligibility requirements, low level of financial literacy, and high cost of financial services, among others. The National Financial Inclusion Strategy aimed at reducing the adult exclusion rate from 46.3% in 2010 to 20 % by 2020 through different initiatives such as KYC, agent banking, mobile payment, cashless policy, development of a framework for financial literacy, consumer protection and implementation of credit enhancement schemes. Specific targets were set to form the basis for measuring progress towards goal achievement. The roles of stakeholders were identified in the implementation of the Strategy and it is envisaged

that they would exhibit sufficient commitment in this regard under the coordination of the Central Bank of Nigeria as the lead promoter. A robust and replicable monitoring and evaluation framework was articulated and accompanied with measurable key performance indicators.

An analysis of the National Enterprise Development Plan follows which is a programme designed by the Jonathan Administration that preceded the Buhari Administration as “a holistic plan that cuts across all tiers of enterprise” to provide the tools needed to assist enterprises growth from each level to a higher one. *NEDEP* is one programme that has specifically *attempted to create a key performance indicator to track the number of jobs created*, but unfortunately the outcome of this attempt had not been documented by the time the government changed hands in 2015. The implementation timelines and deliverables for all NEDEP initiatives, is to refer to the Implementation Plan in the National Policy on MSME for guidance. This reference indicates some level of coherence and policy alignment in the policy corridor. That means the NEDEP was not a stand-alone programme but one that has connection with the MSME Policy. Under NEDEP, the machinery was put in place to provide evidence based planning for job creation in the country. However, again the extent to which this arrangement has adequate information upon which subsequent programmes could be implemented is circumspect although for NEDEP there is no contradiction or any serious departure from the agenda of Job Creation Strategy of Buhari Administration.

Lastly the Strategic Framework and Implementation Plan for Job Creation and Youth Employment in Nigeria was examined as the framework under implementation during the course of this research. Essentially, its relevance as a cross cutting framework for job creation becomes important within the institutional architecture of MSME Development. It is believed that over three million jobs could be created over three years from 2015-2018 if each of the cluster interventions in four priority sectors of agribusiness and agro based sector; construction; ICT and wholesale and retail trade sector are implemented successfully. The selection of focus sectors is based on the need to prioritize informal sector employment opportunities while ensuring that areas that are more vulnerable to the effects of youth unemployment (particularly Northern Nigeria) are not neglected. As at the time of this research in 2017, evidence on the extent to which the aim of the strategy has been achieved was not available due to a number of yet to be established constraints. However, the documentation which emerges at the end of the Focus Labs is bound to create an opportunity for assessing the achievement of the programme and indeed the overall Economic Growth and Recovery Plan of the Buhari Administration.

CHAPTER SIX

RESEARCH DESIGN AND METHODOLOGY

6.1 Introduction

This chapter provides a detailed discussion of how data for the research was collected and analysed. Specific sections include mixed methods research design and justification for the choice of methodology, quantitative and qualitative methodologies with their corresponding instruments and sampling techniques, the issue of validity and reliability of data relating to the methods chosen, as well as ethical considerations in the research process. Additionally, the tools, tests and techniques employed in the analyses and data interpretation are also discussed.



Evaluations and assessments can be actionable, useful to different stakeholders, and can inform strategic decision-making if evaluators understand the existing evidence base and work together to fill existing gaps. Evaluation is a public good and because it not every organisation that conducts evaluations, every organisation could potentially derive benefit from others' evaluation results. Organisations working together can build an evidence base about good practices that no single organisation could build alone. The methodologies adopted in this research therefore benefited from a number of existing frameworks in MSME policy evaluation and impact investment performance measurement.

Policy monitoring and evaluation differ to the extent that while the former is dependent on the what recipients of the policy perceive, policy evaluation presents the “counter factual” by tending to compare these views or actions with those of non recipients. A comparison between the actual changes and the “counter factual” is seen to be the policy effect, termed “additionality” (OECD 2007)

Historically, microfinance institutions (MFIs) have concentrated their attention and resources more on monitoring as against external evaluations, where monitoring activities is mainly done in terms of tracking “financial indicators”. Microfinance being a development product, the monitoring of MFIs has now expanded in scope to include the tracking of changes associated with social indicators on which consensus has been reached by industry stakeholders such as the “Social Performance Task Force” (www.sptf.org). Therefore, apart from their financial indicators, more than 350 MFIs now submit a set of social indicators to the Microfinance Information Exchange (MIX). (CGAP, 2011)

Evaluation of a programme operational performance involves the assessment of the way outcomes evolve from interventions and whether these outcomes are “intended or unintended”. Operational performance of organisations may be measured in the following areas:

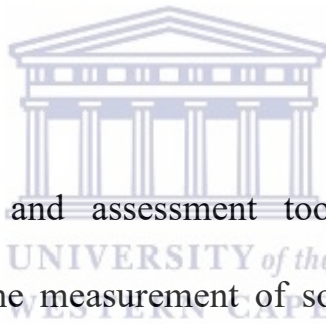
- “Financial performance, including standard financial reporting metrics such as current assets and financial liabilities;

- Operational performance, including metrics to assess investees' governance policies, employment practices, and the social and environmental impact of their day-to-day business activities;
- Product performance, including metrics that describe and quantify the social and environmental benefits of the products, services, and unique processes offered by the investees;
- Sector performance, including metrics that describe and quantify impact in particular social and environmental sectors, including agriculture, financial services, and healthcare and
- Social and environmental objective performance, including metrics that describe and quantify progress towards specific impact objectives such as employment generation or sustainable land use". (www.giin.org)

This assessment study is in the realm of social and environmental objective performance. *Bank of Agriculture performance is being assessed in relation to mission clarity and coherence as well as progress towards facilitating MSMEs to create jobs within the context of local economic development in Nigeria.*

For a service provider, **social objective performance** refers to how the provider is achieving its stated social goals and contributing to the creation of value for its clients. A provider with strong social performance management (SPM) practices is likely to achieve strong social performance. Financial service providers (FSPs) that

have a social mission have a duty to define and monitor selected social goals, develop products and services that are client-centric. Likewise, they are expected to treat both clients and staff in a responsible manner and pursue “balanced financial performance”. This is essentially “social performance management” because the integration of social goals into business plans and strategies enhances the growth of FSP while its social purpose remains unchanged. This way *protection against mission drift* is enhanced. To what extent has BOA remained focused on its objective of facilitating employment generation or job creation among its client enterprises? This is a poser of the study.



A number of monitoring and assessment tools have been developed in the microfinance industry for the measurement of social performance elements. (some “social performance measurement initiatives” are listed in Table 6.1). Social performance assessment is a potentially useful tool for MFI management in understanding the context of services delivery. They are however limited in application for attributing welfare changes to MFIs programmes because the tools do not necessarily reflect the counterfactual, i.e. what the situation would have been if the intervention in question had not been introduced. The data generated can be useful in informing impact evaluations and understanding the way in which process factors, such as personnel training or disbursement mechanisms, influence outcomes.

Table 6.1: “Selected Social Performance Monitoring and Assessment Tools in Microfinance”

TOOL	FUNCTION
“Poverty Measurement Tools”	“Help to identify the poverty status of MFI clients, to track how MFI client poverty levels change over time, and to report on MFI poverty outreach to funders; can help MFIs target a specific market segment
“Social Audits”	Inform MFIs about the social orientation of management processes (i.e. client-centric practices or responsible internal policies toward staff)
“Social Ratings”	Rate MFI performance based on information on social dimensions, such as mission clarity and alignment of strategy and operational systems to stated mission and internal processes (client protection, gender approach, and responsibility to staff, communities, and the environment)”

Source: Culled from CGAP (2011)

No “one size fits all” approach exists for such evaluations and the best appropriate approach for evaluating an intervention of this type depends on the operational features and context of the policy being evaluated. Before starting the process of this present research, the theory of change which was presented in the form of a results chain in the conceptual section guided the focus of the study and the content of the instruments. The issue at stake is so diverse that the study required due diligence and in-depth analysis. Particularly striking is the modest record of a “tradition of evaluation” in MSE financing /entrepreneurship policy. For some policies evaluation is never undertaken and in situations where an assessment does take place, it is frequently done with the use of rudimentary tools. This research therefore becomes important as it attempts to use a robust methodology.

6.2 Mixed Method Research Design and the Justification for Choice

The in-depth nature of this study required the use of mixed methodologies, through multiple instruments and different sets of respondents. Mixed methods involve the collection of qualitative and quantitative data and integrating them. Different designs may be used for each of them with the possible use of their corresponding “philosophical assumptions” and ‘theoretical frameworks’. This form of inquiry assumes that the combination will engender better understanding of a research problem than if either approach is used alone. (Creswell, 2014). Table 6.2 below presents a summary of some evaluation methodologies that are being used to gather data and analyse same in order to track changes which the microfinance programme under evaluation has effected in clients’ lives.

Table 6. 2: Evaluation Methods

METHODS	WHAT IT DOES	WHAT IT DOES NOT DO	EXAMPLE
Qualitative methods	“Focus on processes, behaviours, and conditions as perceived by interviewees.	Attribution of causal effect subject to biases.	“Portfolios of the Poor (2009)
“Quantitative Nonexperimental methods or quasi experiments”	Evidence of change on the lives of clients.	Difficult or impossible to isolate biases (selection, placement), so attribution of causality is difficult.	AIMS studies, e.g., Chen and Snodgrass (2001), Khandker (1998), Bruhn (2009) and Townsend (2009)

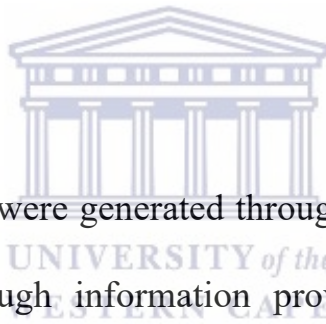
Quantitative experimental methods (RCTs)	Evidence of causality of an intervention on the lives of clients as compared to a control group.	Do not always provide a good understanding of the contextual and process factors”.	Karlan and Zinman (2009), Banerjee and Duflo (2009)”
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Source: Culled from CGAP (2011)

Quantitative techniques are used by researchers when they seek precise measurable changes that are caused by or that have correlation to a specific intervention. But when they are interested in having an understanding of processes that are entangled and when direct causality cannot be easily established, they use qualitative techniques, such as focus groups or structured interviews. (CGAP, 2010). Although many MFIs primarily rely on qualitative research, randomized control trials (RCTs) can be a cost-effective alternative for designing and testing products in cases where the MFI have adequate management information systems.

The choice of mixed methods in this present study is being driven by policy consideration of importance rather than by evaluation methods. The mixed methods approach was employed to ensure reliability where a number of the issues that were generated through quantitative method needed to be probed further and unpacked, hence the additional choice for qualitative information. OECD (2007) lends credence to the use of a plurality of approaches when evaluating SME policies as the approaches benefit from the complementarities in the information which they provide.

In this research, quantitative assessment was therefore used to complement qualitative methods in order to enhance the provision of a better understanding on the operations, strengths and constraints of the MSME financing policy especially in relation to the fundamental objective of job creation at the programme level in BOA. In line with Creswell (2014) under the “convergent parallel mixed method”, the two forms of data were collected about the same time and their findings were integrated in the analysis of the whole results. These methods include desk research, questionnaire administration as well as in-depth study of key informants and focused group discussions.



A number of the issues that were generated through quantitative method were further probed and unpacked through information provided by the qualitative method. Among others, a review and synopsis of key documentation were undertaken and interviews with stakeholders and focus-group discussions were held in each of the research sites. A few Case Studies were also undertaken among a set of carefully selected MSEs to get more insights into the dynamics surrounding the capacity of enterprises to create jobs. Findings derived from the different methods were triangulated to achieve robustness of the results. Dealing with attribution by multi method approaches has an appeal as the way forward in assessing the effectiveness of microfinance programmes. The full list of mixed methods adopted are the following:

1. Desk research and documents content analysis
2. Quantitative Research using questionnaires

3. Qualitative Methods
 - a. Key Informants Interviews (KII)
 - b. Focus Group Discussions
 - c. Observations and select case studies

6.3 Scope and Coverage of Research

The study was carried out in Nigeria. There are 36 states and the Federal Capital Territory in the country and the states fall under six administrative geo-political zones. Each of the states has several local governments ranging from 9 local governments in Bayelsa State to 44 in Kano state, to make a total of 774 countrywide. BOA has six zonal offices, each serving a geo political zone and three branches in each state. Out of six zones, three were purposively selected. To represent the north and south divide, Sokoto state was selected in the North West and Osun state in the South West zones, while Bayelsa state in the South South was selected as an oil producing state to capture the possible influence of oil production in the zone. In each state, one BOA branch out of the three existing in was selected for the purpose of the research. Each branch covers a number of local government areas in the state of operation. These decisions were to accommodate possible differences associated with the geographical and socio/cultural context in Nigeria.

Table 6. 3: Guide to Selection of BOA Research Locations

Zone	Number of States	Location of BOA Zonal Office	Research Site
South East	5	Enugu (Enugu)	-
South South	7	Port-Harcourt (Rivers)	Bayelsa State (Yenagoa)
South West	6	Ibadan (Oyo)	Osun State (Ode-Omu)
North East	6	Bauchi (Bauchi)	-
North West	7	Sokoto (Sokoto)	Sokoto State (Sokoto)
North Central	6 + FCT	Abuja	-

6.4 Desk Research

The desk research aspect of the study was undertaken to generate relevant secondary data. The information gathered was used to understand the background and state of the issue of study as well as to support findings from the primary surveys. The secondary sources of information include government statistical reports and policy documents such as MSME Policy Guidelines, National Enterprise Development Policy, Agricultural Transformation Agenda, Microfinance Regulatory Policy and Supervisory Framework, Financial Inclusion Strategy document, Central Bank bulletins, National Bureau of Statistics documents such as Annual Abstract of Statistics, BOA reports as well as past relevant research reports produced by Nigerian Institute of Social and Economic Research (NISER) among many others. Other

approaches used involved a careful scrutiny of bank documentation such as monitoring reports and management information system.

Apart from these documents review, an analysis of the quality of relevant policies especially the MSME Policy document was done to reach a judgment on the internal consistency of the Policy with respect to the goal of job creation. The analysis was undertaken using a modified form of the “COTE” framework developed by OECD. The framework assesses the quality of a policy document as a small business development instrument in terms of: **Clarity/Coherence, Objectives, Targets and Evaluation.**



6.5 Quantitative Method

Quantitative evaluation involved assessment of the effect of the BOA microloan scheme by comparing the outcomes between select members of the participating group and a select “control group” of enterprises that have not taken part in the programme. Such data was collected directly from the business owners themselves.

The “instrumental variables” (IV) approach was used in evaluating the BOA intervention where MSEs can select whether to participate in the program or not using “unobserved information”. Firms that expect to benefit from having access to the services apply for the services, while firms believe otherwise do not.

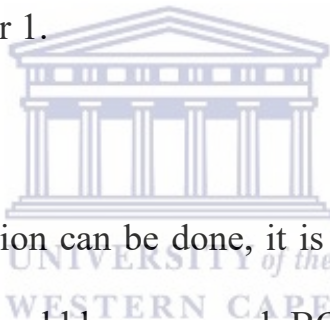
Measuring the counterfactual— “what would have happened” if a firm did not participate in a particular intervention—is important for establishing causality. Without it, it is difficult to know if changes in participants’ enterprises are caused by the program, by outside factors, or by unmeasured characteristics of the participants themselves (which may be most problematic). By using treatment and control groups, factors which could influence the outcome exist in both groups, hence any difference that is observed in the outcome can be somewhat attributable to the intervention.

Our study therefore used the control group method supported by case study materials to compare “Treatment” with “non-treatment” firms (control group) in terms of observable factors such as ownership structure, size, sectors of operation and physical context. The exercise was done through a matching procedure. Differences in the performance of the two groups were then subtly ascribed to participation/non participation in BOA microloan services.

6.5.1 Data Sources and Instruments for Data Collection

Questionnaires were used as instrument for data collection. The questionnaire contains a general section where demographic and background information of the selected respondents was probed while other sections of the questionnaire contain information relevant to the research questions and objectives. The questionnaire was designed to capture important information on enterprise level, employment indicators as well as BOA programme and community related information. (See Appendix)

Employment data has been found to be the most dependable and comparable data for MSE impact studies as owners may find it easier to remember the number of their employees over time, than any measure of improvement even if they lack reliable management information system (MIS). (Mead and Liedholm, 1998) In the context of young firms, noticeable increase in employment may also a key indication of demand for the firm's products or services. Using the number of employees as the unit of measurement also reduces the need to apply deflators or currency adjustments to revenue and other monetary measures of progress (Mead and Liedholm, 1998) as already mentioned in Chapter 1.



Before a meaningful evaluation can be done, it is important to establish the baseline against which an indicator would be measured. BOA was not seen to collect baseline information on the number of employees in the clients' enterprises as was observed in the loan application form. Since a baseline did not exist within the management information system (MIS) of the bank as at the time of research, 'retrospective baseline' data was gathered to reconstruct the baseline, in order to understand the situation when the researched clients were just starting to bank with BOA. In line with the suggestion by Mead and Liedholm (1998), the questionnaire used for this research therefore had retrospective questions relating to employment and turnover levels which were compared to the present levels of the same variables. Average growth rates and a success indicator can be calculated using this method and although this method may not necessarily yield the best result in terms of accuracy and

reliability compared to having access to a baseline prior to the field research, it is still better than not having any baseline. Data was therefore derived from recall by individual clients. Questions that assessed the perception of respondents to BOA services were also asked.

6.5.2 Sample Design and Sampling Technique

The sample study is designed to have states as the reporting domain. A two stage cluster sampling was employed to select representative zones and branches eligible for further sampling. Hence in each sampled zone, state branches were purposively selected by the researcher based on data provided by the Headquarters in Kaduna.

(Figure 6.1)

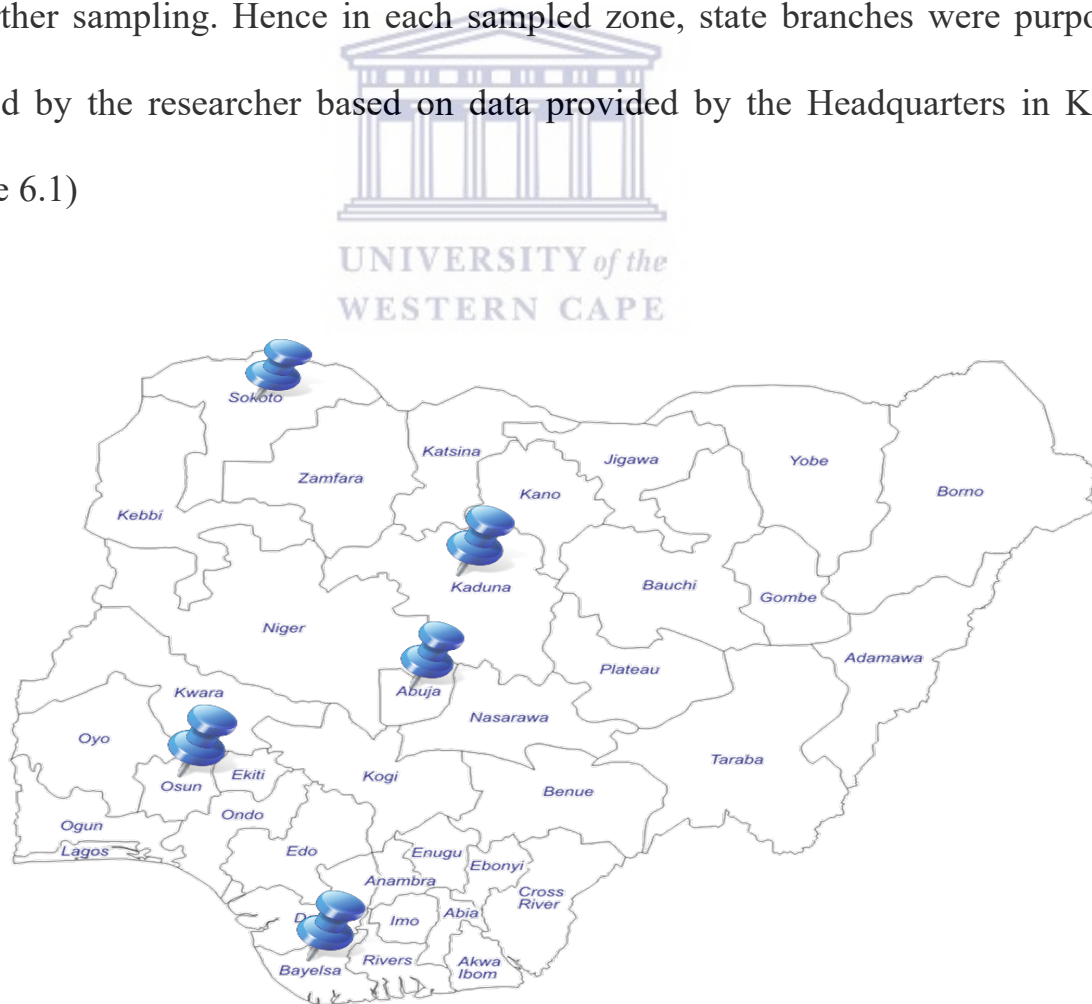
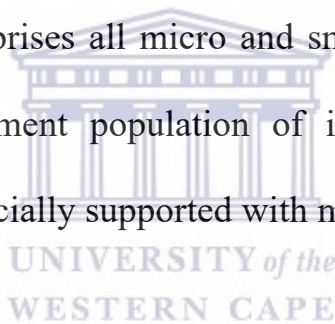


Figure 6. 1: Map of Nigeria showing BOA Research Locations

In order to select the sample respondents for the study, the target population was considered. The target population of a research refers to the whole of the relevant group of individuals in whom the researchers are interested to generalise the conclusions. (Yin, 1989). Polit and Hungler (1999: 232) define “a population as the totality of all subjects that conform to a set of specifications, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalised”. It is important that a study population includes people who have information that are relevant for a research. (Alreck and Settle, 1995) The population of this study therefore comprises all micro and small enterprises in Nigeria. Of this group the immediate treatment population of interest comprise of the 350,000 MSMEs that are being financially supported with microloan by BOA all over Nigeria.



Both the “purposive” and “random sampling” methods were employed in selecting client enterprises for investigation where the sampling frame for clients of BOA depended on the database provided by the bank at the respective zonal offices. As a first step, the offices of BOA in the states of Osun, Sokoto and Bayelsa were the contact points. The researcher decided to select sample clients of BOA based on the general classification of “agriculture and non-agricultural loans”. In this study therefore, information on total number of client MSMEs were collected and from this list, 80 enterprises were randomly selected from each selected BOA branch. Likewise, 120 enterprises similar to the treatment group were randomly selected in each branch location.

Table 6. 4: Selection of Respondents for Questionnaire Administration

Zones/States Selected	Treatment Group	Control Group	Total
South-South (Bayelsa State)	80	120	200
South West (Osun State)	80	120	200
North West (Sokoto State)	80	120	200
Total	240	360	600

Out of a total of 600 questionnaires, 456 were cleaned and returned implying a 76% response rate.

In “purposive sampling, groups participate according to pre-selected criteria relevant to a particular research question”. (Creswell, 2005: 204) From each of the three selected states, 40 clients of BOA (i.e. treatment group) from each of agriculture and non-agriculture sectors were selected while 60 enterprises similar to the enterprises that are clients of BOA but voluntarily or involuntarily do not have access to BOA services served as control group from agriculture and non-agriculture sectors respectively. Hence 80 BOA clients constitute the treatment group from each state branch and 120 other enterprise owners are the responding control group participants, i.e. 200 respondents per state and 600 respondents were interviewed overall. To ensure a proper analysis of impact, there is need for a counterfactual, to demonstrate the nature of outcomes that would emerge, had the intervention not existed. This is the reason for including control groups. The sample size for the study was determined in line with the rule of thumb of sampling approach as applied in the work of the

“Consultative Group to Assist the Poor” (CGAP). For an impact assessment study (Henry *et al*, 2003), a 2-to-3 ratio of clients to non-clients was maintained in all clusters. Van de Ruit May, and Roberts, (2001) argue that the ratio of 2 treated samples to 3 control samples allows for greater diversity in the control samples.

The enterprises selected are those that have been in operation for at least five years. This is because it is usual for demographers to use five years as a yardstick for survival of enterprises (Alexander, Davern and Stevenson, 2010) for the purpose of balancing of statistical power of test. The process identified a number of small enterprises, which provide products and services that are fundamental to the functioning of the *local economy*, including sectors such as *agriculture, business services/artisans, retail trade and basic manufacturing (e.g. food processing)*. They are known to have the potential to create some new jobs in local economies.

Before starting the actual research, a pilot test of 30 respondents (10 per state) was undertaken to check the consistency and clarity of the instruments as well as to estimate the duration of questionnaire administration. The result of the pilot test indicated that the instrument was found to be reliable in relation to the information it intended to elicit. With minor editing, the designed instrument was used for the field work. On the whole the response rate was quite reasonable at 76% as 456 completed questionnaires were retrieved out of a total of 600. The high response rate was due to clients’ perceived need to express their impression on BOA activities consequent

upon an apparent lull in the agency's activities prior to the research period. This factor was however well managed by the researcher such that it did not introduce any bias into the research results.

6.6 Qualitative Method

In a theory-based research approach, qualitative data is useful in providing vital context. Qualitative data can also reinforce findings and add depth to them. In evaluation studies, qualitative method attempts to present an interpretation of the processes of an intervention as well as impacts which have a high level of probability.

(Hulme 2003) In this approach, different and often contradictory reports of what has happened as well as the achievements of a program are recognised. To complement information derived from questionnaire administration therefore, Key Informant Interviews (KII) were undertaken with a number of relevant stakeholders at the level of the policy corridor, BOA and local community. Qualitative evaluation or approaches relied not only on the views of programme beneficiaries but also on the views of other stakeholders such as community members, programme managers and policy makers about programme operations and effectiveness of the programme using techniques such as key informant interviews, peer reviews and case studies.

In evaluating programmes especially public programmes, what one perceives is dependent on where one is sitting. That means vested interests are bound to influence people's views both objectively and subjectively. It is therefore important to ensure

an objective, non-restrictive and balanced approach in selecting respondents in order to reduce the possibility of biases. For this study therefore, although clients of BOA are the ultimate targets of the study, views and perceptions of other stakeholders also become important in order to get a robust set of relevant information. In this study scenario the following is the range of respondents that were consulted at the Federal and study States levels:

- A cross section of BOA Officials
- Officials of Central Bank of Nigeria (as Regulator and custodian of funds)
- Other Financial Service Providers such as Commercial Bank and Microfinance Bank officials.
- Support Organisations and International Development Partners
- SMEDAN Officials
- Ministry of Agriculture Planning Officers
- Ministry of Trade and Industry Planning Officers
- Clients of BOA (treatment group)
- Enterprises that are not clients of BOA but with similar characteristics (control group)
- Community trade groups

The Executive Director of Operations of BOA and other senior officials in the bank headquarters assisted with information relating to policy frameworks and policy implementation and other related issues. Other relevant respondents who have

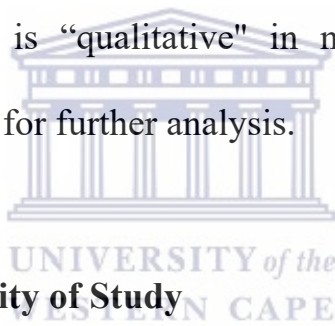
experience/knowledge and vital perspectives about the research questions were also identified by the officials for the interviews. This method referred to as “snowballing” (Creswell, 2014) is considered as a type of purposive sampling.

Officials in the policy corridor such as Federal Ministries of Budgets and National Planning, Commerce and Industry and Finance as well as Nigerian Institute of Social and Economic Research (NISER) and Central Bank of Nigeria were interviewed essentially to assess the level of shared understanding of the goal of job creation as enshrined in the MSME Policy as well as their perspective on the consistency and effective tracking of the goal in policy processes. The interviews also sought to seek responses to questions on the institutional mechanisms for the implementation of the MSME Policy in relation to job creation as well as monitoring and evaluation frameworks and processes.

Focus Group Discussions (FGD) were also organised with BOA clients and nonclients as well as relevant trade and community networks to assess their perceptions on the effectiveness of BOA services in relation to job creation enhancement in their respective communities as well as factors militating against the bank contributing effectively to employment generation in local economies.

Question guides were designed for different groups of respondents. (The study guides for the different groups are attached in the appendix). Specifically, KIIs and FGDs

provide an interpretation of the intervention's operational processes and the effects which may have a high level of probability. They recognise the possibility of recording different and sometimes conflicting reports of programme results. Overall, dealing with attribution by multi-method approaches provided a high degree of validity in this study. Therefore, a reader needs to judge the validity of assessments using this method based on the logical flow of the arguments and materials presented; the value of the evidence provided; the robustness of the triangulation used to validate evidence and the quality of the methodology. Although much of the data derived through such an approach is "qualitative" in nature, some amount of the data generated may be quantified for further analysis.

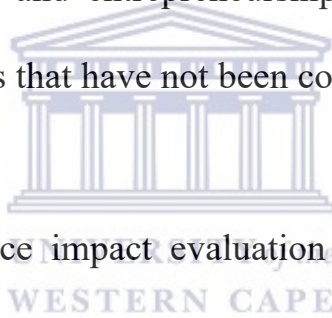


6.7 Validity and Reliability of Study

The major disadvantage of qualitative evaluation is that it may not, for some reasons provide reliable estimates of the impact of a policy. Firstly, there is a risk that stakeholders selected in a sampled survey may not be representative of programme participants. Secondly, interviewer bias may constitute a strong risk even if they try their best to be as objective as possible. A third issue concerns the fact that the outcome of qualitative evaluation often describes a process rather than evaluating an outcome. Independent verification may be also difficult to carry out. Lastly, there are some questions which programme participants may find very difficult to if not impossible to answer.

The technical difficulties associated with qualitative evaluation are the major disadvantages of qualitative evaluation. Apparently the nature of the results it offers is quite narrow in many situations, being focused primarily on issues associated with efficacy and effectiveness.

On the technicalities associated with quantitative evaluation on the other hand, the amount of data required on the performance of targeted and control group participants may need to be extensive and probably expensive to undertake. Moreover, in evaluations related to SME and entrepreneurship policy, it may often be difficult to isolate natural control groups that have not been contaminated.



Much debate in microfinance impact evaluation has been around the question of *attribution*, or whether it is possible to demonstrate that the intervention of the MFI has been responsible for a specific change. Hulmes (2000) has observed that the major methodological problems confronting microfinance impact assessments relate to fungibility and attribution particularly given the difficulty of instigating effective control-group mechanisms to establish what might have happened without the MFI intervention.

Despite its merits, establishing the counter-factual does not necessarily guarantee “best practice”. The results generated may still be confusing if they are not carefully analysed because some of the differences in performance that are observed may be

suggestive of the presence of “un-observables”. For instance, the personal characteristic of the SME owner manifesting in the business motivation and/or dynamism may constitute different forms of “selection bias in the estimation techniques”.

On the fungibility issue, client livelihoods patterns and the environment in which they exist are quite complex. For example, they may have multiple income sources as is usually the case, and the credit provided by the MFI is therefore *fungible*, i.e. not necessarily used for the purpose for which it was requested. Fungibility may therefore be problematic for enterprise level studies while attributing impact to the MFI thus becomes complicated.



For an attempt to demonstrate attribution, researchers use 3 methods: Scientific (adapted to quasi experiments) - Multiple Regression analysis (rarely used in microfinance impact assessments) and Control Group method where sensitivity to selection biases becomes important in relation to the following factors- a. identifying appropriate control group; b. treatment group may possess invisible attributes different from control group; c. treatment group may manifest short term positive response to an intervention; d. the possibility of treatment group contaminating control group; e. fungibility of the treatment. Controlling for loan fungibility is more difficult. Case study materials were used therefore to validate information provided on loan use compared to intended use in order to estimate possible leakages.

Despite the listed limitations, the level of triangulation employed to validate evidence as well as the strength of the methodology, coupled with the very broad and deep experience of the researcher on the subject matter has assisted to give a high level of reliability to the results generated.



6.8 Ethical Considerations

To ensure integrity in the process, participants were provided with information about the purpose of the study and were assured about the confidentiality of their identity. This promise was strictly observed. They were also clearly informed that they had a full personal right to refuse to be interviewed or that they could withdraw from the exercise at will during an interview. Before the interview took place, each one of them was required to sign an informed consent form, a copy of which can be found in the Appendix.

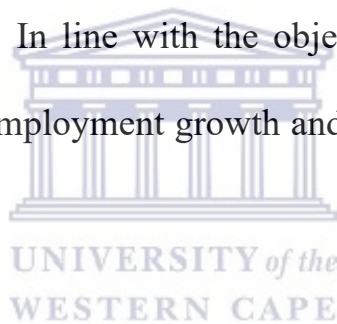
6.9 Data Analysis

This research is aimed at evaluating the effects of BOA microloan activities in relation to the achievement of the fundamental objective of job creation as contained in the MSME Policy in Nigeria. Towards this end therefore, data generated from the field was cleaned and analysed with the SPSS package. The analytical techniques for the study are in two parts. In an attempt to find answers to the research questions, various descriptive statistics such as frequency distributions, averages, percentages, and cross-tabulations were presented from the field data to draw implications.

Respondents' demographic characteristics, socioeconomic and livelihood profiles, and information on activities pursued by them were examined using descriptive analysis.

The qualitative information was analysed logically in relation to the objectives while critical statements were noted for verbatim reporting. The result of the policy content analysis is also presented according to the COTE framework.

There are a number of factors that could potentially determine the contribution of MSMEs to employment generation, although the nature of the relationship was unclear a priori. This was tested empirically by relating enterprises that have access to BOA microfinance services to the several variables identified and comparing them to those of the control group. In line with the objectives, the study identified factors associated with small firm employment growth and if indeed BOA services constitute a strong factor.



The dependent variable is the micro and small enterprise average employment growth rate over five years (MSEG). In this context access to BOA microcredit is taken as the key predictor/determinant of MSE growth while intervening variables are multidimensional *capabilities and opportunities* factors capable of facilitating enterprises' chances of generating growth and employment. These factors can be subdivided into four different categories: "(1) individual entrepreneur characteristics; (2) firm characteristics; (3) relational factors (such as social networks or value chains); and (4) contextual"/business environment. (Ali, 2016)

To examine the relationship therefore, the demonstrative model specification is given as:

$$\text{MSEG} = f(\text{ENTX}, \text{FCHR}, \text{RCHR}, \text{BSEN}, \text{OTHR})$$

Where:

MSEG =MSE Growth; ENTX= Enterprise Characteristic; FCHR=Firm Characteristic; RCHR=Relational Characteristic; BSEN= Business Environment; OTHR= Other Variables

6.9.1 C.O.T.E. Framework

This research also attempted to analyse the commitment of the MSME Finance Policy to the evaluation of the fundamental objective of job creation. Evaluation cannot be adequately undertaken if the objectives and targets of SME policy are not clearly specified. The Istanbul Declaration, 2004 of the 2nd OECD SME Ministerial Conference on “Promoting Entrepreneurship and Innovative SMEs in a Global Economy” suggests using COTE framework for policy formulation. In this framework:

- **C** is taken to stand for policy clarity and coherence, where Clarity in this context, means that the policy is fully understood both by those responsible for delivering it and those who are expected to benefit from it. Coherence on the other hand means that the entire government system works collectively to ensure MSMEs’ contribution to job creation.
- Letter **O** represents the Objectives of policy, which is expected to be clearly stated in order to ensure clarity;

- Letter **T** stands for **T**argets. These be set before evaluation can be undertaken and they must be specified in a way that the achievement of a policy can be assessed.
- Letter **E** stands for **E**valuation and this can only take place through the use of a framework which clearly specifies the expected policy impacts.

BOA operational systems were therefore assessed to know whether a framework actually exists to guide *job creation goal attainment* and if it does exist, whether it is being used effectively.

6.10 Chapter Summary and Conclusion

This chapter explains the procedure, data sources and data collection instruments and models adopted to analyse the data. A mix of cluster and random sampling frames were applied at zonal and branch levels of BOA administration. Cross-sectional data were gathered by using structured questionnaire and semi-structured questionnaire on a set of treatment and control groups in selected BOA branches. Key informants in the MSME policy corridor were also interviewed to among other issues, assess the clarity and coherence of MSME policy in relation to the fundamental objective of job creation. Descriptive statistics and COTE framework were applied as methods of data analysis.

Table 6. 5: The Assessment Process

I. "Pre-evaluation assessment"	<ul style="list-style-type: none">• "Have a clear understanding of the MSME Policy and characteristics of the BOA Intervention• Identify objectives of the intervention• Identify the outcomes/indicators to evaluate
II. "Evaluation design"	<ul style="list-style-type: none">• Review data available to perform evaluation and determine the extent that new data is needed.• Select evaluation method"
III. "Data collection"	<ul style="list-style-type: none">• Collect existing secondary data from relevant sources• Design survey Instruments• Undertake pilot questionnaires administration• Conduct actual fieldwork based on pilot experience• Undertake FGD and KII• Process, analyse and validate data
IV. "Analysis of Results"	<ul style="list-style-type: none">• "Produce findings of evaluation" study and make policy recommendations".

Source: Adapted from World Bank (2012)

CHAPTER SEVEN

RESULTS AND DISCUSSION OF THE EFFECTS OF BOA MICROLOANS ON THE MSME POLICY GOAL OF JOB CREATION IN NIGERIA

7.1 Introduction

In the context of small young firms, it is expected that noticeable positive change in employment is an indication of improved demand for the firm's products or services. Growth in employment as well as the wider changes in the local economy are assumed to be a good sign of firm growth. This section is an attempt to capture possible changes in the local economy through the microloans intervention of Bank of Agriculture (BOA) in the present study sites in Nigeria. This is important so that we do not under-report or over-report the achievements or otherwise generated by the Bank's microloan scheme.

Attributing the growth of small businesses to the use of BOA loans may be difficult, using any single methodology. Against the backdrop of the description of the Bank enumerated in Chapter 2, a wide range of methods was therefore consulted to capture observable changes. These methods include case studies, quantitative methods and stakeholder consultations to assess the characteristics of micro enterprises, the level of access of the enterprises to credit facilities generally and BOA in particular and the level of effectiveness of same in generating employment if any in the selected study locations. The findings of the quantitative and qualitative studies of enterprise owners

that received loans from BOA and a control group of those that did not receive any loan from the institution are therefore presented below.

The focus of this chapter is mainly devoted to an analysis of the effects of BOA microloan operations in relation to the achievement of the fundamental objective of job creation as contained in the MSME Policy in Nigeria. The theory of change identified in Chapter 2 assumes that if microenterprises have access to microloan for business investment, such loan would facilitate the enterprises to experience higher turnover and in turn growth in employment. Best results are further projected if the affected entrepreneurs possess capabilities and opportunities for business expansion. A modified framework of the determinants of firm growth considers capabilities and opportunities to include factors such as “(1) individual entrepreneur characteristics; (2) firm characteristics; (3) relational factors (such as social networks or value chains)”; (Ali, 2016) and (4) contextual/business environment. These assumptions inform the analysis that is presented in this chapter. The challenges of BOA in the attainment of its goals are then discussed. Finally, the capacity of BOA to undertake routine assessments of this nature in line with global impact investment measurement practices was examined in the next chapter.

7.2 Empirical Findings and Discussion

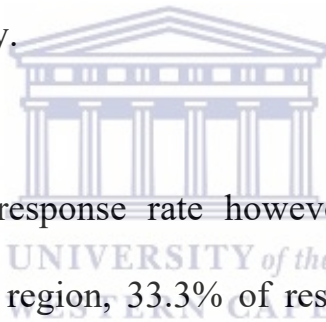
7.2.1 Who are the Small Enterprise Owners?

The growth of a firm, is to an extent, a matter of decisions of individual operators' decision especially for microenterprises that are run by owner-managers. Studies have shown important factors of success of micro and small enterprises to include "personality traits, motivation, individual competencies and personal background are important factors for the success of micro and small enterprises" (Baum *et al.*, 2001; Shane *et al.*, 2003). Many of the small business success studies highlight issues around individual characteristics such as age, gender, education and experience of the entrepreneur because of the limitations associated with the measurement of personality traits. This study believes that even with access to credit, personality traits and personal background still constitute key factors influencing the performance of microenterprise. This submission will be examined among many others in the following section.

7.2.2 Gender of Enterprise Owners

Gender of a firm's proprietor may influence business success in many ways. (Mead and Liedholm, 1998). First, women-headed MSEs are largely home-based as the women owners have a number of other household responsibilities to bear. Such MSEs may therefore be overlooked and they face demand problems or may be invisible to support agencies. A total of four hundred and fifty six enterprise owners responded to the interviews held among BOA and non-BOA clients. Out of this, 80.8% are male

owners while 19.2% are female owners. The response pattern is not suggestive of gender discrimination in the activities of BOA or non-participation of females in microenterprises, but rather it reflects the effects of gender roles and responsibilities as well as cultural/religious values in the Northern Zone. Some of the female owners consulted were too busy to respond to structured questionnaires due to their multiple gender roles although they were willing to make passing comments during interviews, about the poor state of the economy, its effects on their businesses and the expected roles of the Bank of Agriculture in the scenario. These views are considered in the general reporting of the study.



The gender disaggregated response rate however has a locational dimension or pattern. In the South South region, 33.3% of respondents are females while in the South West 57.1% are females. In the North West, only 3.3% of the respondents are females. This may be related to socio cultural factors which may influence women's interaction with the public as well as the nature of relative gender participation in economic activities from region to region. The implications of gender for small enterprise growth is still a contentious issue and may vary from location to location though some studies have argued that female entrepreneurs, compared to their male counterparts are not necessarily underperformers. (DuReitz and Henrekson, 2000).

Table 7. 1: Gender of Respondents

Gender/Zone	Male	Female (%)
North West	96.7	3.3
South South	66.7	33.3
South West	42.9	57.1

7.2.3 Educational and Skills Attainment

The level of education of the proprietor of small businesses is found to have a positive and significant relationship with firms' longevity (Bates, 1990). Although this is an indicator of success, the relationship between education and entrepreneurship selection is still ambiguous. On the job-training is seen in some quarters to command more importance than formal education as such training is believed to familiarise entrepreneurs with "processes and organisational functions" as well as help to entrepreneurs to establish networks with suppliers and buyers. (Campbell, 1992)

An examination of the individual owners interviewed reveal that 23.15% of the respondents have no formal education, 16.1% of them have only primary education while 16.3% have exposure to some form of vocational training and 25% have secondary education. Further analysis shows that all the entrepreneurs that are without any formal education are from Sokoto state in North West Nigeria. It is further revealed however that a majority (67.3%) of respondents had at one time or the other had the opportunity to take part in some form of enlightenment/ empowerment programme, including adult literacy programmes (25%). Some of the respondents

mentioned specific programmes such as agriculture input training, para military training and farm management. Such programmes are offered by state and federal government programmes including Fadama Programme cited in the North West and South West, and Niger Delta Development Corporation (NDDC) programmes as well as religious organisations and NGOs such as Enactus Ndu.

7.2.4 Entrepreneurial Motivation of Owners

In the developing world, a majority of all workers are self-employed. Although some of them choose self-employment having well-defined projects and ambitions, about two thirds of their enterprises are a result of individuals who do not have alternative employment options. Several factors determine the significance of self-employment in the overall distribution of jobs. These include factors such as the system for social protection in an economy, “labour market frictions, the business environment, and labour market institutions”. (Margolis, 2014)

A bulk of the researches in the area of entrepreneurship in the developed world treat “self-employment as a decision”, but it is not necessarily so. Unlike in advanced countries where entrepreneurship is largely driven by profit motives, other goals such as life sustenance drive entrepreneurship in developing countries. (Rogerson, 2001) In this present study, 55.6% of respondents claim that they are engaged in their businesses just for survival purposes and 38.6% are in the trades as a family tradition although 28.5% believe that their business is a source of good income. This response

pattern demonstrates that the different types of self-employment can be found in all countries and go by various names (“opportunity or necessity choice or constraint etc). (Margolis, 2014)

The proportion of the self-employed in a country and how many of them are functioning by “choice or constraint” is determined by a number of “supply-side (that operate on the individual) and market and demand side factors (that affect the opportunities an individual has available)”. When asked whether they would have preferred a paid job or working in an establishment, 55.3% of respondents claimed that they would have preferred to work in wage employment although in spite of that 92% of the respondents feel a sense of pride being their own boss. On the reasons why business owners would have preferred wage employment, the main reasons include the lack of capital for business that would have facilitated the generation of regular income. Hence it appears that about half of the business owners interviewed may be called “necessity entrepreneurs” or “survivalists” who are just in business to eke out a living because of the lack of wage employment. This tendency has profound implications for the success and growth of enterprises.

7.2.5 Legal Status of Enterprises

A majority of enterprises interviewed in this study are informal in nature as 73.7 % of them claim that their businesses are not registered. Only 7% of all enterprises are registered with the Corporate Affairs Commission while another 7.1% are registered

as cooperatives. Key among the reasons why microenterprises are not registered border on their avoiding to deal with government officials and tax authorities. Other reasons are ignorance and lack of time to undertake cumbersome formal processes. Indeed, these reasons are consistent with those of studies that suggest that voluntary informality may be “associated with deliberate stay in the informal sector mainly to escape from government bureaucracies and other regulations. It is a kind of informality by choice”. (Fransen and Van Dijk 2008). In the EFINA (2016) survey in Nigeria, 95.99% of microenterprises are not registered. Furthermore 69.3% of enterprises are sole proprietorships while 15.8% are family owned businesses. This is not surprising since most Nigerian enterprises are informal. The NBS/SMEDAN Survey also shows that over 90% of Nigerian enterprises are sole proprietorships. Unregistered businesses make it difficult to keep track of development and the needs of small businesses, as well as to regulate them and generate tax revenue from them.

7.2.6 Business Environment

The business environment has effects on the overall proportion of workers engaged in self-employment as those who are there by “choice” or by “necessity”. As shown in Table 7.2 below, the regulatory environment for procedures such as business registration and licensing affects the rate of self-employment particularly “chosen self-employment”. When business registration and licensing procedures prove time consuming/cumbersome and or costly not many of the potential “choice entrepreneurs” bother to conform, meaning that those who enter into “self

employment by choice” may even be lower. Indeed 71.1% of non-registered respondents in the study said they do not register their businesses because they have no time to do so (probably due to the associated rigour) and that they want to avoid paying taxes, which are known to be multiple and unwarranted in many cases. The costs associated with regulation are also found to contribute to high running costs for small businesses. About half of the respondents actually want to avoid dealing with government officials because of negative stereotypical perceptions of regulatory bodies.

Table 7. 2: Reasons why Enterprise is not Registered

Reason	Per cent
To avoid dealing with government officials	49.1
To avoid paying taxes	71.1
Do not have time to register	71.1
Not sure where to register	69.3
Not aware of any requirement to register	59.6
Too small in size to register	62.3
To reduce running costs	70.2

Source: Field Survey 2017

Other aspects of the business environment which also have an influence on enterprises include poor electricity supply, bribery and corruption as well as security and crime.

7.2.7 Sector of Business Activity

This study was targeted at microenterprises operating especially at the rural and periurban areas and expectedly 53.5% engage in agriculture, livestock and fishery activities. 27.2 per cent are involved in wholesale and retail trade activities while 13.2% operate in the services and artisan sub-sector. This pattern is not strictly

suggestive of the typical proportion of small enterprise activities but more of the nature of responses at the time of the field work. However, the geographical analysis mirrors, to a considerable extent, the pattern of sector concentration in different ecological zones. According to Table 7.3 respondents in Sokoto State are mainly engaged in agriculture and livestock. From field observation it was observed that the prominent crops are rice, maize, sorghum, millet etc. Domestic rice production is fast becoming a popular enterprise in many parts of the North West as well as other rice producing states, in line with government policy to reduce the importation of rice- a staple food in Nigeria.

Table 7. 3: Sector of Enterprise Activity

Sector	Bayelsa	Osun	Sokoto	Total
Agriculture, livestock and Fishery	43.3	20.8	71.7	53.5
Wholesale/Retail Trade	33.3	50.0	15.0	27.2
Manufacturing	6.7	16.7	3.3	6.1
Artisans and Services	6.7	4.2	0	13.2
Others	6.7	0	0	1.8

Source: Field Survey 2017

In Bayelsa State 43.3% of respondents are in the fisheries subsector, the area being in the riverine zone, while 50% of the respondents in Osun are more involved in wholesale and retail trade. The extent to which the sectors of operation constitute a factor in enterprise growth patterns will be discussed in a later section.

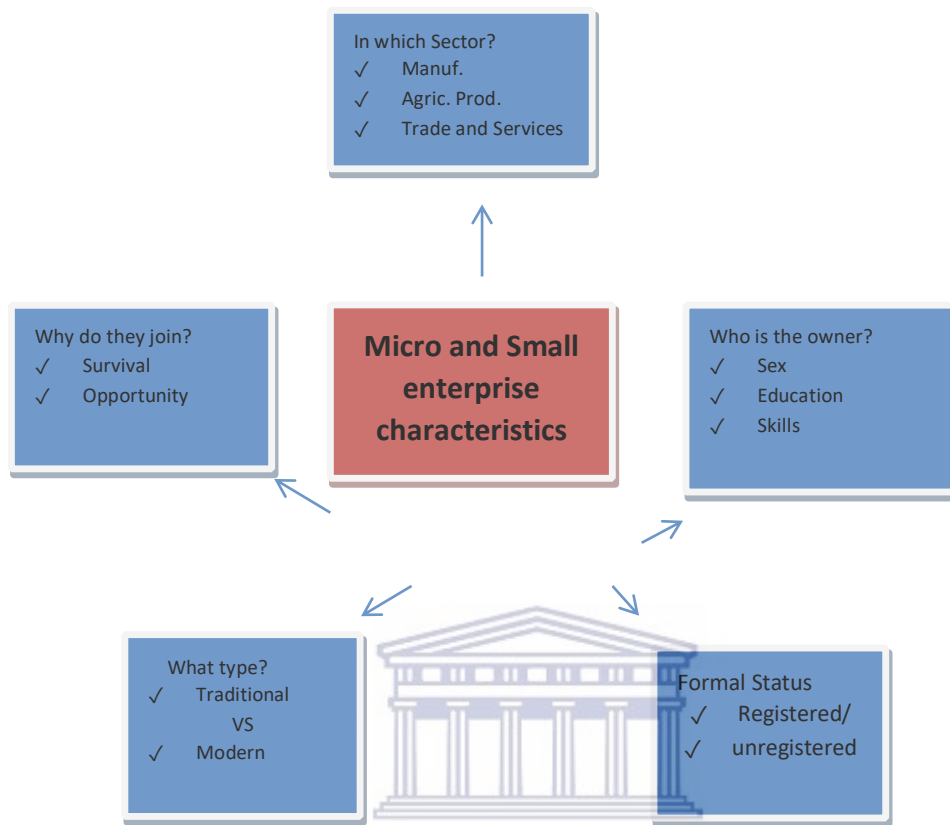
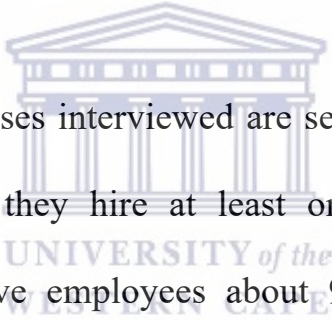


Figure 7. 1: Typology of Characteristics of Enterprises

7.3 Employment Patterns in Microenterprises

One of the most important steps to reducing poverty is to create jobs and provide income generating opportunity for the poor. Statisticians regard a job as “a set of tasks and duties performed by one person, including for an employer or in self employment”. (World Bank, 2013) This classification reflects the ICLS guidelines for work classification including: “wage or salary employment, employer, members of cooperative, family workers (including unpaid family members), and the self employed”. Small farmers may be wage employed, self-employed, or may also be regarded as employers when “unpaid family workers” are hired by them, hence the

classification may sometimes be unclear. It is also viewed that it is not all forms of work that can be deemed as jobs. For instance, if some activities are “performed against the will of the worker” or they involve “violations of fundamental human rights”, such activities do not qualify to be considered as jobs. Some other work activities are not necessarily considered jobs if they are not performed by people hired and paid for include cooking and cleaning at home, (World Bank, 2013) Against this backdrop, the study attempted to assess the level and nature of jobs being created by microenterprises.



Firstly, 47.4% of all enterprises interviewed are self-employed owners and 52.6% of all respondents claim that they hire at least one employee in their businesses. Secondly of those who have employees about 90% of them engage below five workers. Less than 10% of the enterprises engage full time paid staff as a majority hire casual workers, part time workers and unpaid family employees. Education seems to have an influence in the decision to engage employees beyond a certain level as the few enterprises that hire over ten paid employees have some form of post primary education or the other. Of those who do not hire staff i.e. the self-employed owners, 43% of them believe that it is not necessary to do so, implying that their scale of operation does not warrant this, while 13% say it is due to lack of funds to hire staff. It is insightful to note that a majority (about 70%) of those who claim that they employ staff also have a bank account, implying that the capacity to employ labour may be a measure of scale of operation and the need for formal financial services.

Therefore, capacity to employ labour may have a link with financial inclusion in this study context.

Table 7. 4: Main Reasons for not Hiring Employees

Reason	Percentage
Not enough sales	11.1
Not Necessary	42.6
High labour cost	5.6
Lack of funds	13.0
Scarcity of skilled labour	7.4
Other	20.4
Total	100.0


Source: Field Survey, 2017

High growth firms have been found to constitute between three and six percent of all firms that have at least ten employees. (OECD, 2007) A high-growth enterprise is defined as “*all enterprises with average annualised growth greater than twenty percent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period*”. Here, growth is measured, both “by number of employees and by turnover”. The conceptualisation of a high growth firm in this context defers from “the more traditional concept” of a “*gazelle firm*”, which typically means “*those firms exhibiting more than 10% growth rates in employment over a period of three years, a minimum of 5 employees at the initial year and a business with a minimum of five years of age*”. (Margolis, 2014) Analysis of “gazelles” using the employment criteria leaves only few firms qualifying by the criteria given by OECD (2007) which was modified for Africa by Goedhuys and Sleuwaegen (2009).

It will be recalled that Goal 8 of the SDG has as one of its objectives to “promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services”. The identified four pillars of the “Decent Work Agenda” that were identified by the UN General Assembly in 2015 are: “employment creation, social protection, rights at work and social dialogue”.

“Decent work” involves not only “opportunities for work” but that which is

“Productive and delivers” the following:

- 
- “a fair income;
 - security in the workplace and social protection for families;
 - better prospects for personal development and social integration;
 - freedom for people to express their concerns, organise and participate in the decisions that affect their lives and
 - equality of opportunity and treatment for all women and men”.

Examples of indecent work are working conditions which do not give room for annual leave, untaxable income, and maternity leave. In view of this analysis, the study assessed the nature of the jobs being created by enterprise owners that responded to the relevant questions. Though at the small and micro enterprise level, it may be challenging to ensure that all these conditions are met, there are minimum standards

that may be expected of working conditions. The form of working conditions under which enterprises in this study offer employment was therefore further interrogated.

Employment Contract Terms: The terms of job contracts offered by enterprise owners was found to be loosely crafted and in most cases non-committal by a majority of the employers in the study, where over 80% of respondents claim that they enter into verbal employment contracts. This situation may place employees at a disadvantage in contract enforcement such that appropriate instruments to seek redress may be lacking when their rights are being compromised. Yet, jobs are defined by ILO as “activities that generate actual income, monetary or in kind, and do not violate fundamental rights and principles at work” (World Bank, 2013). In this study, written contracts were used to engage staff only by 9.6% of respondents and further probing showed that the contents of such contracts were scanty and in many cases as good as the contract being non-existent.

The researcher was also interested to know whether microenterprises offer opportunities for sick leave, paid leave and maternity leave to their employees. Almost 90% of those who have full paid staff do not offer maternity leave to their employees while 68% and 70% regard casual leave and sick leave respectively as voluntary and so unremunerated absence from work. Moreover, 93% of enterprises with paid workers do not grant annual leave with pay while 70% of them do not consider overtime allowances as necessary work incentive. *Hence overall some jobs*

were created but many of them are low-productivity and low-income work that reflect job or income insecurity.

7.4 Access to Credit Facilities by Microenterprises

In countries where access to credit is limited for potential entrepreneurs, the number of “choice” entrepreneurs that exist are relatively few. It is apparent that even if undercapitalised, necessity entrepreneurs will of “necessity” still start their businesses and therefore the proportion of the population that choose to be self-employment will be lower. It may also be difficult for existing firms to grow and hire additional workers, such that available wage jobs will reduce. In situations where microenterprises have the capacity to generate returns to capital which may be higher than the prevailing interest rate in the market, limited access to capital may cause restriction for both entry into self-employment and the wage jobs creation in developing countries.

On the issue of the source of credit, about 60% of respondents in this present study have taken a loan for their businesses before and 70% of these respondents have at one time or the other depended on family and friends for the loans. This is a preferred, though inadequate source for many because it is based mainly on mutual trust and understanding of parties involved where no collateral may be required and the terms may be flexible. Other sources include informal savings and credit societies (30%), cooperative associations (16.7%), microfinance institutions (16.7%), and commercial

banks (11.4%). The least patronised source of credit for business purposes is the local money lenders group because of the extremely exorbitant interest rate charged, but informants claimed that they regularly approach these lenders for personal loans meant for consumption smoothening over short periods such as one to three months. The findings are consistent with World Bank (2017) where it was revealed that in developing economies, family and friends were the most common source of credit as reported by almost half of borrowers, where 44 percent of adults across developing economies reported that they borrowed money in the 12 months before the study, including through the use of a credit card. In high-income economies however, formal borrowing was the more common source of credit because almost 90 percent of reporting borrowers claimed that they borrowed from a financial institution or through the use of a credit card.

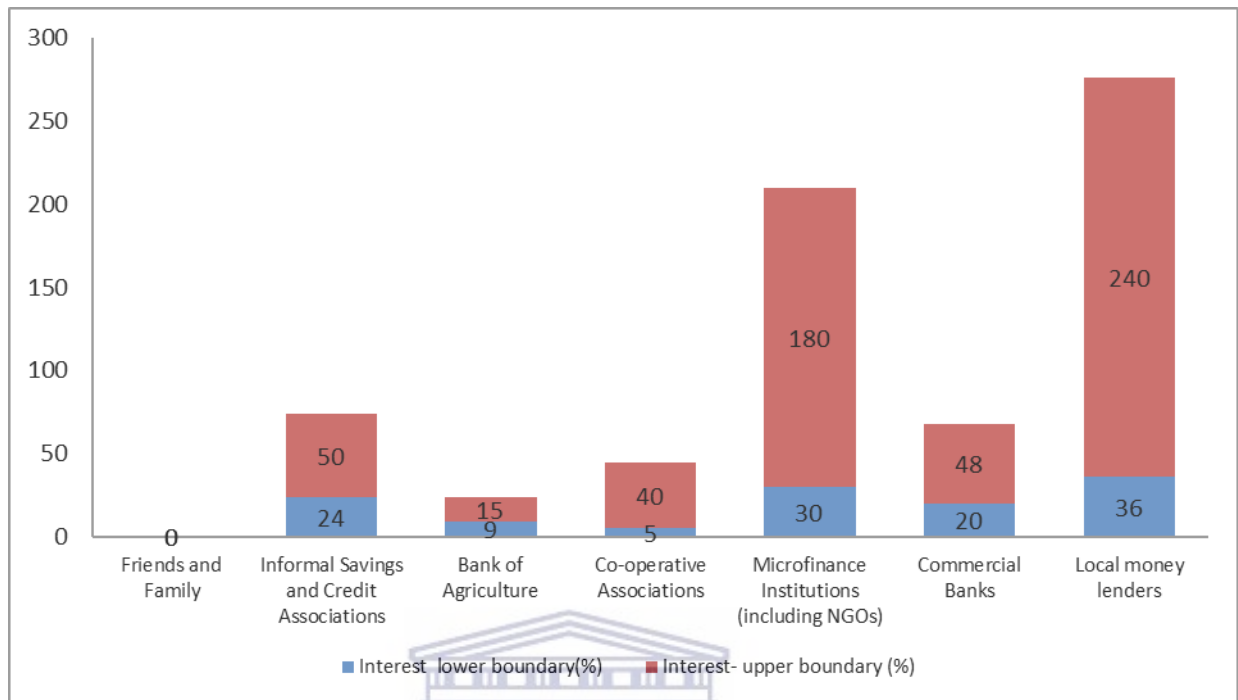
Table 7. 5: Distribution of Responding Micro Enterprises by Source of Credit and Interest Rate

Source of Credit	Percentage Distribution (%)	Interest/Year (%)
Friends and Family	70	0-Flexible
Informal Savings and Credit Association	30	24-50
Bank of Agriculture	18.4	8-15
Cooperative Associations	16.7	5-40
Microfinance Institutions(including NGOs)	16.8	30-180
Commercial Banks	11.4	20-48
Local Money Lenders	8.8	36-240

Source: Field Survey 2017

It is noteworthy that microenterprise owners are highly interested to gain access to credit for their businesses to the extent that they are indifferent to the paying of commercial bank interest rates if they had the opportunity of the credit as claimed by 57.1 per cent of the respondents. This is not surprising because those who claimed to have collected some short term loans from microfinance banks at one time or the other said they paid interest rates that range from 3% to 15% per month which translate to 36% to 180% per year, while those who had had to depend on local money lenders under desperate circumstances had to pay 3% to 20% per month translating to an annual rate of 36% to 240% depending on the loan duration. Yet the Central Bank of Nigeria monetary policy rate which is a benchmark rate is 14%, while maximum lending rate in the money market was 27 % in 2017. The interest rate charged by BOA- a development bank, is the lowest rate ranging from 9% to 15% per annum for micro loans depending on the source of funds. However, access is limited even in locations where a BOA branch exists due to a number of supply and demand side constraints as will be shown later.

Figure 7. 2: Annual Interest Rates by Source of Credit



Source: Field Survey 2017



7.5 Analysis of Access to BOA Credit Facility

The study revealed that 54.4 % of respondents in the study locations have never applied for a loan from BOA although the bank has a branch in their location. This is mainly due to information asymmetry as some of those respondents (54.8%) do not have knowledge about the bank’s microloan scheme while 37.3% claim they do not like the bank for reasons which include the perceived stressful procedure for processing loans. *An official of BOA confirmed that many prospective clients are seen not to be aware of BOA services despite the Bank’s occasional outreach efforts. On this apparent information asymmetry, some respondents believe that BOA gives only group loans to cooperatives, and where they do not belong to such groups or they prefer individual loans they may not be able to benefit from the loans. Yet this is not*

totally true as BOA offers individual micro loans to businesses but mainly through cohesive groups in order to ensure loan guaranty through peer pressure.

Some other respondents say they do not generally like bank loans while others have not applied for BOA loans because they lack the means to pay back, a response that is suggestive of the survivalist scale of operation of a number of micro entrepreneurs. On the other hand, *some of the small but potentially growth-oriented respondents (about 2%) believe that the amount of micro loans offered by BOA is too small for their level of operations.* In another vein, 9.7% of those who have not applied for BOA loans complain of the poor attitude of staff despite the fact that they do not have direct interactions with them. For this category of respondents, their judgment is partly based on the aggressive recovery drive of BOA staff within the community in recent times. This is in the bid to ensure loan repayments despite the institution's failure to grant new loans in the past three years.

Table 7. 6: Reasons for not Applying for BOA Loans

Reasons for not Applying for BOA Loans	Percent Distribution
Don't know about the loan facility	54.8
Procedures are Stressful	37.3
Amount offered too small	2.0
Perceived poor staff attitude	9.7

Source: Fieldwork 2017

Officials of the Bank claim that their aggressive recovery drive is a recent development because unlike before, their salaries are now tied to loan recovery and not to government subventions. There are claims that the Bank's meagre capital base have been overdrawn, hence the need to support the payment of staff salaries from loan recovery proceeds at the branch level.

The proportion of all respondents who have ever taken a loan from BOA is 18.4% while according to Table 7.6 another 23.3% claim to have applied for BOA loan before but were turned down due to reasons such as poor documentation and lack of collateral, including non-credible guarantors for the amount requested. For a number of rejected applicants (11.5 %), the amount requested was too large for consideration because BOA pegs micro loan amounts to a maximum of N250, 000. *Some of the rejected applicants are potential but constrained "gazelles "or those that have a ready market for their products and a track record of loan repayment despite the higher interest rates charged in other financial institutions in the community.* In practice, BOA does not have a policy or system in place for identifying these kind of enterprises and selectively giving them concession to access higher loan amounts under the Microloan product, even though the bank claims that this is tenable for individual loans under the SME Agribusiness Loan Scheme. For other applicants, no cogent reason was given for the rejection of their applications. Loan officers believe that some of these applicants make fictitious claims, in which case the Bank's discretion comes to play. Sampled study locations were purposively selected for

investigation as they have bank branches and overall 6.1% of all respondents in the three locations regard BOA loans as their first choice of credit line for their businesses if the system functions well, because of the affordable interest rate.

Table 7. 7: Main Reasons Loan Applications were turned down by BOA

Reasons BOA turned down Loan Applications	Percent Distribution %
Poor documentation	11.5
Collateral Problem	15.4
Amount requested too large	11.5
No explanation provided	23.1
Other unspecified reasons	38.5
Total	100.0

Source: Field Survey 2017

For a majority (53.3%) of those who have benefited from the loan facility of BOA in the past, the loan size is less than N200, 000 while 37.7% have accessed a sum of N250, 000 which is the upper limit for micro loans. The loans secured have been used as working capital to purchase agricultural inputs and raw materials as well as increasing operating size and employing more workers.

Further investigations from focus group discussions and key informant interviews among clients and bank officials in the three research locations reveal that there are subtle negative perceptions associated with the operations of BOA which may be connected to the long delays experienced in the processing of loan applications. Some believe that the process of loan application is too stressful. The process in some cases may take up to one or more years for a ‘mere’ (according to many clients) N250, 000

loan, because of the perceived over centralisation of the loan approval process. With the bank headquarters in Kaduna, all applications have to be considered at this central level before final approval. Late approvals have a negative implication on the business cycle especially in the case of agricultural production which is seasonbound. *When disbursements are made late and out of season, the tendency for loan fungibility is high as the funds may be diverted to other uses when they arrive at the inappropriate time.*

In the opinion of a client in Osun State, *“the government rhetoric about MSME and agriculture development is not reflected in the attitude of BOA officials, as the time spent processing small loans is too long”* Despite the perceived long length of time typically associated with the approval of BOA micro loans, majority of the responding loan beneficiaries (67%) claim that they completed repayment before due date. From male and female key informant interviews in the study locations, it was gathered that voluntary repayment compliance is in expectation of securing other loans. From the perspective of the officials, some clients are generally willing to pay back quickly because of the possibility of getting more loans at the concessional rates which perhaps may not be matched by any other financial institution in Nigeria. However, after waiting indefinitely, clients may lose hope and seek alternative more expensive sources of credit.

A good number of BOA loan beneficiaries (56.3%) who were unable to pay back their loans as at when due attributed this failure to high production costs occasioned by inflationary trends in the economy. This was mainly felt in the agriculture, livestock and fisheries sector where the cost of inputs such as fertiliser and feed as well as labour costs had impacted negatively on productivity.

During focus group discussions in the three states, it was gathered that some livestock and fish farmers had to sell off their stock to pay back their loans when the cost of feed became unaffordable. Lack of regular electricity also constituted a major factor for those who depended on same for their operations especially artisans, yet for others, sales had been low in recent times and they could not generate enough funds to repay their loans. The wholesale and retail trade sector was badly hit in this regard. According to Bank officials some clients *are unwilling to pay back as they seem to regard the loan as their own “share of the national cake”*.

Of note is the fact that *some of the clients said they have been accessing the micro loan as far back as 1990 while the N250,000 upper limit of micro loans have remained unchanged since then* despite the possible impacts of inflationary trend and foreign exchange rate dynamics on the value of currency. A dealer in palm kernel cake in Osun State said he has accessed the BOA micro loan eight times since 1992 and had been unable to graduate to a higher loan size despite several promises by the Bank officials. This issue is partly due to his lack of an acceptable collateral to secure

the higher loan size. The client suggested that in each loan cycle, he ensured that he repaid early in anticipation of graduation of loan size, but that his due compliance with repayment terms has not been appropriately compensated with bigger loan sizes. The last loan of one-year duration collected by the said client was paid within seven months.

Findings from FGDs and Key informant interviews suggest the need *for an upward review of the maximum limit of N250, 000 of micro loans in order to respond to prevailing economic realities and to accommodate the scale of operations of growth oriented micro enterprises*. A cross section of BOA credit officers interviewed on the field confirmed that the bank has not changed its policy on the criteria for eligibility and limit of loan size. Though they are in agreement on the need for adjustments that reflect economic realities in the environment, they could not give any explanation for the bank's adherence to the long standing policy on maximum loan size.

7.6: Assessment of the Effects of BOA Credit on Employment and Local Economic Development

The prime objective of enterprises for participating in microfinance programmes is to get access to credit to enable them start or maintain and/grow micro-businesses in order to generate, among other outcomes, employment for themselves and others. A majority (76%) of those who accessed any form of loans among the study respondents claim that they do hire some form employees. On the question of whether BOA has

the capacity to facilitate MSMEs to grow and create jobs, a number of those surveyed attributed some increase in size of their business activity to access of one form of microcredit or the other, but that while BOA has the potential to achieve this, the nature of operation of the bank is not optimally supportive of this objective. Some of the respondents who have benefited from BOA loans claim that the loans have made some impact on their profits and turnover. While the impact of the loans on profit and turnover was acknowledged by 16.7% and 21%

respectively of the concerned respondents especially as a result of the interest rate regime, *12.1 % of all respondents claimed that BOA loan contributed in one way or the other to job creation in their businesses.*

Box 7.1 a: VIEW OF Anonymous Official
Some of those identified as potential “gazelles” try to pay back quickly in order to gain access to bigger loans but they are not encouraged

Opinions gathered from FGDs and KIIs across the different

stakeholders point to the fact that the BOA as a development institution is well positioned to facilitate business expansion and job creation at the local level especially given that the interest rate is low compared to other finance sources. Nevertheless, for different operational constraints the Bank is unable to live to this expectation. A male client in Bayelsa State had the *opinion that BOA style of operation is “perpetuating survival entrepreneurship”*, though it is felt that it should not be so because there is ample opportunity to grow businesses such as dry fish business for example, which commands a ready market in his state. A BOA official in the state confirmed this assertion suggesting that being a riverine area, fish farming is the fastest growing business in Bayelsa State and fish is a very popular diet. Although

majority of the loans in this zone are said to be allocated to aquaculture and related activities, BOA is not seen to be strategically responding to this opportunity. Access is difficult for both clients and bank officials considering that the fishing locations are far from branch branches. A female official in the same state who claimed anonymity said she does not think BOA loans can facilitate microenterprise growth, saying “*the only condition under which the bank can achieve this is if they can provide “easy and quick” access to capital for enterprises that obviously have a good market for their products*”. Market access forms a critical factor in microcredit effectiveness and in turn microenterprise growth. In the opinion of the latter respondent, even if market potentials are obvious, BOA does not seize this opportunity as obtaining loans from the bank requires a rigorous process with a long waiting time for approval, a condition under which interested clients may lose zeal and give up after the long wait.

According to an official of BOA who claimed anonymity, many of those identified as potential “gazelles” try to pay back their loans quickly so that they can access bigger future loans, but when the loans are not forthcoming as the situation presently is, they get discouraged. A client informant said he paid back a one-year loan in seven months hoping to access another loan to quickly turnover his business but he was disappointed with the attitude of the BOA officials as according to him, they keep making “empty promises”. Another key informant is of the opinion that if some businesses are strengthened to succeed through BOA, it will inform others and arouse

their interests too, but this is not seen to be a strategy of the bank according to the informant. As a development bank, the informant expects the bank to be effective in business support and monitoring value for money as originally designed by government.

Across the three states where this research was conducted, officials claim that they have not made any new disbursements in the last two to three years due to unclear reasons from the management. They claim that they are usually embarrassed as they endlessly give excuses to clients about their apparent inactivity. Ironically, this scenario gave the research a modest edge in the response rate of BOA clients where they initially get excited about the research field visit, thinking it was intended for briefing clients on latest disbursement plans of the

Box 7.1b: Views on Labour Cost by a BOA client farmer from Ifetedo in Osun State.

The cost of farm labour has increased drastically. At the beginning of a farming year, we negotiate with labour hands many of whom are from Benue State. As each of them has a target to go back to their bases with a tangible asset, we agree to feed them for the whole season and at the end of the year we buy the asset for them or give them the cash equivalent. In those days it used to be #80,000 which is equivalent to the cost of a "Bajaj" Motorcycle but now it costs about #180,000 to #220,000 for a Bajaj Motorcycle.

For the serious farmers among us a loan of N250,000 from BOA cannot match the nature of demand of labour hands. The Bank is not moving with the

bank. Upon correcting their impression and the enumerating the research objectives, some of them still saw the exercise as an opportunity to voice their concerns about the operations of the Bank, in case it would get to the right quarters. As pointed out earlier on, the failure of some beneficiaries to pay back their loans at due date is due to high labour cost occasioned by inflationary trends especially in the agriculture, livestock and fisheries sector. This cost element has a negative effect on profits and in

turn ability to repay loans. The same factor also compromises the effectiveness of BOA in relation to contributing to job creation. Some of the relatively bigger clients in a FGD in Osun complain that the size of even the upper limit of the microloan cannot accommodate their labour costs as it is too small within the current economic situation. The Bank was therefore encouraged to step up the assessment of clients such that those who have the potential to generate employment can be appropriately targeted for enhanced support. The study location where the highest number of BOA clients seem to have reported modest increase in job creation is Sokoto State, where about 70% of BOA loan beneficiaries attest to this fact compared to 40% in the Osun State and 12.5% in Bayelsa State. According to field officers of AFEX- an NGO that provides support to farmers in the North West Zone, the relative increase in jobs is among farmers who employ casual labour for cultivating crops especially rice. This can be associated with recent government policies that are supportive of economic diversification such as specific interventions funds and different outgrowers arrangements as well as the ban on rice importation. Outgrowers arrangements include the Anchor Borrowers Scheme which is not necessarily attributable to BOA microloans although the Bank acts as intermediary for Central Bank of Nigeria in the pilot states of intervention.

Although the effect of economic recession was also at play during the study period, some of the businesses have entrepreneurial capacities, and their progress could have boosted “wage employment” if BOA microloan scheme had been more focused and

consistent. The scheme is not systematically identifying potential ‘job creators’, (in line with the Bank’s mandate) that could be identified for more targeted and potentially effective support.

7.7 Employment Trend in Enterprises

On the aggregate level, the trend of employment created by about 450 enterprises studied dropped from 2180 paid full time, part time, casual and unpaid family labour in the year 2012 to 1160 in 2013 and stabilised between 2013 and 2016 before taking an extremely drastic drop from 1620 to a mere 524 between 2016 and 2017 (Table 7.8). This pattern clearly reflects the effect of the economic down turn in Nigeria from 2015/2016 to 2017 when the economy experienced economic recession and it was a period that also coincided with the repayment period for those clients that took the last set of loans disbursed by BOA before this research. Between 2012 and 2017, the aggregate employment level of over the 450 enterprises irrespective of their access to BOA loans fell from 2180 employees to 524 (i.e. an average of five employees to one employee per enterprise respectively) when the full effect of the recession manifested. A key informant farmer who is a client of BOA in Osun State said “*the economic situation has affected the labour force in which case the farmers could not afford to employ as many as they used to employ in the past*”, a situation which is also bound to have a negative effect on the turnover of enterprises.

Table 7. 8: Employment Trend in Enterprises

Year	Total number of employees/456 enterprises	Average number of employees	Number of self employed
2012	2180	4.7	116
2013	1160	2.5	208
2014	1268	2.7	188
2015	1328	2.9	184
2016	1620	3.5	168
2017	524	1.1	332

Source: Research Fieldwork, 2017

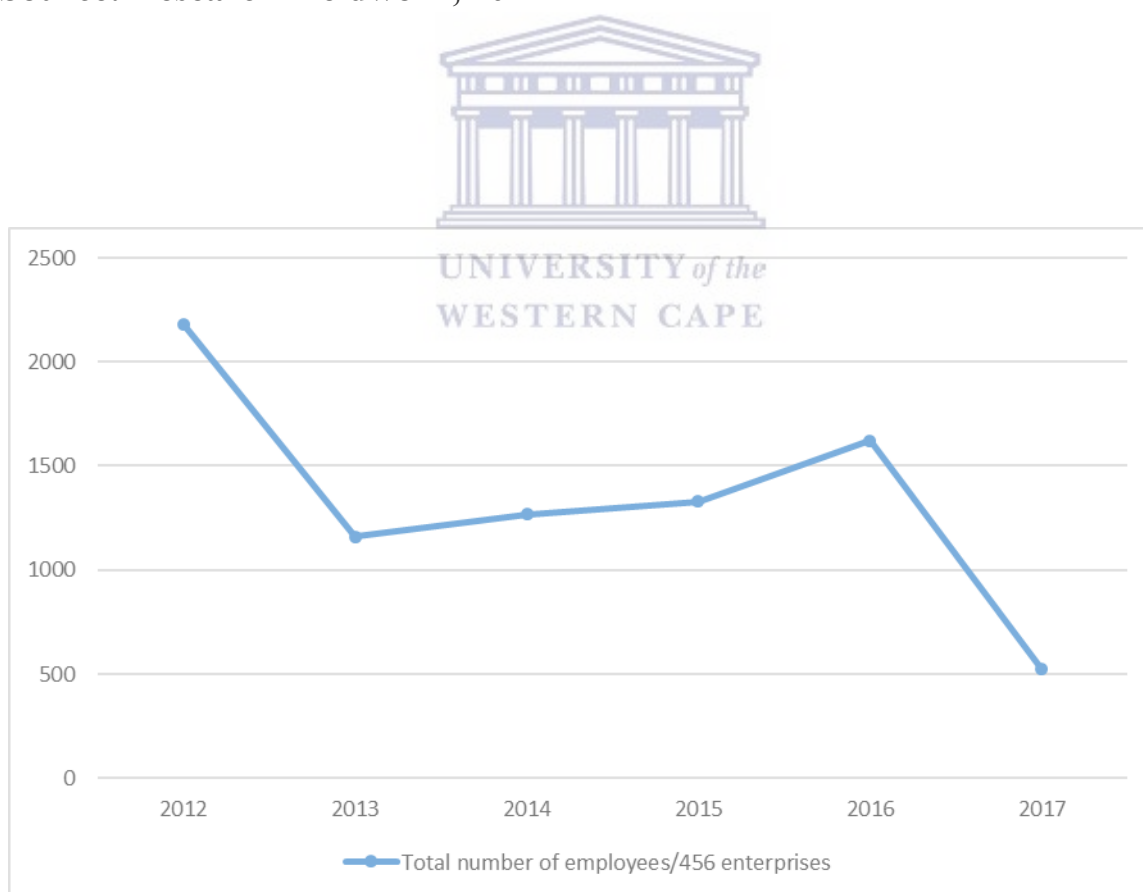


Figure 7. 3: Aggregate Employment Trend in Enterprises

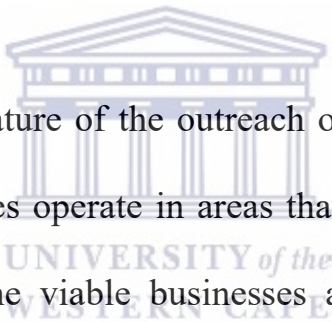
Source: Research Fieldwork, 2017

7.8: Summary of Specific Challenges to BOA Effective Contribution to Growth of Enterprises

The inability of BOA to contribute meaningfully to job creation is due to a combination of demand and supply factors which reinforce each other to make the objective of job creation to be unachievable to a large extent in the micro business sector. The following are some of the key problems identified.

Financial Product Characteristics and Targeting: Product characteristics are important determinants of the success of microfinance schemes. Some particular characteristics of financial products that may affect the impact of the financial institution offering them include loan terms and the transaction size. While short-term working-capital products may for instance serve a purpose for traders wanting to buy inventory, for producers who may require one-time investments in equipment purchases, such products may not work well. These latter clients may need other kinds of products such as term deposits or longer-term loans. Hence a “one size fits all” approach to microloans being adopted in BOA may be inappropriate for microenterprises. Rather a variety of products ought to be applied to different segments of the microenterprise sector. Yet for a development finance institution such as BOA, this segregated and retailing approach cannot be efficiently and effectively handled at the scale of operation at which the Bank is operating. This is why many stakeholders are advocating that BOA should concentrate more on wholesale rather than retail financial products in order to be an effective and efficient DFI.

Extent of Product Predictability: How long an individual has been a client of an institution is positively correlated with the impact of the institution. The likelihood is that a sustainable institution that provides permanent access to services can attain ongoing impact. The BOA was not consistent in its provision of access to credit facilities for the client micro enterprises as copiously demonstrated above. The unpredictability associated with the approval and disbursement of loans served as a major cause for the erosion of customer confidence in the bank.



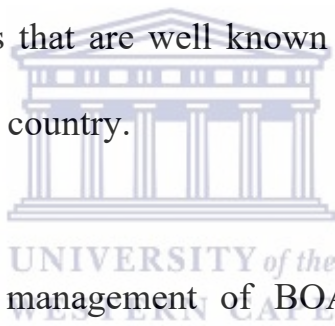
Nature of Outreach: The nature of the outreach of financial institutions is also very important. The bank branches operate in areas that are not easily accessible to many microenterprises, while some viable businesses also operate in areas that are not accessible to the bank branches. One barrier to credit access that came out clearly in the research discussions is therefore the distance of the Bank to its actual main targets-microenterprises in rural areas. The bank outlets are too few and too far to the targets in relation to the scope of operations needed to stimulate growth in the micro enterprise sector. BOA formerly had six branches in each state, but in 2011, the branches were collapsed to three in some states and two in some other states such as Ekiti and Sokoto States. In Osun State, Ila Orangun branch was affected by the downsizing and the nearest branch to Ila Orangun is in Osogbo located about two hours away. The branch in Ila as other closed branches, now merely serve as Recovery Centres for existing loans while new applications for loans are being processed in

Osogbo. An officer therefore visits Ila on market days to recover existing loans and then deposits the recovered proceeds with a local bank in the town. Yet IlaOrangun branch was one of the most viable branches in the South West of Nigeria with good repayment records from growth-oriented enterprises that would have been able to contribute to job creation at the local level.

One of the factors that made Ila Orangun branch to stand out as a good location is the fact that the branch is located right inside the weekly market that is also next to the Traditional Ruler's (Oba) palace. The transaction cost was therefore relatively low for the bank officials because on market days, loan beneficiaries used to voluntarily go to the bank to repay their loans in the expectation that if they pay back promptly they can access more loans quickly. In the case of default, the Oba is consulted for assistance to encourage repayment. By closing the branch, the town was therefore denied of an opportunity to have access to concessional finance which has a high potential to contribute to job creation especially among women who are acknowledged to be particularly enterprising in that town. Many women are known to possess valuable assets especially buildings and landed property.

In towns that even have BOA branches, some bank officials suggest that accessibility to business areas may also constitute a problem due to demand side factors. In the riverine areas of the Niger Delta Region of South South Zone, FGD among officials revealed that some of these areas are inaccessible to Bank officials. Natural disasters

such as flood may also make accessibility to clients quite challenging when they do occur. Likewise, in recent times community problems occasioned by issues such as local taxes and other community resources matters may lead to clashes which may sometimes paralyse economic activities and as a result of security breaches business owners may be forced to abandon their business environments. Community youths are usually prone to violence in such situations causing destruction and looting of cash and properties in the Niger Delta Area. In Sokoto State there are only two branches, one in Sokoto town and the other in Tambuwal, both far removed from the myriads of farmers and food processors that are well known for their extensive involvement in the production of food in the country.



Management Issues: The management of BOA has a number of fundamental dilemmas that may contribute to the non-attainment of institutional goals. As a government-backed development bank, it is positioned to administer loan terms that are soft where interest rates are fixed by fiat at a concessional band of about 8-15%, depending on the source of funds from development partners, where applicable.

Therefore, the interest rates are not necessarily market-determined, unlike what is practiced in other financial institutions, yet personnel and overhead costs at the branch offices are expected to be covered from proceeds of the interest on loans recovered.

There is an implicit assumption of cost recovery in the operations, but this is a fallacy as commercial viability and financial self-sustainability are not necessarily attainable under a subsidized pricing regime. Loan recovery is even challenging under the

existing structure of BOA as there is no designated recovery department. According to an official, *“the responsibility for loan recovery is for everyone as well as for no one”*. This creates a gap in the recovery system with the corresponding negative implications for operational effectiveness resulting from the high incidence of nonperforming loans. A department at the Head office named Classified Assets has no clear mandates and its roles are sometimes confusing and misleading in this regard.

Federal Government of Nigeria promised to capitalise BOA to the tune of N50 billion in 1999 through the Federal Ministry of Finance. N26 billion had been drawn out of the funds between 1999 and 2003. Since that time to date, the remaining N24 billion had not been transferred to the Bank. It is not unlikely that the amount that had been drawn may have depleted due to high administrative costs occasioned by excessive personnel bills and transaction costs especially at the Head Office. An analysis of the personnel structure reveals that it is top heavy with five General Managers, thirty two Deputy General Managers and Fifty Assistant General Managers, many of whom are at the Head Office in Kaduna and all are entitled to the full perquisites of office. Maintaining personnel costs from proceeds of interests on loan recovered at the branch level may therefore be somewhat challenging. According to a credit officer at the South West Zonal office, some branches are even relatively overstaffed e.g Ikeja/Agege with a staff strength of 24.

As no disbursements have been made in recent times, the possibility for the continued payment of staff salaries and overheads from recovered funds at the bank branches may remain bleak if the Head Office does not intervene. Even as at the time of this research, a number of branches owe arrears on salaries especially in the overstuffed branches. For example, Fig. 7.5 shows that for the second and third quarters of 2017, revenue generated from recovery proceeds could not meet the expenditure needs in Osun and Sokoto States branches.

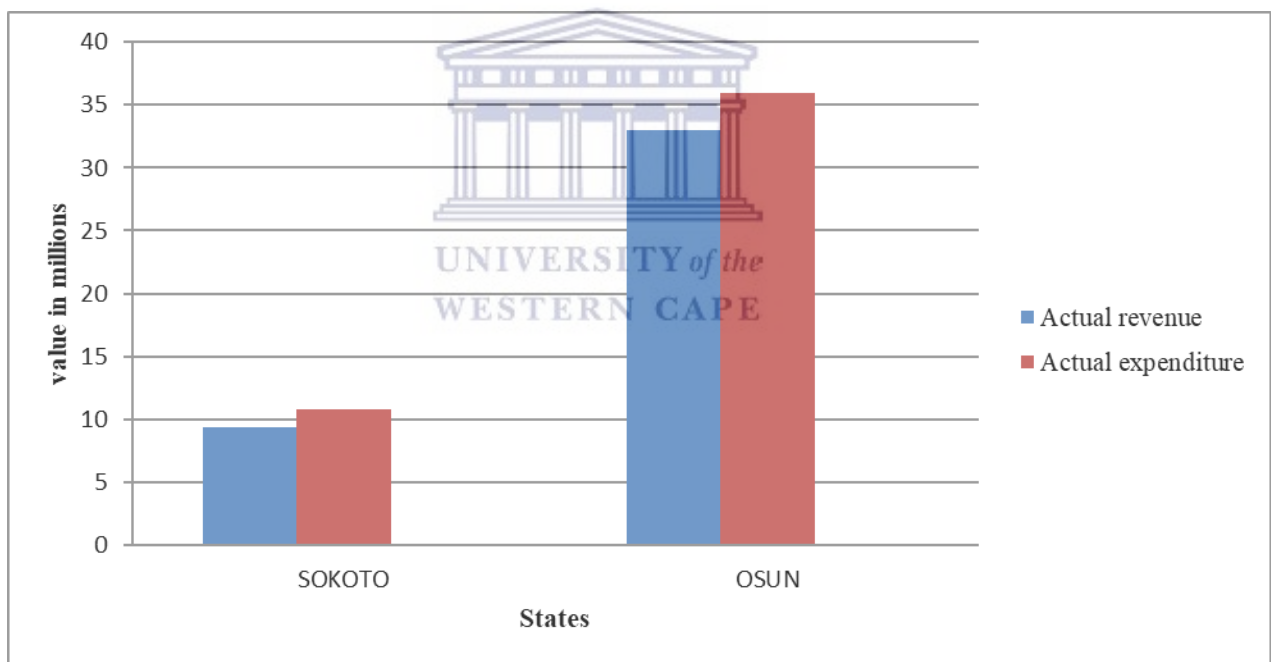
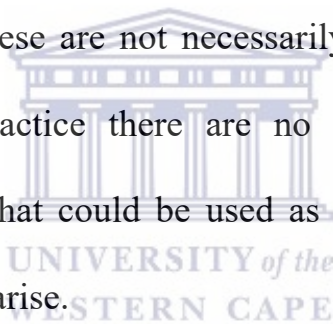


Figure 7. 4: Financial Control for 2nd & 3rd Quarter 2017

Effects of Ownership Structure: The ownership structure of BOA renders the institution accountable to multiple levels of authority with unclear boundaries of responsibility and feedback mechanisms. Conflict of interest is apparent in the lines of authority. The Federal government fully owns the institution with the Central Bank of

Nigeria (CBN) holding 40% of the shares while Federal Ministry of Finance Incorporated (MOFI) holds the larger proportion of 60%. While the CBN provides operational supervision to the bank, the administrative supervision is being provided by the Federal Ministry of Agriculture and Rural Development. The CBN and the Federal Ministry of Finance are expectedly more interested in cost recovery in relation to the operations, yet CBN insists on charging single digit, non-market determined interest rate in line with the developmental role of BOA. On the other hand, Ministry of Agriculture is more interested in sectoral effectiveness. According to consulted officials of BOA, though these are not necessarily conflicting objectives if they are strategically pursued, in practice there are no applicable accountability frameworks that could be used as guides, as such conflicts of interest do arise.



Communication on an on-going reform is said to scanty and the process be is non-participatory to a large extent

Attaining balance in economic and social objectives: It could be rather time consuming and complex to balance social interests with the need to attain financial returns. This may also constitute contradictory objectives for DFIs sometimes, especially when they find it difficult to measure projects' social impact.

(www.oecd.org/dev). Moreover, when the governance of such institutions are weak as was observed in the case of BOA, the institutions may become vulnerable to political interests, resulting in high non-performing loans and wasting of public resources. Several officials that were interviewed in BOA and along the policy corridor are of the opinion that political interests have a great and not necessarily constructive influence

on the operations of BOA in which case patterns of operation may change with a change in government.

As at the time of this research, the Bank was undergoing an audit towards a major reform that is to re-channel the model of the Bank in the face of renewed interest by government on the agricultural value chain towards economic diversification and growth. According to a cross section of staff at the Head Office as well as the branch offices, communication on this ensuing reform is said to be rather scanty and the process is to a large extent non-participatory in nature. One of the Consultants that took part in the review process was interviewed to ascertain this claim. The impression of the researcher is that the challenges identified in BOA were glaringly enormous and that a deep dive into investigating the challenges would have been rather costly at that time. The review team therefore adopted a rapid appraisal methodology that led to a tiered approach to the reform process after addressing areas of obvious redundancy. The extent to which this approach is justified could not be ascertained within the time frame of the study but it is expected that the outcome of the ensuing reform will provide some solutions to the high level of redundancy and inefficiency that presently plagues the structure of BOA.

Country context: The macroeconomic, legal, and policy environments constitute a factor that seriously affects impact of the Bank. The present economic climate is quite replete with poor social and physical infrastructure and these have a negative effect on

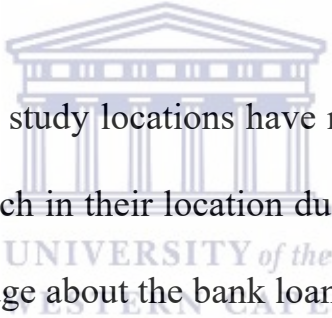
production of goods and services as well as the ability of clients to benefit effectively from financial services. As pointed out in an earlier section, electricity has been a major bane of productivity in the economy. Corruption and lack of adequate security have also negatively affected every are of endeavour including financial services.

7.9: Chapter Summary

Significant growth in employment in small young firms indicate noticeable demand for the firm's product and services. Growth in employment and the wider changes in the local economy are assumed to be a good sign of firm's healthy growth. This Chapter is an attempt to capture findings on possible changes in the local economy of select states of Nigeria through the intervention of Bank of Agriculture (BOA) so that we do not under-report or over-report the achievements or otherwise generated by the Bank. Firstly, a succinct description of BOA revealed the role of the institution as provider of credit to "small holder and commercial farmers", small and medium rural enterprises and small and medium scale non-agricultural enterprises on concessional terms, towards among other objectives: "food security; poverty reduction; **employment generation** and reduction in rural to urban migration"

From findings of the quantitative and qualitative studies of enterprise owners that received loans from BOA and a control group of those that did not receive any loan from the institution, it appears that about half of the business owners interviewed may be called "necessity entrepreneurs" or "survivalists" who are just in business to eke

out a living because of the lack of wage employment. This tendency has profound implications for the success and growth of enterprises. On the reasons why business owners would have preferred wage employment, the main reasons include the lack of capital for business hence the need for microcredit support. However, access is limited and where available interest rates are exorbitant, in some cases such as the case of local money lenders being as high as 240% per year. BOA has the lowest interest rate of available options, of 8-15% depending on source of capital. However, access to this source is also limited compared to the level of demand at the local level.



54.4 % of respondents in the study locations have never applied for a loan from BOA although the bank has a branch in their location due to information asymmetry as half of them do not have knowledge about the bank loan facilities while 37.3% feel that the bank's procedures for processing loans are stressful. Others shun the loans because they lack the means to pay back, a fact that is suggestive of their survivalist scale of business. The more growth-oriented respondents (about 2%) believe that the amount of micro loans offered by BOA is too small for their level of operations.

Some of BOA clients identified as potential “gazelles” try to pay back quickly in order to gain access to bigger loans but they are not encouraged because BOA is unstable in its approval and disbursement process. As at the time of the research, disbursement had not been undertaken for two to three years.

47.4% of all enterprises interviewed are self-employed owners and 52.6% of all respondents claim that they hire at least one employee in their businesses. Secondly of

those who have employees about 90% of them engage below five workers. Less than 10% of the enterprises engage full time paid staff as a majority hire casual worker, part time workers and unpaid family employees. Education seems to have an influence in the decision to engage employees beyond a certain level as the few enterprises that hire over ten paid employees have some form of post primary education or the other.

Of those who do not hire staff i.e. the self-employed owners, 43% of them believe that it is not necessary to do so, implying that their scale of operation does not warrant this while 13% say it is due to lack of funds to hire staff. It is insightful to note that a majority (about 70%) of those who claim that they employ labour also have a bank account, implying that the capacity to employ labour may have a link with financial inclusion in this study context. Between 2012 and 2017, the aggregate employment level of over the 450 enterprises irrespective of their access to BOA loans fell from drastically from 2180 employees to 524 when the full effect of the recession manifested. In Sokoto State however, about 70% of loan beneficiaries claim modest increase in job creation compared to 40% in the Osun State and 12.5% in Bayelsa State. According to field officers of AFEX- an NGO that provides support to farmers in the North West the relative increase in jobs is among farmers who employ casual labour for cultivating crops especially rice. This can be associated with recent government policies that are supportive of economic diversification such as specific interventions funds and different outgrowers arrangements as well as ban on rice importation. Outgrowers arrangements include the Anchor Borrowers Scheme which

is not necessarily attributable to BOA microloans although the Bank acts as intermediary for Central Bank of Nigeria in the pilot states of intervention.

Although the effect of economic recession was at play during the study period, some of the respondents are entrepreneurial, and the success of their enterprises could have boosted wage employment if BOA microloan scheme had been more focused and consistent. The scheme is not systematically identifying potential ‘job creators’ that could be targeted for support and encouraged for effectiveness. The BOA is potentially capable of supporting selected growth oriented microenterprises to generate growth and contribute to job creation but in its present state the Bank is not achieving this objective or seen to be positioned to do so due to several supply side factors which the ongoing reform process may be able to address. The next Chapter will examine the performance measurement framework of BOA and the extent to which the institution is assesses goal attainment.

CHAPTER EIGHT

ANALYSIS OF THE PERFORMANCE MEASUREMENT SYSTEM OF BANK OF AGRICULTURE IN RELATION TO THE MSME POLICY

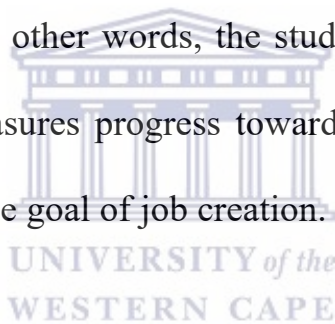
8.1 Introduction

The practice of performance measurement may be useful for different purposes such as institutional learning, for reporting to donors/ funders or other relevant stakeholders. Metrics may be in the form of financial, social, or environmental indices and may constitute part of an institutional theory of change or simply meant to track the extent of goal attainment. Ultimately, “measurement is about figuring out how well we are doing, and helping us improve”. (ANDE 2017) It is therefore important to understand the extent to which a development finance institution such as BOA has ability to deliver not only on its financial mission but also on its social mission. This is in terms of its processes, policies, and procedures and whether internal infrastructure exists to support the achievement of this mission and its measurement. Of particular importance is the assessment of the nature of frameworks and documentation available as well as the routine practice of measuring progress towards mission attainment.

In order to effectively gauge the impact of an MSME policy, there is need to have in place, a clear measurement and evaluation framework as well as credible baseline information. In the United States for example, a number of indicators are listed under the Small Business Act of 2010 to include “number of small businesses assisted,

number of active lending partners, the small business contracting share, *number of jobs supported*” etc. For effective implementation of MSME financing programmes therefore, an implementing institution must strengthen not only its outreach and financial analysis capacities, but also its routine monitoring, evaluation and reporting capacities towards the achievement of broad and specific objectives.

In this Chapter, an attempt is made to assess the extent to which BOA engages the practice of performance measurement and reporting in relation to the fundamental objective of job creation. In other words, the study attempted to investigate whether and how BOA actually measures progress towards goal attainment in its operations generally and in particular the goal of job creation.



The major questions informing this section are therefore the following:

- Is there clarity and coherence of the objective and targets relating to MSME Policy on job creation?
- Does BOA measure progress towards job creation goal attainment as articulated in the MSME financing policies?
- Does a framework actually exist for performance measurement and how adequate is it against global standards?

To answer these posers, Job Creation is taken as a fundamental basis of BOA operations and MSME financing policy of government. Before providing answers to the questions, an analysis of the goal of job creation within the framework of the

MSME policy is undertaken by employing the “COTE Framework” which was recommended for policy formulation by the Second “OECD SME Ministerial Conference on “Promoting Entrepreneurship and Innovative SMEs in a Global Economy” (Istanbul Declaration, 2004). In the framework, COTE stands for:

C - Clarity /Coherence

O - Objectives

T - Target

E - Evaluation

Each of these will be analysed in relation to the goal of job creation in the MSME Policy and Bank of Agriculture credit intervention for MSME development.



8.2 Clarity and Coherence of the MSME Policy in Relation to Goal Attainment in BOA

A relatively new integrated policy field known as “small business development policy” have been designed to different public policies that have direct impact on MSMEs. The policy is gradually replacing stand-alone measures for supporting “micro, small and medium sized enterprises” in many parts of the world though in many contexts, its implementation may suffer from a lack of internal consistency. The policy framework is attracting increasing amounts of financial allocations to implement the direct and indirect policy measures for supporting small enterprises. These policies which include those related to the provision of an enabling regulatory framework for enterprise development and the provision of financial support to

MSME still do not seem to command a shared understanding of its fundamental objectives among many stakeholders in many contexts. Five policy sub-dimensions of a “good institutional setting” have been identified by OECD²¹ to include: “(i) clearly defined and consistent application of SME definition; (ii) good coordination among and within government agencies; (iii) responsive and effective implementation of SME development strategy; (iv) resourceful and effective policy executing agency; and (v) proper measures to address the problem of informality of the SMEs”.

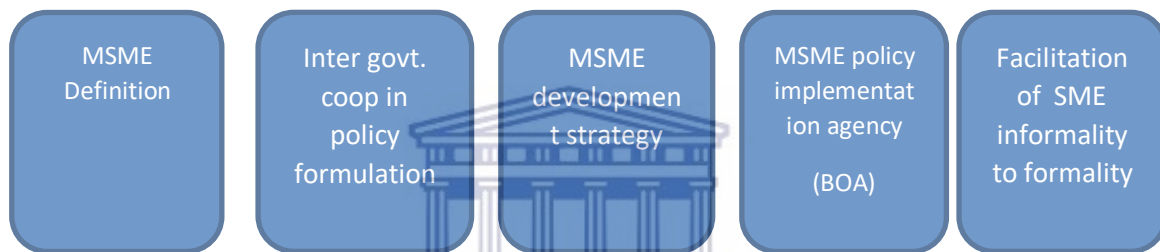


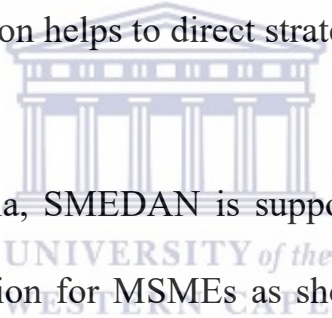
Figure 8. 1: Assessment Framework for Institutional Setting Source:
Adapted by Author from ERIA and OECD (2014)

For MSME policies, clarity and coherence call for a “clear rationale for policy intervention and statement of purpose”. Beyond this it is expected that the various government agencies that interact to support MSMEs should endeavour to function in a consistent and coordinated manner. ‘Clarity’ here implies that those delivering the policy and those expected to benefit from it fully understand it.

The need to base MSME support measures on a definition that enjoys shared understanding by all stakeholders has been emphasised such that the “consistency and effectiveness” of national MSME development can improve. (ERIA/OECD 2014)

²¹ ERIA and OECD (2014)

With a common MSME definition, it would be easier to direct support measures only to those enterprises that have a genuine need for them, while the measurement of performance of such support will have a better focus. A country also needs to adopt a common definition for MSME in order to enhance the promotion of inter-agency synergy in the implementation of relevant development strategies. Applying different definitions may potentially cause problems associated with the extension of facilities and incentives to the intended MSMEs. It also becomes important to designate an agency for policy implementation that monitors all the strategies and ensure that the application of agreed definition helps to direct strategies appropriately.



For MSME Policy in Nigeria, SMEDAN is supposedly the implementation agency. The agency adopts a definition for MSMEs as shown in Table 1.1 where enterprises with less than 10 employees and N10 million assets are regarded as microenterprises and those with 10 to 49 employees and assets above N10 million but less than N 100 million are considered small. Enterprises employing 50-199 people and with assets more than N100 million but less than N1 billion are considered as medium enterprises according to SMEDAN (2012). MSME classification is primarily based on staff count especially in cases where a conflict between the employment and assets criteria is observed. Definitions based on financial criteria alone suffer from inherent inflation and currency translations.

Information gathered from literature review and interviews with relevant stakeholders reveals that SMEDAN definition is not always applied across board. Rather some agencies use other classifications while others merely apply some general rule of thumb to classify MSMEs. In the words of an informant in BOA *“we know MSMEs when we see them, we do not in practice apply any classification”*. This submission has implications for targeting and tracking the progress of different sub groups and comparing results across different organisations.

‘Coherence’, is a bit more sophisticated conceptually, referring to the act of ensuring that all levels and agencies of government work as a whole towards the interest of MSME. If MSME policies are delivered by many different government agencies, they may not be ‘coherent’. Coordination may be challenging while some departments may focus on distinctly different activities such as “regulation of SMEs” or ‘support’, without the necessary linkage between them. The Nigerian MSME Policy as mentioned in Chapter 1:

*“envisions an MSME sub-sector that can deliver maximum benefits of **employment generation**, wealth creation, poverty reduction and growth to the Nigerian economy”*.

(SMEDAN, 2015: pg.)

The vision is clearly articulated and the policy is integrated in the sense that it is holistic, having different sub components that are prerequisites for successful interventions. That means if one component is not effective, the other components are

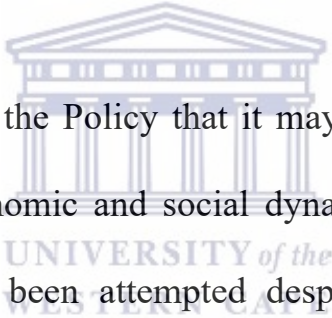
not likely to secure goal attainment. The different components include policy areas such as “Finance; Institutional, Legal & Regulatory Framework; Human Resources Development; Technology, Research & Development; Extension & Support Services and Marketing and Infrastructure”. The policy has provision for four yearly reviews.

The administration of President Buhari has designed a related strand of policy that specifically concentrates on job creation²² but it rarely refers to the existing MSME Policy.

The National Council on MSMEs has many functions among which is overseeing the implementation of the National Policy on MSME. State & Local Government Councils on MSME are also expected to play complementary functions for the National Council. *The National Council which is the apex monitoring organ of the National Policy is supposed to be responsible for initiating monitoring activities, tracking programme progress and identifying possible gaps as well as recommending the required measures that can provide remedial solutions.* Independent monitoring teams are expected to undertake regular, half-yearly periodic assessment of the National Policy, where progress of the policy can be compared with existing benchmarks and problems are diagnosed with a view to recommending possible solutions. From information gathered from officials of BOA and SMEDAN on the field, this process was absent.

²² Refer to Chapter 4

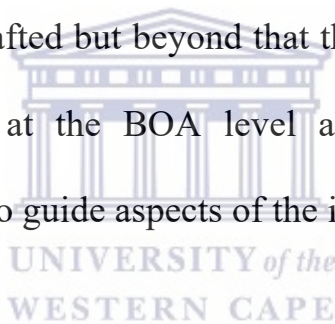
The National Council on MSMEs ought to have undertaken the documentation of baseline reporting as a basis for the review of key indicators of the National Policy before its implementation. Although the National Bureau of Statistics produced baseline data from a collaborative study with SMEDAN in 2013, the annual review is not being done. The baseline documentation was to have provided the platform against which benchmarks would have been defined and the context for evaluating the progress and impact of the National Policy after 4 years of implementation. This evaluation has not been undertaken even after five years.



There is also a provision in the Policy that it may be revised, from time to time, in alignment to unfolding economic and social dynamics affecting MSME in Nigeria. This revision has also not been attempted despite the dynamics associated with economic recession in the Nigerian economy between 2015 and 2017 and the associated implications for MSME development. Rather than a revision, ad hoc programmes are being introduced to address the situation without any systematic reference to or alignment with the existing MSME Policy. The need for alignment between political cycles and policy time frames in Nigeria is a fundamental concern expressed by all interviewees along the MSME policy corridor during this study.

BOA is a government-backed development finance institution that provides wholesale and retail finance to the agriculture and non-agriculture sectors especially micro, small and medium enterprises in Nigeria. However, its strategic direction does not seem to

derive from the MSME Policy. Different senior officials of the Bank were interviewed in the three research locations and the headquarters as to whether they are aware of the MSME Policy goal, associated interventions and the need for synergy between BOA activities and the MSME Policy being administered by SMEDAN. All of the concerned officials just had vague ideas. One officer said the title of the MSME Policy is suggestive of the fact that BOA fits into the agenda since the Bank provides finance for MSME but that there is no evident relationship between the Bank and SMEDAN. It is a fact that BOA was represented as a stakeholder agency when the MSME Policy was being crafted but beyond that there was no evidence of an attempt to step down information at the BOA level about the blueprint as a strategic framework that is expected to guide aspects of the interventions of BOA.



On the question of whether the MSME Policy is coherent, senior officials of BOA had no opinion. One of the factors responsible for the possible lack of coherence is connected to the multiplicity of agencies to which the bank is accountable. BOA is being supervised operationally by the CBN and administratively by the Federal Ministry of Agriculture and Rural Development and also derives part of its directives from Ministry of Finance which is responsible for 60% of its shareholding. Yet the Federal Ministry of Agriculture and Rural Development that controls the BOA has no equity contribution in the bank. The Board of Directors is based largely on institutional representation. Opinions from a cross section of the management staff found this arrangement rather confusing and destabilising.

SMEDAN is expected to coordinate the implementation of the MSME Policy, but the extent to which the efforts of the different agencies that are facilitating the development of MSME are consistent is questionable. The policy is to closely coordinate entrepreneurship development and sector based policies such as the agricultural policy. It is however not obvious that different programmes cross reference the MSME Policy. For example, the new Job Creation Strategy being administered by the Job Creation Unit (JCU) of the Buhari administration has a clear focus on MSME but makes little reference to the existing MSME Policy. JCU has a mandate to ensure that all stakeholders that have relevance to the execution of the plan have, “(i) *clarity of strategic direction*, (ii) access to information, (iii) access to resources and (iv) access to institutional support required for efficient execution of their respective responsibilities within the plan”.

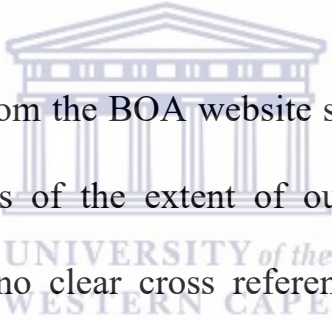
A cross section of BOA Staff interviewed in the three states of Sokoto, Bayelsa and Osun just have a faint idea of both the existing MSME Policy and the Job Creation Strategy. Many of them do not even know the JCU. Likewise, the name of BOA does not feature directly in the Job Creation strategy document especially under the agriculture and agro based sector analysis, compared to BOI- the counterpart DFI which featured prominently, yet the name of BOA is suggestive enough to deserve inclusion in the agriculture component of the Job Creation Strategy. Further investigation on the field however revealed that BOA is actually administering the

credit line for rice Anchor Borrower's Scheme²³ in a number of pilot States especially Kebbi State. The involvement of the Bank in the Agriculture Promotion Plan/Job Creation Strategy appears as an ad hoc arrangement rather than a mainstreamed participation. Anecdotal evidence suggests that part of the ensuing problems encountered on the Anchor Borrowers Scheme may be associated with the limited shared understanding of the objectives of Agricultural Promotion Plan and its interlink with the Job Creation Strategy and the MSME Policy.

From the perspectives of various stakeholders, this common pattern highlights the considerable weaknesses that are inherent in many policy blueprints and their corresponding processes in the policy environment. Many programmes support the start-up of new enterprises and the improvement of established small firms, but frequently those policies are not under the direct coordinating influence of the main government MSME agency such as SMEDAN as envisaged in the Policy document. Agencies tend to operate in silos as suggested by a senior official in the South West Zonal Office of BOA. In reference to SMEDAN and BOA under the MSME Policy, the informant said the agency (i.e. SMEDAN) *"has its own mandate, likewise BOA, so SMEDAN Policy is not being applied by BOA"* Yet the MSME Finance Policy specifically makes reference to BOA and other DFIs to allocate 80% of their loan portfolio to MSMEs, though this is not necessarily being adhered to.

²³ Anchor Borrower Programme (ABP) was launched by the Buhari Administration in November, 2015 to provide linkage between "anchor" processing companies and small holder farmers (SHFs) producing the required key agricultural commodities. ABP is focused on the provision of inputs to small holder farmers.

Where interventions are not provided through a central strategic or coordinating body that has responsibility for ensuring goal attainment, there is the possibility of a risk of duplication or omission that can account for ineffectiveness and inefficiency in the overall policy environment. Indeed, SMEDAN is not seen to be aligning the works of state agencies on MSME in Nigeria. Some MDAs focus upon regulating MSME while others may focus on different types of support including finance and capacity building, without adequate dialogue among them. *Horizontal cooperation is therefore seen to be lacking to a large extent among different MDAs working on MSME.*



Preliminary investigations from the BOA website show that for the institution, “Proof of Performance” is in terms of the extent of outreach, notably the magnitude of disbursements but there is no clear cross referencing to the MSME Policy which encourages DFIs such as BOA “*to lend not less than 80 percent of their portfolio to MSMEs*”. (SMEDAN, 2015, pg 37). Hence magnitude of disbursements may not necessarily capture the MSME sector if they are not specifically targeted. Likewise, the extent to which these disbursements have been tracked and an assessment of whether the concerned enterprises create and sustain enterprise growth and job creation in line with the fundamental objective of the MSME Policy is questionable as will be discussed in another section.

Learning from Singapore, Malaysia, Indonesia, and Thailand, these economies have a high standing in terms of the overall institutional framework for their MSME sector.

The countries have effectively developed a legal framework as well as well-resourced systems for implementing MSME development policies. In Indonesia the relevant policies were embedded in the “National Medium Development Plan (RPJM 2010-2014)” and complemented by sectoral Plans MDAs. The National Development Planning Agency (BAPPENAS) in collaboration with the Ministry conduct regular semester review and evaluation of the strategy. In the case of Thailand an office of “SME Promotion (OSMEP)” is established under the administration of the Ministry of Industry for coordinating the different efforts of SME state agencies and private entities. A five-year rolling SME Master Plan drives the SME sector development strategies.



In the Philippines, the primary agency saddled with the responsibility for SME development is the “Micro, Small and Medium Enterprises Development (MSMED) Council”. The agency also coordinates and integrates different public and private sector MSME development activities. A Bureau coordinates and monitors SME policies and programs as well as the activities of all relevant public SME agencies. Under this agency an SME Core Group acts as a “one-stop shop” referral facility to specialised support agencies.

In these countries, an operational definition of SMEs informs the nature of implementation of multi-year SME development strategies supported with the appropriate budgets, policy targets, and review mechanism etc. All these are pursued

under an agency that is designated for policy formulation and implementation. This kind of dynamism is still missing in the MSME Policy corridor in Nigeria and it needs to be addressed critically to ensure synergy and effectiveness. Although the MSME Policy is designed in a way that leadership and the creation of an enabling environment is provided by SMEDAN, that guidance was not seen to be active in relation to the case of BOA as revealed through different consultations.

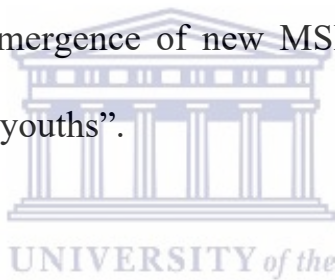
8.3 Objectives of Policy/Programme

It is expected that the objectives of MSME policies should be specified to ensure clarity. Objectives differ in different contexts. For instance some may target the creation of new firms or the growth of existing firms and others may prefer the promotion of enterprises among specific target groups. Whichever way, one of the main guiding principles of the MSME Policy is that the over-arching objectives and the prioritisation of these objectives must be based on broad based agreement. The development of the revised MSME policy for Nigeria for 2015 – 2025 leveraged on an assessment of the context, insights from UNCTAD, international best practices and different MSME stakeholders' sessions held towards the development of the policy. The policy document considers it important that the policy is comprehensive enough to address the felt needs in the MSME sector and include the views of diverse stakeholders in achieving a common vision.

The objective of the MSME Policy is “to facilitate and sustain a vibrant MSME subsector that will be the major driver of national economic growth and *employment*”.

The objective is to be achieved through:

- “Accelerating the profitable expansion of existing MSMEs along the value chain, ensuring that transition from micro to small enterprises, small to medium enterprises and medium to large enterprises, thereby enabling them to increase their contribution to GDP and *employment generation*.”
- Fostering the emergence of new MSMEs in Nigeria, especially among women and the youths”.



For BOA one of the objectives is the “boosting of opportunities for self-employment in the rural areas to stem rural-urban migration”. Given that the objective of employment generation is clearly highlighted, one is therefore prone to ask whether *employment generation is wishful thinking or a mere stereotype objective*. This poser becomes necessary because as highlighted in Chapter 1, though the objective is recurrent in the policies of diverse stakeholders in the enterprise development environment in Nigeria, and specifically in the mandates of BOA, this objective is not traceable in the process of the Bank’s credit activities, hence its absence as a proof of performance in the Bank.

8.4 Measurable Targets Relating to Objectives

In the COTE Framework, targets are expected to be measurable to enhance the evaluation of the level of achievement of the objectives. The objective of having a proper set of indicators as well as applicable targets for the institutional framework is “to ensure the consistency and effective implementation of the overall SME development policy”. (OECD, 2009)

In relation to the need for effective objectives to be “Specific, Measurable, Achievable, Realistic and Time bound (SMART)”, there are no clear overall measurable targets associated with the objectives of the MSME Policy document or BOA strategy which other stakeholders in the MSME Policy could possibly latch on to for tracking purposes. Rather, the National Policy has an emphasis on targeted measures aimed at catering for peculiar circumstances and needs of different MSME groups. Targeting is to be aligned to the “performance experiences and challenges of the different sub-sectors”. The MSME Policy envisaged to establish the reliability and comparability of the its key performance indicators approximate to global standards.

However, those targets may also be adjusted to reflect current realities.

The MSME policy is expected to design a strategy for the annual collection of data on MSMEs in partnership with the National Bureau of Statistics and other local and international development agencies. This is to be implemented towards the achievement of clear targets and the measurement of programme impacts. The 2013

MSME Survey which was undertaken by SMEDAN in collaboration with the NBS provides an objective base for establishing baselines. However, the Policy document does not contain clear targets and it could not be established whether an M and E framework that lists the relevant targets was available at the time of the research.

Likewise, for BOA targets that relate to the objectives are lacking in credit operations. Performance measurement therefore lacks a clear basis for implementation in BOA and it is little wonder that progress towards goal attainment could not be easily ascertained.

8.5 Evaluating MSME Financing in Bank of Agriculture

Evaluation cannot be adequately undertaken in the absence of clearly specified MSME policy objectives and targets. As implied above, the most important test of programme effectiveness is an evaluation process that is based on clear policy targets. Expected policy impacts in an evaluation must be clearly specified in the form of specific targets for the framework to be meaningful and it needs to become more central to the policy-making process. In other words, a theory of change must form the basis of evaluation of programmes. Evaluation should not be undertaken for mere historic accounting to determine value for money, although that role is of immense value. It was mentioned in Chapter 1 that investigations from the BOA website show that for the institution, the “Proof of Performance” is in terms of the extent of outreach, notably the magnitude of disbursements. In that regard it was recorded that

BOA disbursed:

- “N41 billion to over 600 enterprises across Nigeria in the last 10 years
- N3 billion on-lending facilities to about 12 state governments and
- N4 billion to about 30,000 beneficiaries”.

The beneficiaries were supported through collaborative programmes with 30 institutions and 1.8 million account holders. Out of these account holders from whom savings were mobilised, about 3% of them benefitted from loans of a maximum amount of N250, 000. The MSME Finance Policy encourages BOA as well as other DFIs to allocate 80% of their loan portfolio to MSMEs. But an analysis of the disbursements shown above reveals that less 10% of the loan portfolio went to 30,000 mostly microenterprise clients. 600, mainly medium/large enterprises accessed 90% of the loan facilities. The losses recorded in 2014 and 2015 due to these portfolio customers have been put at N2.2 billion and N4.8 billion respectively.

Evaluation ought to be used to inform current policy rather than being at the “end of the line”. Right timing of evaluation enables objectives and targets to be modified in the light of evidence provided on the effectiveness of policy. Decisions on the method to employ for policy evaluation should therefore be incorporated at the policy formulation stage when new ideas are being developed. Assessing all rather than merely some, programmes indicates the level of priority given to evaluation as this gives room for undertaking valid comparisons between one programme and another.

8.6 Assessment of Social Performance Measurement Practice in Bank of Agriculture

The social mission of BOA as enshrined in the mandates of the Bank does not feature in the proof of performance mentioned above as the extent to which disbursements have created and sustained enterprise growth and job creation as envisaged in the objectives was not evident. That information is the gap that the present study attempted to fill in the preceding chapter for the period 2012-2017. Against this background, the performance measurement system is analysed.

The MSME policy is designed with a measurement and evaluation framework that uses data of NBS MSME study of 2013 as baseline. The evaluation index proposed is has key performance indicators that are to be adapted from indicators of various countries' MSME indices as well as local experience, though they were not specified. A consultative and legitimisation process is expected to be central to the MSME Policy strategy for impact monitoring. This process is to generate opportunities for continuing dialogues and consultation as well as regular reviews among various stakeholders on the imperatives of MSME development. Many stakeholders interviewed in SMEDAN however pointed out that this process rarely takes place.

When the question was asked on whether BOA monitors progress towards the attainment of the MSME Policy's fundamental objective of job creation in the Banks operations, a female official in Bayelsa state said "*we keep records and so those records can always be checked to see progress*". A male official in the same branch

said “*Apart from our own records, we get feedback reports from the clients too*”. But what feedbacks they get and how they use information derived from such feedbacks could not be substantiated. Further probing on the kind of feedback Bank officials get from clients shows that this is only in the form of general statements about the state of clients’ businesses-information that may help the bank to guard against the possible default of loan repayment by clients.

In a FGD in Osun, the consensus among staff was that farms and businesses of clients are inspected before and after loan disbursement. The pre-loan approval visit is to assess the viability of the enterprise while subsequent visits after loan disbursement are to ensure that the businesses are “doing well”, (frequency of inspections was not clear) though “doing well” could not be defined. One of the participants claimed that the inspection visits were merely for ensuring that the loans have not been diverted. However, a similar FGD with clients revealed that BOA officials are distant to them and that they only come on loan recovery drives. In the Sokoto study, BOA staff complain of logistics problems to reach clients’ farms thus making monitoring difficult. In Bayelsa, the officials complain majorly about accessibility to clients’ business location for those in riverine areas. Monitoring and evaluation of BOA activities are therefore non-existent in practice.

8.6.1 Framework for Social Performance Measurement

Given the above observations, the researcher sought to know whether BOA has developed a theory of change that applies across all of its funds. To this question,

none of the Bank's staff interviewed claimed to have any knowledge about a theory of change for the BOA operations. At best the Bank is interested in repayments and there is an implicit assumption that once loans are repaid the concerned financed enterprises are "surviving". With a theory of change to which management is fully dedicated, every process, product and service would have brought us closer to what the programme promises to deliver.

BOA does not collect data on borrower-level metrics that are intended to track the progress towards goal attainment. Hence there is no obvious basis for performance measurement of progress on job creation goal attainment. All the officials interviewed in the three research locations claim that they do not have a framework that they are aware of but that they have a manual. The Manual was sighted by the researcher and it is observed that it was designed in 1989 and has not been reviewed since then to reflect the dynamics of the financial sector and the global movement towards resultsbased measurement. With the title "Monitoring and Control" the Manual though has a checklist, the responses are not necessarily recorded as there is no guideline for reporting. Bank officials consulted said they use their discretion to write narrative field reports sequel to inspection visits. On whether the framework can capture progress towards the attainment of BOA goal, a female staff in Bayelsa answered in the affirmative because as she said "all activities are recorded and documented". On the question as to what activities and to what end they are recorded, she could not provide any satisfactory answer. The conclusion therefore is that BOA

does not have a functional performance measurement framework that can be used as the basis for measuring goal attainment, specifically job creation in relation to the provision of financial services to the MSME sector in Nigeria.

8.7: Chapter Summary and Conclusion

In this chapter, an attempt is made to assess the extent to which BOA engages the practice of performance measurement and reporting. In other words, it was investigated whether and how BOA actually measures progress towards goal attainment in its operations generally and in particular the goal of job creation. The fundamental basis of BOA operations as an aspect of the MSME Finance Policy of government as related to the attainment of the goal of job creation is analysed using the COTE Framework which is recommended by OECD for Policy evaluation. COTE stands for:

C - Clarity /Coherence

O - Objectives

T - Target

E - Evaluation

C-Clarity /Coherence: For MSME policies, clarity and coherence call for policy intervention and statement of purpose that are based on clear rationale and that the various public organs that support the development of MSMEs ensure that their efforts are consistent and coordinated. ‘Clarity’ in this context, implies that those delivering

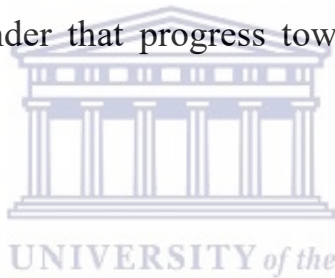
the policy and those expected to benefit from it fully understand the content and concepts.

Although SMEDAN set a working definition for MSME, different implementing agencies tend to adopt other definitions. ‘Coherence’ on the other hand imply that all public organs consciously work together in the interests of MSMEs. BOA is a government-backed development finance institution that provides wholesale and retail finance to the agriculture and non-agriculture sectors especially micro, small and medium enterprises in Nigeria. However, its strategic direction does not seem to derive from the MSME Policy. One of the factors responsible for the possible lack of coherence is connected to the multiplicity of agencies to which the bank is accountable. Many stakeholders found this arrangement rather confusing and destabilising for effective operations in BOA.

Agencies tend to operate in silos and horizontal cooperation is therefore seen to be lacking to a large extent among different MDAs working on MSME development. Although the MSME Policy through the administration of SMEDAN was designed to provide direction for MSME stakeholders and create an enabling environment that facilitates the thriving of MSMEs. That guidance was however not seen to be provided in the case of BOA as revealed through different consultations.

O-Objectives: Though the objective of job creation is recurrent in the policies of diverse stakeholders in the enterprise development environment in Nigeria, and specifically in the mandates of BOA, this objective is not traceable in the process of the Bank's credit activities, hence its absence as a proof of performance in the Bank's performance measurement and reporting.

T-Target: For BOA, targets that relate to the objectives are lacking in credit operations. Performance measurement therefore lacks a clear basis for implementation in BOA and it is little wonder that progress towards goal attainment could not be easily ascertained.



E-Evaluation. "Proof of Performance" in BOA is in terms of the extent of outreach, notably the magnitude of disbursements. Monitoring and evaluation activities are therefore non-existent in practice as the Bank does not collect data on borrower-level metrics that are intended to track the progress towards goal attainment. Hence there is no obvious basis for performance measurement of progress towards the attainment of job creation goal attainment. Although the introduction of Results Based Management (RBM) is helping to bring about some level of rigour in performance measurement in some select government programmes in Nigeria such as NIRSAL, this practice is yet to be adopted in BOA.

In conclusion the study has demonstrated that the MSME Policy and indeed Bank of Agriculture do not operate an effective M and E system that is focused on the attainment of goals generally and in particular the goal of job creation. The national M&E system and plan, requires all MDAs to be linked and aligned with each other, but in practice this is not so. There is weak inter-sectoral co-ordination for a National M&E system and MDAs lack key M&E staff due to inadequate funding for M&E. It is however envisaged that the ensuing BOA reorganisation will include an effective M and E system. This is expected to inform learning and facilitate the implementation of the ongoing Economic Recovery and Growth Plan (ERGP) in Nigeria.



CHAPTER NINE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

9.1 Introduction

As policy makers in developing countries continue to design more relevant, focused and effective policies to attain sustained growth, create jobs and improve living standards, development financing is seen to offer a policy option for the achievement of job creation in many economies. This is done through the provision of concessionary credit to the MSME sector in the belief that they contribute substantially to job creation in developing economies. The logic of financial inclusion is based on the theoretical perspective that it is a drive force towards economic growth because if access to finance and the available range of services are limited, many individuals and enterprises will not be able to tap the benefits of financial development and they could be subjected to the risk of poverty. However because of credit market imperfections a low quality financial market exists where the quality of information about borrowers is scanty for credit appraisal and/or enforcement rules or institutions not well developed. The need for special interventions that can support financial inclusion thus becomes relevant.

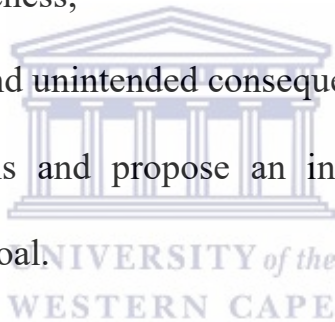
The Federal government as part of its role to provide an enabling regulatory framework for enterprise development and facilitate financial inclusion, established development banks such as Bank of Agriculture and Bank of Industry. These are to

serve a different ‘niche’ market such as MSMEs that the Deposit Money Banks (DMB) sector would not ordinarily address. With concessional lending it is expected that more people who otherwise are financially excluded would be included. From a theoretical perspective, BOA and other DFIs may experience agency problem consequent upon the interest of professional financial agents in the realm of measuring financial metrics compared to government’s (principal) interest development outcomes such as job creation. Engaging results based management practice may therefore tend to be a fuzzy endeavour in this scenario apart from other challenges that may be faced by such institutions. DFIs such as BOA therefore under-resource and under-prioritize the measurement of the achievement of development objectives (including job creation), towards informing and improving policy. This is the premise against which this research was designed.

The present Chapter summarises the study findings and draws the major recommendations and conclusions on Evaluation of the Effects of Micro, Small and Medium Enterprises Finance Policy on Job Creation in Nigeria as well as identifying future direction of research. Upfront the main purpose of this research is TO ASSESS THE EFFECTS OF BANK OF AGRICULTURE (BOA) FINANCIAL SERVICES IN RELATION TO THE ACHIEVEMENT OF THE FUNDAMENTAL OBJECTIVE OF JOB CREATION AS CONTAINED IN THE MSME POLICY IN NIGERIA.

Specific Objectives

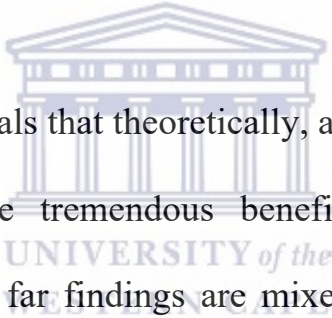
1. Present a sound theoretical and policy framework to underpin the study; Analyse the internal consistency of the MSME policy and the extent of policy coherence in relation to job creation amongst key players in the MSME policy corridor; (analysis of policy content and policy processes)
2. Present evidence on the pattern of job creation opportunities attributable to BOA interventions; (assessment of policy outputs and outcomes)
3. Investigate BOA monitoring and evaluation systems and critique same in relation to its effectiveness;
4. Document intended and unintended consequences of the policy and
5. Proffer policy options and propose an integrated framework for enhanced attainment of policy goal.



9.2 SUMMARY

Chapter One: This Chapter presents a background to the issue of unemployment and job creation against which the research problem is situated. The research questions and objectives as well the justification for the study are also presented. Key terms and assumptions that will shed light on the study were then clarified. Such terms include: policy, micro, small and medium enterprises, local economic development and microfinance.

Chapter Two: In this chapter, the context of the study is presented. After discussing the Nigerian economy and the importance of MSME and the need for financing the sector for growth and job creation, a review of the MSME Policy as well as the micro financing policies were undertaken. This was then followed by presenting the background of Bank of Industry, an FDI that is expected to provide microloans to small holder farmers, producers and artisans. The chapter was concluded by presenting the institutional linkages among the different agencies saddled with implanting the MSME and microfinance policies in Nigeria.

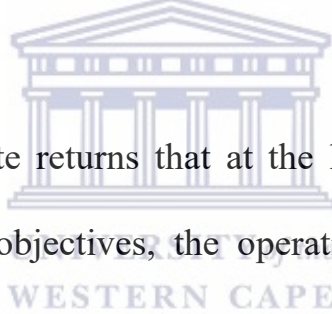


Chapter 3: The chapter reveals that theoretically, access to microfinance institutions' loans is perceived to have tremendous benefit for MSE growth, typified by employment growth, but so far findings are mixed on whether this is seen to have spurred an entrepreneurship revolution in developing countries as being touted.

While literature shows different perceptions on enterprise growth, there is a paucity of evaluation studies on how financing with microcredit contributes to MSE growth and employment creation. The Chapter therefore summarised available empirical evidence on the issue of the capacity of small firms especially microenterprises to generate employment and found that the evidence is mixed but that there is consensus on the fact that a small segment of small firms are bound to grow and create more jobs in the economy. It was then proposed that the factors responsible for the growth pattern of this segment of microenterprises need to be unpacked as the findings are bound to

contribute to filling an apparent, albeit important research gap that can lead to the development of a refined monitoring and evaluation frameworks for MSME Finance policy.

Chapter Four: The global landscape of impact investing measurement was examined in Chapter Four because BOA being a development finance institution fits well into a rapidly growing industry of impact investment all over the world. The industry is being propelled by investors who are committed to the generation of social and environmental impact apart from financial returns.



BOA is expected to generate returns that at the least cover operational costs while among other development objectives, the operations are expected to facilitate the enterprises that benefit from the Bank's credit facilities to create jobs by. In order to effectively assess the effect of BOA credit operations on job creation in Nigeria (in line with SDG 8), the present chapter consulted existing sources of impact measurement frameworks on which this research could leverage and the analysis influenced the nature of methodology adopted. These frameworks among others include those of GIIN/IRIS, OECD, ILO, CGAP and World Economic Forum.

The chapter concludes on the note that there is a need for industry-wide collaboration to improve performance measurement practice in the field of impact investment with a view to working towards coherence as much as possible. In this regard, key

stakeholders are encouraged to continue to share knowledge to identify all parties' needs as well as critical gaps and opportunities for greater coordination. The possible dissemination of this study findings is seen to present an opportunity to contribute to that objective.

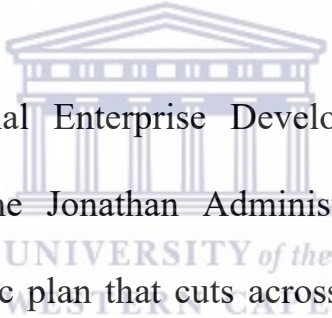
Chapter Five: After the review of global impact measurement practices, Chapter Five was devoted to an examination of the performance measurement frameworks in the microfinance and job creation institutional architecture in Nigeria. The first part is an examination of the Microfinance Policy, Regulatory and Supervisory Framework especially in relation to the framework that is in place for performance measurement in the policy document. In the Policy, *employment creation* is recognised to be a front burner issue as Objective ii) is specifically on creation of employment opportunities “as a way of enhancing the standard of living of the active poor”²⁴. It is expected that the importance attached to this objective would equally generate corresponding specific targets, but this is not so as observed in the content of the targets. It appears as if it is assumed that if all the targets are met, jobs would be automatically created. Though targets are set towards increasing access of the economically active poor to financial services, job creation may not necessarily be achieved. This is one of the issues that this present research investigated in relation to BOA credit facilities.

²⁴ CBN (2011) “Microfinance Policy, Regulatory and Supervisory Framework”.

The second policy discussed is the “Micro, Small and Medium Enterprises Development Fund” (MSMEDF) which is an offshoot facility that was designed in line with Section 6.10 of the “Microfinance Policy, Regulatory and Supervisory Framework”. The CBN apart from providing the funds and performing coordinating roles in the financial sector, is to provide resources through the Grant Component of the Fund to Participating Financial Institutions (PFIs) for capacity building in the areas of “loan appraisal, disbursement, *monitoring* and recovery” etc. However, there is no mention of capacity building in the area of “*performance rating in poverty reduction, job creation and financial inclusion*” which is a core requirement for qualification for grants under the development component of the Fund. Likewise, while PFIs are to monitor funds utilisation of borrowers, there is no requirement for monitoring borrowers’ performance in relation to job creation and poverty reduction which constitute specific objectives of the scheme. In the policy, the returns to be made to the CBN are expectedly to a large extent financial analysis data which do not effectively capture the whole range of the objectives of the policy. Although Microfinance Banks (MFBs) are also expected to include disaggregated data on the level of patronage of their products and services in their returns to CBN periodically, there is no requirement for them to document the outcomes of the provision of their services.

Next is an examination of the “National Financial Inclusion Strategy” which is a roadmap of “actions agreed and defined” at the national level, for stakeholders that

operate in the financial sector for the achievement of “financial inclusion objectives”. Specific targets were set to form the basis for measuring progress towards goal achievement. The roles of stakeholders were identified in the implementation of the Strategy and it is envisaged that they would exhibit sufficient commitment in this regard under the coordination of the Central Bank of Nigeria as the lead promoter. A robust and replicable monitoring and evaluation framework was articulated accompanied with measurable key performance indicators, but the extent to which this is in use could not be established within the scope of the present study.



An analysis of the National Enterprise Development Plan follows which is a programme designed by the Jonathan Administration that preceded the Buhari Administration, as a “holistic plan that cuts across all tiers of enterprise” to provide the “tools to assist enterprises grow from micro to small, small to medium and medium to large”. Analytically, NEDEP is one programme that has specifically attempted to create a key performance indicator to track the number of jobs created, but it is observed that the outcome of this attempt had not been documented by the time the government changed hands in 2015. For the “implementation timelines and deliverables” for all NEDEP initiatives, the “Implementation Plan in the National Policy on MSME” is the reference point for guidance. This reference indicates some level of coherence and integration in the policy process. That means the NEDEP was not a stand-alone programme but one that has connection with the MSME Policy. However, the extent to which this arrangement has adequate information upon which

subsequent programmes could be implemented is circumspect although for NEDEP there is no contradiction or any serious departure from the agenda of Job Creation Strategy of Buhari Administration.

Lastly the “Strategic Framework and Implementation Plan for Job Creation and Youth Employment in Nigeria” was examined as the framework under implementation during the course of this research. Essentially, its relevance as a cross cutting framework for job creation becomes important within the institutional architecture for MSME Development. It is believed that more than three million jobs could be created over three years from 2015-2018 through cluster interventions in four priority sectors of agribusiness and agro based sector, construction, ICT and wholesale and retail trade sector are implemented successfully. The selection of the sectors for focus is based on “the need to prioritize informal sector employment opportunities” while ensuring that areas that are more vulnerable to the effects of “youth unemployment (particularly Northern Nigeria)” are not neglected. The Plan assumes a results-based management but as at the time of this research in 2017 which marks the mid-point of the Job Creation Strategy, evidence on the extent to which the aim of the strategy is being tracked or achieved was not available due to a number of yet to be established constraints.

Chapter Six: Here the procedure, data sources and data collection instruments, as well as the methods adopted to analyse the data were presented in Chapter Six. A mix of

cluster and random sampling frames were applied at zonal and branch levels of BOA administration. Cross-sectional data were derived through administration of “structured questionnaire” and semi-structured questionnaire on a set of treatment and control groups in selected BOA branches. Key informants in BOA and the MSME policy corridor were also interviewed to assess the clarity and coherence of MSME policy in relation to the fundamental objective of job creation. Descriptive statistics and COTE framework were applied as methods of data analysis.

Chapter Seven: The Chapter captures the major study findings on the effects Bank of Agriculture (BOA) microloan intervention on the local economy of select research sites in three zones of Nigeria. The intention is to ensure that we do not under-report or over-report the achievements or otherwise generated by the Bank. Firstly, a succinct description of BOA as a DFI was undertaken to define the role of the institution as provider of “low cost credit to small holder and commercial farmers”, small and medium rural enterprises and small and medium scale non-agricultural enterprises towards among other objectives”. The Microloan Scheme of BOA is the one under scrutiny in this study.

Findings of the quantitative and qualitative studies reveal the profile of enterprise owners that received loans from BOA and a control group of those that did not receive any loan from the institution. Likewise, the employment patterns of the enterprises as well as their access to credit generally and BOA credit in particular were revealed.

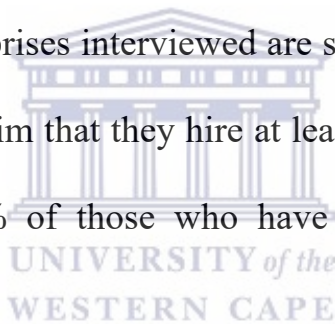
The effect of enterprises' access to BOA credit on employment and local economic development in general were also revealed. Lastly a summary of specific challenges to BOA effective contribution to growth of enterprises were highlighted. The major findings are therefore the following:

- About half of the business owners interviewed may be called “necessity entrepreneurs” or “survivalists” who are just in business to eke out a living “by choice” because of lack of wage employment. Wage employment is preferred partly because of lack of capital for business and where it is available, interest rates are exorbitant being as high as 240% pro-rated per year for money lenders.
- BOA has the lowest interest rate of available options (8-15% per year) depending on source of capital but access to this source of capital is limited compared to the level of demand for it at the local level. 54.4 % of respondents in the study have never applied for a BOA loan due to information asymmetry and perceived bank's cumbersome procedures.
- Many enterprises that took the BOA microloans were not able to create jobs due to several supply and demand side factors. For those who were able to create jobs, they did not create decent jobs. If more strategic steps are therefore not taken to address the problem of unemployment and the issue of job creation, it is unlikely that many programmes such as BOA Microloan Scheme put in place for the achievement of this goal will achieve the objectives of creating jobs.

- The more growth-oriented respondents (about 2%) believe that the amount of micro loans offered by BOA is too small for their level of operations.

Some of BOA clients identified as potential “gazelles” try to pay back their loans quickly in order to gain access to bigger loans but they are not encouraged because BOA is unstable in its approval and disbursement process. As at the time of the research, the evidence from clients and validated by BOA officials reveal that disbursement had not been effected for two to three years.

- 47.4% of all enterprises interviewed are self-employed owners and 52.6% of all respondents claim that they hire at least one employee in their businesses though about 90% of those who have employees engage less than five workers.



- Less than 10% of the all enterprises interviewed engage full time paid staff as a majority hire casual workers, part time workers and unpaid family labour. Education seems to have an influence in the decision to engage employees beyond a certain level as the few enterprises that hire over ten paid employees have some form of post primary education or the other.
- Between 2012 to 2017, the aggregate employment level of over 450 respondent enterprises irrespective of their access to BOA loans fell drastically from 2180 employees to 524 (i.e from an average of four workers to one worker per enterprise respectively over the study period, when the full effect of Nigeria’s economic recession manifested).

- In Sokoto State however, about 70% of loan beneficiaries (farmers) claim modest increase in job creation compared to 40% in Osun State and 12.5% in Bayelsa State. The relative increase in Sokoto State may be associated with the recent government policies that are supportive of economic diversification such as ban on rice importation and the consequent outgrowers' arrangements including the Anchor Borrowers Scheme. This is not necessarily attributable to BOA microloan scheme although the Bank acts as an intermediary for loan recovery on behalf of Central Bank of Nigeria in the pilot states of intervention.
- Although the effect of economic recession was at play during the study period, the operations of a few growth-oriented businesses could have boosted wage employment if BOA microloan scheme had been more targeted, predictable and consistent. *The scheme is not systematically identifying potential 'job creators' that could be targeted for support and encouraged to achieve effectiveness.*

The Chapter concluded on the note that BOA Microloan Scheme is potentially capable of supporting selected growth-oriented microenterprises to generate growth and contribute to job creation but in its present state and form, the Bank is not achieving this objective or seen to be positioned to do so due to several supply side factors apart from demand factors as well, some of which the ongoing reform process may be able to address.

Chapter Eight: In this chapter, an attempt is made to assess the extent to which BOA strategic direction derives from the MSME Policy and whether it is positioned to engage the practice of performance measurement and reporting on the objective of job creation, as documented in the MSME Financing Policy of government. This analysis is undertaken by using the COTE Framework which is recommended by OECD for Policy evaluation.

COTE stands for:

C - Clarity /Coherence

O - Objectives

T - Target

E - Evaluation



C-Clarity /Coherence: The analysis shows that BOA strategic direction does not seem to derive from the MSME Policy though the Bank is expected to be a critical stakeholder in the policy process. Although the MSME Policy through the administration of SMEDAN was designed to “provide guidance for MSME stakeholders and create an enabling environment for MSMEs to thrive”, that guidance was not seen to be provided as revealed through different consultations in the case of BOA. As agencies tend to operate in silos, horizontal cooperation was seen to be lacking to a large extent among different MDAs working on MSME support. Another factor responsible for the possible lack of policy coherence in BOA is the existence of multiplicity of agencies to which the bank is accountable. Many key informants in the

Bank found this arrangement rather confusing and destabilising the effective operations in BOA.

O-Objectives: Though the objective of job creation is recurrent in the goals of diverse stakeholders in the MSME Policy environment in Nigeria and specifically in the mandates of BOA, this objective is not traceable in the process of the Bank's credit activities, hence its absence as a proof of performance in the Bank's performance measurement and reporting framework.

T-Target: For BOA, targets that relate to the objective of job creation are lacking in credit operations. Performance measurement therefore lacks a clear basis for its administration in BOA and it is little wonder that progress towards goal attainment could not be easily ascertained.

E-Evaluation: In practice, "Proof of Performance" in BOA is in terms of the extent of outreach, notably the magnitude of disbursements. The measurement of development outcomes through effective monitoring and evaluation activities are non-existent in practice as the Bank does not collect systematic data on borrower-level metrics that are intended to track progress towards goal attainment. Hence there is no obvious basis for performance measurement of progress towards the job creation objective. Although the introduction of Results Based Management (RBM) is helping to bring about some level of rigour in performance measurement in some select government

programmes in Nigeria such as “Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)”, this practice is yet to be adopted in BOA.

9.3 Conclusion of Summaries

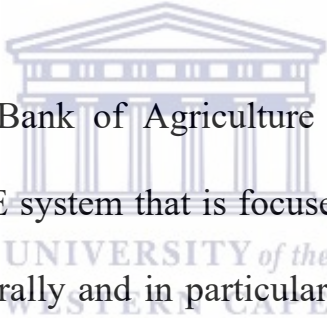
In conclusion, the study has demonstrated that BOA Micro loan scheme is potentially capable of supporting targeted growth oriented microenterprises in specific trades to generate growth and contribute to job creation. But in its present state and form the Bank is not achieving this objective or seen to be positioned to do so due to several supply and demand side factors. An ongoing reform process may be able to address some of the supply side factors. Many enterprises that took the BOA microloans were not able to create jobs and for those who were able to create jobs, they did not create decent jobs. Although the Bank has the lowest interest rate of available options (815%), depending on the source of capital, access to this source of credit is limited for many MSEs compared to the level of demand for the credit at the local level.

Information asymmetry, perceived cumbersome bank’s procedures and operational inefficiencies tend to account for this limitation.

The more growth-oriented respondents (about 2%) also believe that the amount of micro loans of a maximum of 250,000 Naira offered by this scheme is too small for their level of operation in the prevailing economic circumstance in Nigeria. Likewise, despite their positive repayment performance, they do not get the necessary encouragement because BOA is unstable in its approval and disbursement process. As

at the time of the research, disbursement had not been undertaken for two to three years.

Client feedback mechanisms that are capable of supporting the operations of the Bank are also seen to be lacking or at best being poorly administered. If strategic steps are not taken to improve the model of BOA credit delivery to address the problem of unemployment and the issue of job creation, it is unlikely that this programmes will achieve the objectives of contribution to creating jobs in its present form.



MSME Policy and indeed Bank of Agriculture were also not seen to effectively possess an effective M and E system that is focused on measuring the contribution to the attainment of goals generally and in particular the goal of job creation. Although the national M and E system and plan, require all MDAs to be linked and aligned with each other, this is not seen to be so in practice. There is weak inter-sectoral coordination for a National M and E system and MDAs lack the much needed key M and E staff due to insufficient capacity and funding for such activities. It is however envisaged that the ensuing BOA reorganisation will include an effective M and E system. This is expected to inform learning and facilitate the “Economic Recovery and Growth Plan (ERGP)” that was ongoing at the time of the research in Nigeria which is aimed at sustainable diversification of production as well as employment generation.

9.4 Recommended Policy Options

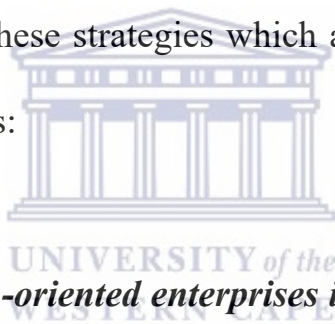
Development Finance Institutions (DFIs) are expected to play a “transformative role in the economy” rather than the “traditional role” which typical commercial or deposit money banks do play. DFIs have the mandate to reach a different segment of industry / businesses that the conventional banks may not be servicing. With a flexible or rather, different “perspective on risk”, their products are supposed to be different from those of other banks as they focus on supporting broader government priorities and social goals such as “job creation and poverty reduction”. The dynamic nature of the institutions in responding to changing economic imperatives and the environment warrants their pro-activeness in strategically detecting the existing and potential local and national level opportunities and generating evidence about how different methods, sectors and business solutions can deliver the most potent results. Job creation constitutes a major expected outcome for development financial institutions such as Bank of Agriculture.

Although the goal of job creation is obvious in the mandate and rhetoric of the Bank, the institution was not seen to be achieving this goal neither was it in practice committed to measuring performance towards the attainment of this goal/objective. It is against this background that the following set of policy options are recommended towards the attainment of development objectives such as job creation as well as the measurement of progress towards same in Bank of Agriculture specifically and

generally in the development financing ecosystem. Important macro economy imperatives wider changes in the market are also highlighted.

9.4.1 How can BOA Micro Loan Scheme Contribute to Job Creation?

From the findings on the current state of microloan administration in BOA the Bank is not performing as expected especially in relation to enhancing MSEs to grow and create jobs due to a number of supply and demand side factors. However, a number of strategies can be adopted to improve the contribution of BOA to job creation. The following are but a few of these strategies which are in line with the demands of the study objectives and findings:



Identify and support growth-oriented enterprises in the job enhancing sectors of the

local economy: If indeed BOA is to engage in the administration of MSME credit for development objectives, then the bank must proactively identify and fund high-impact and labour-absorbing businesses by designing special products for specific groups of such enterprises that possess growth potentialities. (some literature refer to them as “gazelles²⁵”). These are commercially viable small and growing businesses²⁶ (SGB) that “have the potential to generate growth” and create jobs in the local economy, but their potential for social impact is not fully tapped. The support would be in the form of direct loans, grants, equity investments and technical assistance. A recent research in Ghana (Schohar, 2010) suggested that if the microenterprises that have higher

²⁵ Nichter and Goldmark (2005)

²⁶ Aspen (2016)

potential for growth could be identified, resources could be diverted to provide more intense support to a much smaller target population than is currently spent on interventions provided to the full set of microenterprises.

As the study was able to identify growth oriented enterprises, BOA may learn from this kind of experience and focus on “value adding and job creating sectors” in the different local contexts. The institution needs to possess “knowledge and competence” of the identified sectors and to have an understanding of the possible developmental impact of the businesses in those sectors in order to be able to better assess loan applications from such businesses. The ‘one village one product’ model which started in Japan where communities selectively produce goods with high added value could also be better explored. BOA was to engage this model under the National Enterprise Development Programme (NEDEP) implementation but experienced a policy somersault.

Cluster financing and cluster based development: There is need for an understanding of how BOA can “add value to businesses” in particular sectors by identifying existing opportunities and potential gaps that may exist in the value chain as well as the strategies for translating skills into business opportunities. These are bound to enhance the Bank’s effectiveness and therefore opportunities for clustering have to be identified. Cluster development is potentially linked to increased productivity and innovation among MSMEs in many parts of the world especially South East Asia.

Companies located in clusters can access suppliers and buyers more easily. They also have greater ability to access larger local markets and tend to be more innovative and competitive. Cluster financing can start in already established high impact areas such as large product markets. This approach is currently being adopted within the Strategic Framework for Job Creation in Nigeria but synergy with BOA is still largely lacking.

Engage more Wholesale Lending: BOA activities will also prove more effective if the institution provides more of on-lending facility in order to reduce transaction costs, increase coverage and generate more impact. The institution must therefore identify a number of active and performing licensed and unlicensed microfinance institutions and associations that have the capacity and outreach to administer loans to large groups of less risky microenterprises among their clientele. This cohort could benefit from the on -lending and technical assistance activities of BOA and thereby increase the amount of the loanable funds available to them. A ‘mass-customized approach’ that engages technology to increase the number of small business clients but reduces transaction costs is bound to improve asset quality and broaden service offerings.

Forge close partnership with BDS providers for identifying and providing technical support to viable projects: In these days of global competitiveness, MSMEs need to have extensive knowledge of markets and technology which on their own they may

not have the capacity to acquire due to a number of reasons, among which is resource constraint. Programmes need to be implemented to assist MSMEs at enterprise level to raise their level of competitiveness both at the domestic and international market levels. Likewise, there is need to promote business linkages between large domestic and foreign businesses and MSMEs. Fostering this form of linkage is key to developing a more vibrant and competitive sector, particularly for better export competitiveness. DFIs have a responsibility to understand the needs of the different enterprise groups that could benefit from its facilities in order to effectively design appropriate products for them. To have such important sector knowledge that can enhance the quality of support to clients (without necessarily taking on Business Development Services (BDS) role), BOA would need to form effective partnerships with BDS providers and incubators which can both identify potential clients and build their capacity to manage their businesses as well as manage loans effectively. The BDS partners would therefore play such roles as:

- Facilitation of business establishment and providing referral services;
- Financial accounting and management services; and
- Market facilitation for SME products and services.

By engaging partners for such services, BOA would also reduce its transaction costs.

Need for Improved Governance and Management Efficiency in BOA: Financial sustainability and good governance are critical elements that cannot be compromised in the management of development financial institutions. It is therefore important to ensure that institutions such as Bank of Agriculture have their mandates clearly

defined, maintain high standards on the quality of corporate governance and transparency and are subjected to regulation and supervision with standards that are specifically appropriate for development financing. This study has demonstrated that in the present form, the Bank of Agriculture as a key development finance institution is not financially sustainable neither has it been able to contribute effectively to job creation. Reliable and well-administered development financial institutions that possess a well-defined mandate and sound governance framework have an important role to play in accelerating economic and social development in a developing context such as Nigeria. They constitute potential new channels for crowding-in the private sector. Owners of such institutions therefore need to have the capacity to routinely subject their business activities to monitoring, assess the social and economic impacts of their activities and endeavour to subject their interventions to comparison with alternative similar public policy interventions.

There are many examples of poor performing DFIs that have constituted a heavy fiscal burden on their governments, while poor performance of DFIs has led to credit market distortions that displace and crowd out private financial institutions instead of crowding them in. In a number of cases in different parts of the world, weak DFIs have also been found to be vulnerable to political interests. Findings of this study validate these evidences and therefore show a clear need for improved governance and management systems through

- (a) Shared understanding of the role of BOA as a DFI within the

development finance architecture. In that regard the Board has a mandate to ensure that the institution plays the expected transformative role and translate this role into the operational modalities of the Bank. Policy direction must be provided to ensure that the institution is lending in the prescribed priority areas as well as mainstreaming the development objectives of the MSME Finance Policy especially the objective of employment generation into the management and processes of BOA.

- (b) Ensuring that political interests do not influence lending decisions such that only those who meet established criteria gain access to credit. Where processes are reliable and transparent within the institutional system, number of performing loans of qualified growth and transformative enterprises will improve, turnaround times will also improve as good repayment rates and enhanced productivity will be achieved. The likelihood is that better productivity of enterprises will lead to job creation within local economies, “all other things being equal”, as observed from the study.
- (c) BOA must rationalise redundant capacity and improve staff welfare and the incentives system.
- (d) Reopening closed branches and creating more branches in rural areas as well as providing incentives for performing branches and clients.

9.4.2 Entrenchment of Effective Monitoring and Evaluation System

It has been observed that “one of the biggest drawbacks of government’s intervention funds is the dearth of evaluation mechanisms to determine the success and weaknesses of the funds” (Agusto 2015). Effective monitoring and evaluation constitute major means of ensuring that DFIs achieve their mandates and objectives effectively. To be able to deliver good results therefore, DFIs must of necessity have in place an effective performance measurement framework. Despite the importance of development objectives in BOA’s commitments, little is known about the criteria being used to benchmark the institution’s development performance.

Evaluations can be effective and useful to multiple stakeholders for informing strategic decision-making if practitioners have a clear understanding of the existing evidence base and work together to fill the gaps. This way a collective learning agenda rather than just stand alone programmes will be implemented to build knowledge for the entire sector. That was not seen to be clear in the work of BOA.

Evaluation ought to be an “ia mainstreamed aspect of the policy process, rather than being ad hoc or an “optional add-on”. It must therefore become a central aspect of policy-making and incorporated in all stages of the policy process. At this stage, BOA does not systematically collect data on social performance, due to limited commitment, resources, and staff time. The following suggestions are made to assist BOA in ensuring effective M and E including social performance measurement (SPM):

- Start with a framework: To enable staff and board to have a shared understanding of all the facets of development financing, begin by defining terms and understanding the tools that can be utilised as part of a performance measurement portfolio. This framework will help all the participants in the process especially the boards to use the same language. By constitution, boards deal with many complex issues over time and they need a clear focus from the onset. For a DFI to know whether it is successful or not, what ‘development’ looks like has to be defined, i.e. its theory of change. This is illustrated in the results framework to include all the recommendations given above in Fig.9.1.



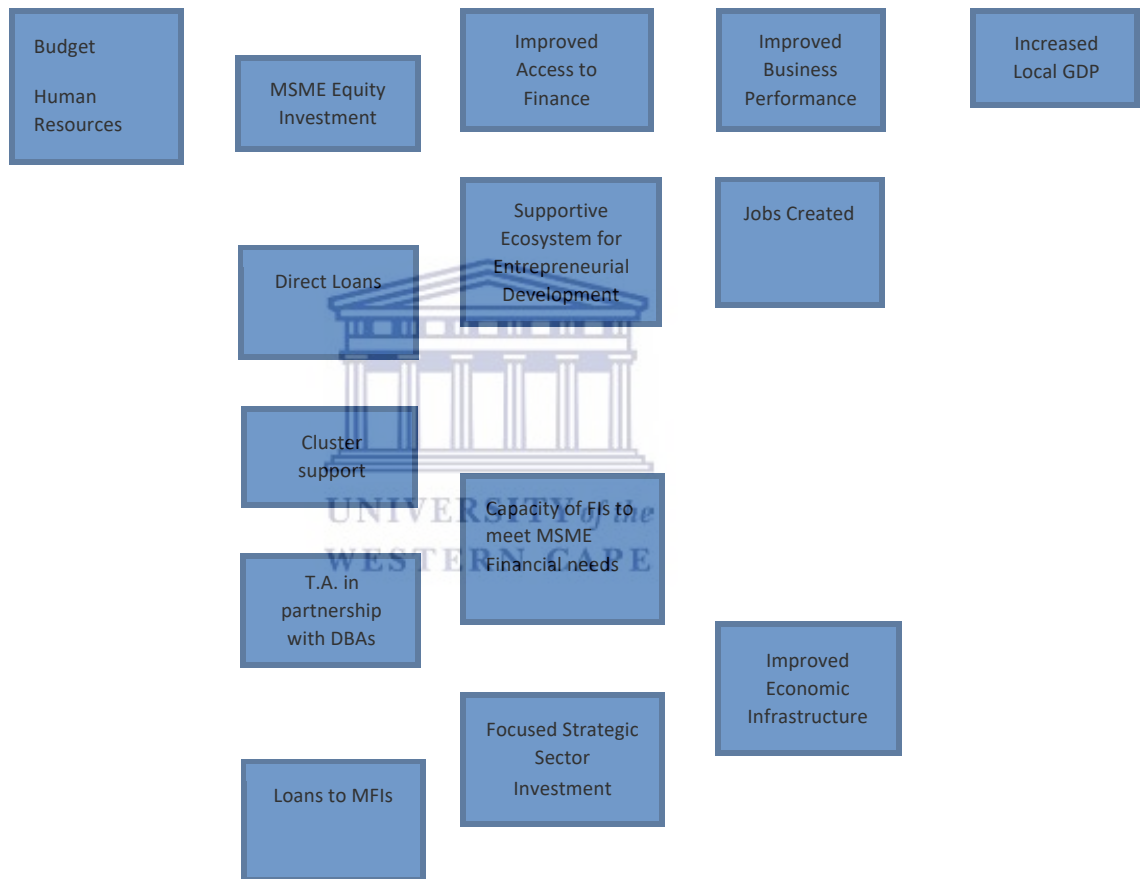
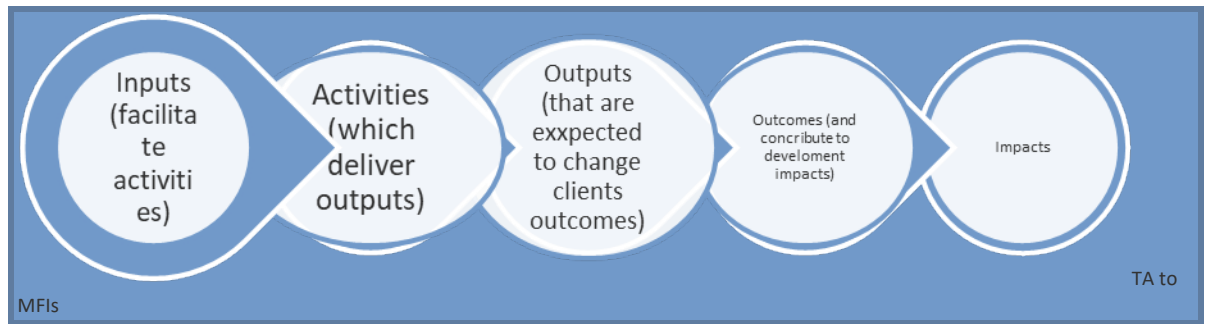


Figure 9. 1: The BOA Results Framework with Study Recommendations Source: Adapted from Smallridge (2017)

- An overall framework and toolkit will also help stakeholders to appreciate that making the decision to pursue a development approach includes a broad range of activities, and is not strictly about investments alone. Rather than being

viewed as a “special project,” measuring development impact should be embedded throughout the entire organisation.

- Align' carefully chosen social indicators with more specific definitions of DFIs social objectives. Organisations realise the best return when they: a) collect easily verifiable measures linked to their theories of change, b) do this regularly, consistently and systematically at every level, and c) couple data collection with analysis, learning, and action and include data analysis and interpretation in management decision making and staff activities.
- DFIs need to do ex-ante and ex-post performance measurement. Reporting exante only provides information on expected or anticipated impact while ex-post reporting helps a bank see what has worked and what has not, so that this can be incorporated in “lessons learned”.
- Staff may require training to help ensure that all are aware of the development mission of the organisation. A certain percentage of programme resources could be allocated for M and E.

Table 9. 1: Measuring Development Impact

-Accountability requirements -Assess DFI’s contribution to national development goals and objectives Learn lessons for improvement and planning	Donor conditionality -Strategic Sector development -Local development -Job Creation disagg by youth, gender etc.
Development Indicators	-Sectors being supported
	-The interest rate that is offered and range -Target groups being supported -Number of businesses funded <i>-Jobs: number created and number sustained</i> <i>-# wage workers employed in financed businesses</i> <i>-# family members working in financed business</i>

M&E system/data collection & analysis; evaluation methodologies	MIS data, Quantitative and qualitative survey
Timeframe/frequency based on type of results and program timeframes	Quarterly, Annually depending on financed business.
Roles and Responsibilities	Designated M and E staff
Ensuring it is resourced and implemented	-Board to monitor social outcome Employees to be held responsible for specific social performance duties -CEO should be held responsible for achieving social targets

Source: Author's configuration as adapted from Smallridge (2017), SPTF (2015)

The Board and Secretariat of the Social Performance Task Force identified **Social Outcome Indicators** under four Outcome Themes of 1) Business and Entrepreneurship, 2) Health, 3) Economic Poverty, Assets and Housing, 4) Resilience and Vulnerability. The Business and Entrepreneurship theme has apart from other four other sub themes, *Increased Employment* as one of its outcome sub-themes as shown below.

Table 9. 2: A Suggested Instrument for Measuring Job creation in FDI-Financed Businesses

Sub Theme Indicator	Indicator	Framing the Question	Notes
Increased employment in financed business	# family members working in financed business	How many of your family – men-women (include yourself) are working in this business?	a. Including male/female as well as whether full-time or part-time increases relevance of employment measurement; particularly relevant for small businesses, and indirect outcomes; categories/ranges based on number of workers are

			useful b. Wages to paid employees or skill levels could be asked through separate research.
	# wage workers employed in financed business	How many paid workers (nonfamily) do you employ in this business?	

Source: <https://sptf.info/> SPTF Response. What matters gets measured. The Board and Secretariat of the Social Performance Task Force August 2015

9.4.3 Need for Policy Coherence and Alignment

Nigeria suffers from policy instability driven by high rate of turnover of programmes and personnel²⁷, both of which have made the application of policy instruments unstable. The need for a policy structure that matches evidence-driven coordination among decision-making authorities with common and public goals becomes important. The key to successful job creation policy is effective horizontal cooperation where all relevant institutions are aligned and the impact of various policy measures on entrepreneurship and job creation are taken into account. An intergovernmental coordinating committee on MSMEs exists but not very functional. The Committee ought to have the primary responsibility for managing, coordinating and evaluating the implementation of the MSME policy strategy. Members must meet regularly to better coordinate policy, strategy and implementation and improve communication about MSME policy throughout government. At present, there are many MSME

²⁷ Federal Ministry of Agriculture, Nigeria. Agricultural Promotion Programme, 2016-2020. pg 10

support institutions and some confusion in the expected roles and responsibilities may evolve where mandates are not very clear.

The implication of effective horizontal cooperation is that beside administrative coordination and cooperation, responsible officials are selected from relevant ministries, departments and agencies (MDAs) who have the Government’s mandate to act as “policy entrepreneurs”. These officials are expected to be proactive and responsive to the preparation of measures promoting the employment creation objectives of their own ministries/agencies and tracking the relevant activities towards goal attainment. Coherence of the MSME job creation strategy must be ascertained with other initiatives to avoid duplication of efforts. Once ascertained the implementation framework should be integrated into the national monitoring and evaluation system to ensure that annual assessment of government’s performance in meeting the strategy objectives is conducted and communicated on a regular basis. It is also important to ensure that development partners and the private sector closely align their MSME initiatives with the country’s own MSME policy and development priorities, to maximise impact and effectiveness

Table 9. 3: Recommendations for BOA Job Creation Policy Tracking Configuration

Indicator	Findings	Recommendation
Coherence/Clarity of Policy	Horizontal and vertical alignment of policy not obvious.	Refer relevant staff to MSME policy, trace the state of BOA alignment with social objective and follow up on ensuring horizontal coordination

Objectives	Rhetoric of job creation objective exists but follow up actions lacking	Sharpen narrative of objective and make it SMART.
Existence of Targets	Targets for measuring the objectives are not evident	Select realistic targets based on analysis of selective (transformative) clients' capacity and theory of change.
Evaluation	Non-existing M and E Framework with job creation KPI	Identify job creation KPI, design M and E Framework, monitor and evaluate

Source: Author's Design

9.4.4 Recommended Monitoring and Evaluation Framework for Job Creation Goal in Bank of Agriculture

Based on Figures 9.2 and Tables 9.1 to 9.3, the following M and E Framework for tracking the attainment of the goal of job creation in BOA Microloan scheme is here recommended in Table 9.4. It is expected that progress in relation to the goal is strategically tracked on a regular basis.

Table 9. 4: Recommended Monitoring and Evaluation Framework for Job Creation Goal

	Indicator	Definition	Baseline	Target	Data Source	Frequency	Responsibility	Reporting
Goal	Increased % financed businesses that create jobs	# of financed businesses that create jobs as a prop. of all financed enterprises/MFIs	To be established ex ante	100%	MIS	Annual	Chief Executive	Annual Internal and external Reports

Outputs	More full time paid workers employed in BOA financed enterprises	-# of paid workers (nonfamily) employed in financed business -# of financed newly created firms with at least one paid employee. # of family members working in financed business. -# of self employed.	To be determined	All financed firms	Survey	Annual	Designated M and E staff.	-Annual MSME Report -Internal Newsletters -Fact sheets
Outcomes	1. Job quality among financed firms 2. Jobs access according to gender, age, local economy	-Average output -Job satisfaction -Average earnings. % Job access by gender, age and local economy	To be determined at beginning of period	Minimum wage Affirmative action where available	Survey MIS	Annual	Designated M and E staff.	-Annual MSME Report -Internal Newsletters -Fact sheets
	economy							

Source: Author's Design

9.4.5 An employment – sensitive macro-economic framework is important

Beyond policies of a micro nature, we need to enumerate a number of macroeconomic issues that are pertinent to ensuring that the goal of employment generation is achieved in the economy. Report of the Vision 2020 National Technical Working

Group on Employment emphasizes the need for an employment-sensitive macroeconomic framework. The report highlighted three key factors influencing how fast job opportunities are generated and its sustainability. These are: the rate of growth of the economy, the sustainability of economic growth and the output elasticity of demand for labour. The key thrust of a new framework for addressing the current unemployment situation is to ensure an effective alignment of macro, meso (sectoral) and micro policies. The key elements of this strategy are therefore identified to include the following:

1. “Pursuit of monetary policy that targets not only a single digit inflation but *employment creation by the relaxation of monetary and credit conditions in the economy;*
2. Pursuit of fiscal prudence in the context of allowing/exploiting fiscal space to accommodate investments with high employment potentials and catalysts;
3. Involvement of tripartite institutions (government, trade unions and employers of labour) in the management of the macro-economy;
4. *Pursuit of the transformation of the huge informal economy by aggressive policies for developing and empowering thousands of entrepreneurs annually;*
5. Legislate for institutional mechanism for ensuring full implementation of annual budgets, program and projects at the federal, state and local government levels.
6. Develop a functional, computerised Labour Market Information System

(LMIS) for Nigeria” (Report of the Vision 2020 National Technical Working Group on Employment)

In line with strategies 1 and 4 specifically, it is important to improve financing options and de-risk value chains further in Nigeria through more innovation in financing ecosystems including DFIs such as BOA. Sustainable development financing strategies need to be formulated in order to maximize synergies across financing streams, bearing in focus the dynamics surrounding different financing sources, mechanisms and instruments and their strengths and limits for Nigeria- specific solutions. A holistic approach may therefore offer solutions to address key challenges that MSMEs face. The key elements of the model include an enabling investment climate; capacity building and market access; and access to finance as depicted in Fig. 9.2 (www.ifc.org)

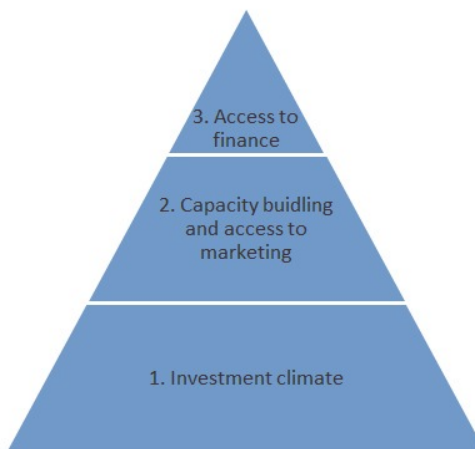


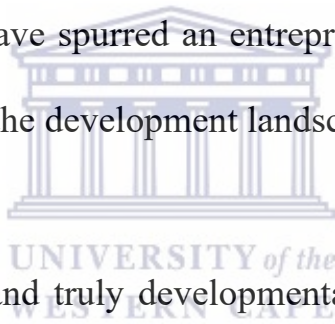
Figure 9. 2: Holistic Approach to Enhancing SME Competitiveness

Source: Adapted from

https://www.ifc.org/wps/wcm/connect/region__ext_content/regions/subsaharan+africa/advisory+services/sustainablebusiness/sme_initiatives

9.5 Chapter Summary and Conclusion

Theoretically, access to microloans is perceived to have tremendous benefit for MSME growth, typified by employment growth. Modigliani and Miller (1963) theorem, postulate that while SMEs with access to credit can grow faster and hence achieve optimal size sooner, those with limited access to finance remain stagnant and hence remain smaller in size. The hypothesis is strongly supported by empirical evidence (see Beck *et al.*, 2005; Beck and Demirguc-Kunt, 2006; Watson, 2006; Wagenvoort, 2003, De Maeseneire and Claeys, 2012), but so far findings are mixed on whether this is seen to have spurred an entrepreneurship revolution in developing countries as being touted in the development landscape.



For BOA to be successful and truly developmental in focus including being able to contribute to the strategic objective of job creation, findings of this study reveal that the key thrust of a new framework for addressing the current unemployment situation is to ensure an effective alignment of macro, meso (sectoral) and micro policies.

At the institutional level, BOA should:

- improve its governance and management system;
- create innovative financing products for growth-oriented microenterprises;
- increase wholesale lending through the provision of on-lending products to performing MFIs;
- engage the services of BDS organisations to source for credible clients and build clients' capacity as well as assist them to access markets.

It is also important for the institution to *integrate development impact considerations and measurement into its entire operations* including monitoring and evaluation system according to the following steps and as depicted in Fig. 9.3:

1. Identify development objectives;
2. Reflect/be mindful of the objectives in investment and lending considerations;
3. Express the development objectives as KPIs with the corresponding appropriate targets;
4. Monitor and evaluate results against the targets and assess and report performance to inform policy decision.

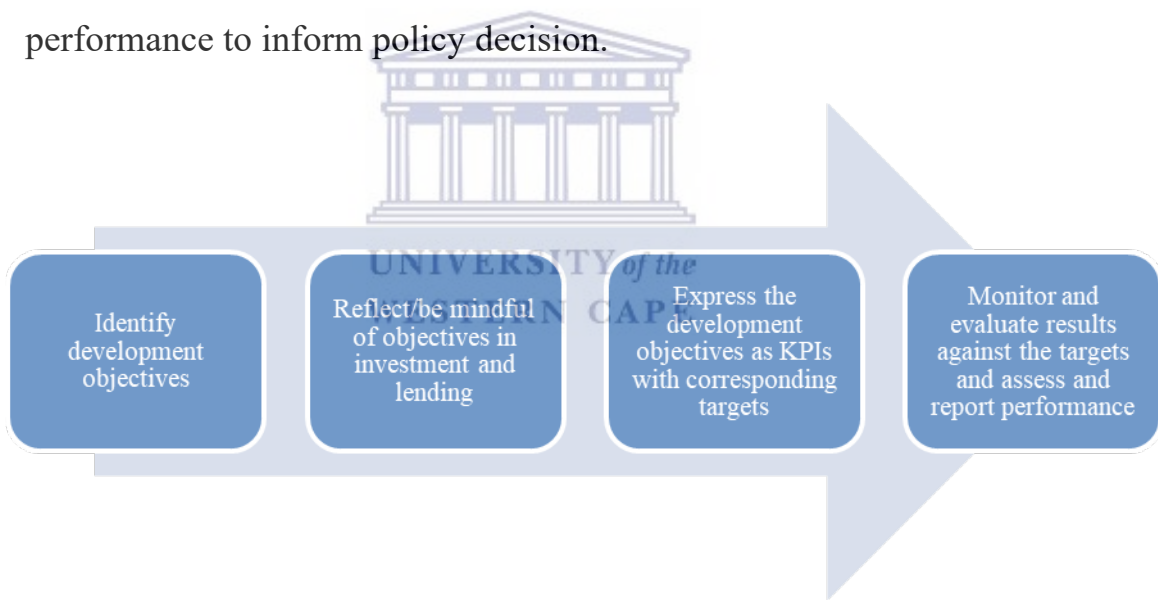


Figure 9. 3: Steps for Integrating Development Impact Measurement into FDI Systems

Source: Adapted from International Financial Consulting (IFC) (2017)

According to the Organisation for Economic Cooperation and Development (OECD,

2010), M&E systems “allow policymakers to track results, suggest corrections or improvements during implementation, and assess success.”²⁸ This implies that measuring for results is not only important to prove performance but also to use results to improve performance where applicable. Organisations get the best results when they: a) collect easily verifiable measures linked to their theories of change, b) do so regularly at every level, and c) link data collection and analysis with learning, and action. BOA needs to adopt formal “lessons learnt” mechanisms to integrate evaluation findings into future activities and also “**put development back into development banking**” (Smallridge, 2017). Finally, key development finance stakeholders are encouraged to continue to share knowledge in order to identify all parties' needs and critical gaps as well as opportunities for greater coordination. This study is presenting an opportunity to contribute to that objective.

9.6 Future Research Direction

A number of information gleaned during the study proved beyond the scope of the study but they provide a basis for designing future research issues as follows:

- 1) Future applied quantitative studies may be designed *to identify the determinants of growth orientation among enterprises in Nigeria's local economies such that they can be targeted for holistic support with the expectation that they will create jobs for others.* The factors responsible for the growth pattern of this segment of microenterprises need to be unpacked as the findings are bound to

²⁸ OECD. (2010). Guidance for the 2011 Survey on Monitoring the Paris Declaration. OECD Publishing. See: <http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/>

contribute to filling an apparent, albeit important research gap that can lead to the development of a refined monitoring and evaluation framework for MSME Finance policy. Different models of interventions can then be designed by collaborating with a full range of stakeholders to support the identified cohort of enterprises.

- 2) Another topical research issue relates to the key finding of this present study that performance measurement is relatively under-resourced in BOA. This is in line with the observation of the World Bank that the use of robust and effective tools to monitor and evaluate DFI's activities is still at an infancy stage, partly due to the lack of international benchmarks. It is further observed that practitioners recognise the importance of developing and adopting such frameworks, but little practical guidance is available to guide efforts at existing DFIs. These observations emanated from a recent Global Symposium on Development Financial Institutions with the theme "Balancing Sustainability and Social Mandate: Development Financial Institutions in a New World" The symposium provided an avenue for various stakeholders of DFIs to share, learn as well as exchange ideas on the global trends, current and future outlook, best practices and regulations, innovations and contemporary issues surrounding the development finance ecosystem. Issues around corporate governance and monitoring and evaluation of DFIs and social standards for DFIs were high points of discussion at the forum.

Institutions encounter a great challenge knowing what and how to measure, collecting and analysing data as well as the complexity surrounding the process. These apparent gaps therefore constitute major issues for future research. There is therefore *an urgent need to assess and compare what DFIs measure, how they measure them, as well as the dynamics surrounding development performance measurement in Nigeria*. This will be towards recommending appropriate monitoring and evaluation systems and how a robust M and E should trigger changes within DFIs and result in better performance. DFIs will be able to understand from a development perspective which policies and programs work, in which context and why they do so that they can avoid spending a lot of time and resources just to find out later that better options exist for attaining their development objectives. Performance results should be used to inform current policy, so that objectives and targets could be modified if found necessary in the light of evidence of policy effectiveness.

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APPENDIX



UNIVERSITY *of the*
WESTERN CAPE



BANK OF AGRICULTURE LIMITED

1, Yakubu Gowon Way
PMB 2155
Kaduna, Nigeria.

T +234 (0) 704 020 2222

+234 (0) 704 226 2222

E info@bankofagricultureng.com

W www.bankofagricultureng.com

September 26, 2016

Mrs Olusade Taiwo,
C/o School of Government,
University of Cape Town,
Belville 7535,
South Africa.

Dear Madam,

RE: PERMISSION TO ADMINISTER QUESTIONNAIRE

Please refer to your request for access to the Bank's staff for the purpose of conducting research on Micro Credit delivery in Nigeria.

I am pleased to inform you that Bank of Agriculture is the foremost Development Finance Institution established to deliver credit to agriculture and non – agriculture micro entrepreneurs in the country.

We therefore support interest in our operations as a means of fostering scholastic development. In this regard you have been granted approval to administer questionnaires on and conduct oral interviews with BOA staff in Kaduna, Osun and Rivers States.

We expect that you will avail us of the result of your findings to enable us feedback on our operations.

Thank you.

Yours faithfully,
Pp: Bank of Agriculture Limited



Babatunde O. A. Igun
Executive Director



OFFICE OF THE DIRECTOR: RESEARCH AND INNOVATION DIVISION

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26 April 2017

Ms O Taiwo

School of Government

Faculty of Economic and Management Sciences

Ethics Reference Number: HS17/3/36

Project Title: Evaluation of the impact of micro, small and medium enterprises finance policy on job creation in Nigeria

Approval Period: 24 April 2017 – 24 April 2018

I hereby certify that the Humanities and Social Science Research Ethics Committee of the University of the Western Cape approved the methodology and ethics of the above mentioned research project.

Any amendments, extension or other modifications to the protocol must be submitted to the Ethics Committee for approval. Please remember to submit a progress report in good time for annual renewal.

The Committee must be informed of any serious adverse event and/or termination of the study.

Ms Patricia Josias

Research Ethics Committee Officer

University of the Western Cape



PROVISIONAL REC NUMBER - 130416-049



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CONSENT FORM

RESEARCH TITLE: Evaluation of the Impact of Micro, Small and Medium Enterprises Finance Policy on Job Creation in Nigeria: Case of Bank of Agriculture

I have read the information presented in the information sheet about a study being conducted by Olusade Taiwo, (Student Number 3616787), towards the Doctoral Programme at the School of Government, University of the Western Cape.

This study has been described to me in a language I understand and I freely and voluntarily agree to participate. My questions about the study have been answered.

I understand that my identity will not be disclosed and I was informed that I may withdraw my consent anytime by advising the student researcher.

With full knowledge of all these conditions, I agree to participate in the research.

Participant's Name:

Participant's Signature:

Date:

Location of Interview:

Student Researcher's Name: Olusade Taiwo

Student Researcher's Signature:;

Phone Number: +234 8033023282

Email Address: olusadet@yahoo.com

I am accountable to my Supervisor: Prof. I Ile
School of Government
Telephone: +27 21 959 3829
Email: iile@uwc.ac.za

Private Bag x17, Bellville 7535, South Africa
T: +27 21 959 3803/5

A place of quality,
a place to grow, from hope
to action through knowledge

F: +27 21 959 3849



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WESTERN CAPE

PARTICIPATION INFORMATION SHEET

RESEARCH TITLE: Evaluation of the Impact of Micro, Small and Medium Enterprises Finance Policy on Job Creation in Nigeria:

Case of Bank of Agriculture.

Dear Participant,

You are invited to participate in a research study conducted by Olusade Taiwo, Student Number 3616787. It is in partial completion of the researcher's thesis towards the PHD Degree at the School of Government, at the University of the Western Cape.

Before you decide to participate, it is important for you to understand the purpose of the research and what it would entail. Please take time to read the following information carefully and discuss it with others if you wish. If you are unclear of anything, I would be happy to answer any questions you may have.

PURPOSE OF THE STUDY

The purpose of this research is to evaluate the impact of BOA services in relation to the achievement of the fundamental objective of employment generation as contained in the MSME Policy in Nigeria.

DESCRIPTION OF STUDY AND YOUR INVOLVEMENT

The study will interview different stakeholders such as BOA clients, other enterprise owners, BOA officials, financial institutions, policy makers and trade associations etc. As a stakeholder, your views will be sought on the factors that contribute to job creation by MSMEs in local economic development and the role of BOA in this regard.

CONFIDENTIALITY

Please be advised that the results of the study will neither divulge the organisation's particulars nor the individual particulars, as to maintain confidentiality at all times. Any information that can connect the responses to an individual or organisation will

remain confidential and will be disclosed only with your permission. The researcher shall keep all records and tapes of your participation, including a signed consent form which is required from you should you agree to participate in this research study, and locked away at all times.

VOLUNTARY PARTICIPATION AND WITHDRAWAL

Your participation in this research is entirely voluntary, which means that you are free to decline from participation. It is your decision whether or not to take part. If you volunteer to be in this study, you may withdraw at any time without consequences of any kind. If you decide to participate in the study, you are free to withdraw at any time – and without giving a reason. You may also choose not to answer particular questions that are asked in the study. If there is anything that you would prefer not to discuss, please feel free to say so.

PAYMENT FOR PARTICIPATION

There are no costs to the participant for partaking in the study.

INFORMED CONSENT

Your signed consent to participate in this research study is required before I proceed to interview you. I have included the consent form with this information sheet so that you will be able to review the consent form and then decide whether you would like to participate in this study or not.

QUESTIONS

Should you have further questions or wish to know more, I can be contacted as follows:

Student Name : Olusade Taiwo
Student Number : 3616787
Mobile Number : +234 803 302 3282
Work Number : -
Email : olusadet@yahoo.com

I am accountable to my Supervisor:

Prof. I Ile
School of Government (SOG) :
Telephone : +27 21 959 3829
Fax : +27 21 959 3849
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RESEARCH QUESTIONNAIRE

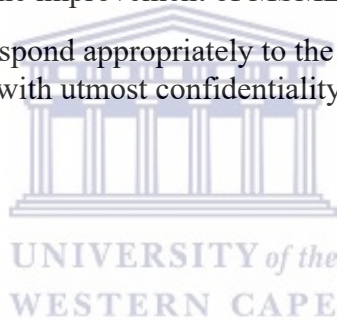
Department of Economic and Management Sciences,
University of the Western Cape South
Africa.
2016

Dear Respondent,

This questionnaire forms part of a Doctoral research thesis aimed at evaluating the contribution of BOA microloan intervention to job creation, identifying the factors responsible for findings and making recommendations for the improvement of MSME financing policy in Nigeria.

I would be grateful if you kindly respond appropriately to the questions and I want to assure you that your responses will be treated with utmost confidentiality.

Thank you for your cooperation.



SECTION I: To be filled by the interviewer.

Questionnaire number-----

Interviewer Number-----

Name of Respondent (optional).....

Name of Establishment:

Location Address:

.....

Town: State: LGA:

Telephone No.: e-mail:

SECTION II: BIO-DATA OF RESPONDENT

1. Sex

Male () Female ()

2. Age

15-25 years () 26-35 years () 36-45 years () 46-60 years () Over 60 years ()

3. Marital status

Single () Married () Separated/Divorced () Widowed ()

4. How many dependants do you have? _____

5. Educational Status

No formal () Primary () Secondary () Vocational/technical () Tertiary () Adult Lit. ()

6. (a) Have you ever undertaken any form of Training or Enlightenment Programme?

Yes () No ()

b) If Yes, specify type of training and organization responsible

Type/Agency Responsible	Government	NGO/International Organisation	Cooperative/Group	Religious Organization
Adult Literacy				
Business Management				
Bookkeeping/Financial Literacy				
Civic Education				
Other (specify)				

7. Do you belong to any social network or group?

Yes () No ()

8. a) How do you feel being your own boss (oga)?

Very happy () Happy () Indifferent (“So so”) () Not too Happy () Not happy at all ()

b) Would you have preferred getting a paid job or working in an establishment?

Yes () No ()

c) If Yes, why? Low business () No capital for business () Irregular income () Other, specify ()

SECTION III: CHARACTERISTICS OF BUSINESS

9. **Year of Business Establishment.** _____

10. **What is the status of your business?**

Sole proprietorship () Partnership () Family owned business ()

Cooperative () Registered enterprise/company () Others ()

11. **a) Is this business registered with any organisation?**

Yes () No () Registration in progress ()

b) If yes where is it registered?

CAC () Cooperative () State Ministry () Local Government () Other (specify) -----

c) **Year of registration.** _____

12. **If no, what are your reasons for not registering?**

Not aware of any requirement to register () Not sure where to register ()

Do not have time to register () To avoid dealing with government officials ()

To avoid paying taxes () Too small in size to register ()

To reduce running costs ()

13. **Sector of activity**

Agriculture, forestry and fishing () Wholesale/Retail Trade () Manufacturing ()

Transportation and storage () Accommodation and food services ()

) Other (Specify) _____

14. **Where do you mainly operate this business from?**

Home () Factory () Market () Shop () Roadside () Rented office ()

Farm () Mobile/ No fixed Location () Others (specify) _____

15. **What was your average monthly income in the five years below?**

YEAR	Monthly Income
2011	
2012	
2013	
2014	
2015	

16. **How does this business maintain its accounting records?**

Formal account keeping () Simple record keeping for personal use () No written records kept () Other specify ()

17. **Do you have a bank account?**

a) in your name? Yes () No () b) in the name of the business? Yes () No ()

18. **Which of the following means of payment do you use for your business transactions?**

Cash () Cheque () Point of Sale Terminals () Internet banking () Others (Specify)_____

19. **Do you hold another job/business apart from running this business?** Yes () No ()

20. **If yes, who is your other employer?**

Government () Formal Company () Informal job ()
NGO () Religious Organization () Self Employed () Others
(specify)_____

21. **Do you hire employees in your business?** Yes () No ()

22. **If no why not?** Not enough sales () Not Necessary () High labour cost ()

Can't get labour () Scarcity of skilled labour () Other _____

23. **What type of employment contract do you have with your employees?** Written contract () Verbal agreement () No contract ()

24. **Do you give your staff any of the following employment benefits?**

Pension Yes () No () Paid leave Yes () No ()
Sick leave Yes () No () Maternity leave Yes () No ()
Casual leave Yes () No () Leave without pay Yes () No () Overtime allowance Yes () No ()

25. **What are your reasons for engaging in this business? (tick as many as possible)**

Reasons	Very strong motivation	Strong motivation	Indifferent	Weak motivation	Very weak motivation
As a hobby					
Family tradition					
Just for survival					
I want to be my own boss					
For a source of good income					

It is a profitable business					
Ready market to satisfy demand					
Not costly to start or operate					
Convenient for my condition (e.g. age, gender, location- specify)					
Available Government support					
Existing infrastructure e.g. electricity, roads etc					
Finance is available for the type of business					
Compulsory disengagement from former work					
To generate income for old age					

26. What is your opinion on the following factors as they affect formalizing your business?

Factors	Very Excessive	Excessive	Moderate	Low	Very Low
Taxes					
Gov. regulations on minimum wage					
Gov. regulation on business registration					
Commercial bank terms					
Bribery and corruption					

27. How do the following social and economic factors affect the operation of your business?

	Very positive	Positive	Indifferent	Negative	Very Negative
Importation policy					
Commercial banks					

Interest rate					
Electricity					
Security and crime					
Political environment					
Culture and tradition					
Cashless policy					

SECTION IV: SIZE OF MSME ECONOMY

28. What are the categories of employees employed by your business in the past?

Year/Employment Status	Full-time paid workers	Part-time paid workers	Casual labourers	Unpaid /family
2011				
2012				
2013				
2014				
2015				

29. What is the present worth of capital invested in this business? (N)

Less than 100,000 () 100,001-1m () 1-5m () N5m-10m () Above 10m ()

30. What is the impact of your business in the following areas in the last one years?

	Very impact	High	High	Unstable impact	Low impact	No impact
Personal Income						
Job creation						
Poverty reduction						
Supply of essential goods and services in your community						

Family welfare					
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SECTION V: CONTRIBUTION OF BOA INTERVENTION

31. Have you ever taken any loan to run your business? Yes () No ()

32. Which of the following is the source of finance for your business in the last 5 years?

Source	No of times	Interest Rate	Purpose
Commercial Bank			
Microfinance Bank (BOA)			
Bank of Agriculture			
Informal Saving(Ajo,Susu, Adashe)			
Cooperative/Association			
Local Money Lender			
Friend/Relative			
Remittance from Abroad			
Government Programme (Specify)			
NGO/International organisation (specify)			
Other specify			

33. Did you ever apply for BOA loan and you were turned down Yes () No ()

34. If yes to Q33, why were you turned down?

Poor documentation () No/unacceptable collateral () Amount requested too large () No explanation given () Other (specify) _____

35. If No to Q33 why have you not applied for BOA loan

Don't know about it () Don't like the Bank () Poor attitude of staff () Other ()

36. If you received finance from BOA provide the following information

Year collected	Type of Product e.g GEM	Amount collected	Repayment Completed?Y or N	Interest Rate charged	Purpose

Key: Purposes for which loan was used

1. Purchase of agricultural inputs

2.Purchase of raw materials
3.To buy more inventory/ supply to sell
4.To increase operating size of the business
5.To employ more workers
6. For personal use
7. Other

37. If you were not able to pay back when due, why not?

Low business () Lack of electricity to work () Ill health () High production costs ()
 Domestic expenses () Others () (specify)

38. What do you like about the BOA terms and services ? Low interest rate () Moratorium ()
 grace period () Attitude of staff () Possibility of loan graduation () Business support () Others,
 specify ()

39. What don't you like about the BOA terms? Interest rate () Moratorium period () Attitude of
 staff () Other _____

40. What is the impact of BOA loan on your business in the following areas?

	High impact	Average impact	Low impact	No impact	Negative impact
Business Turnover					
Profit					
Job creation					
Poverty reduction					
Production level of goods and Services					
Other					

41. a) Do you think BOA is making a meaningful impact in your community Yes () No ()

b) What impact? _____

42. How can businesses like your own be encouraged to improve and create more jobs in your community? _____

Thank you for your time.

KII and FGD Interview Guide for Enterprise Group Leaders and Community Members

Topic: Evaluation of the Impact of Micro, Small and Medium Enterprises Finance Policy on Job Creation in Nigeria: Case of Bank of Agriculture.

1. Do you experience unemployment in your community? Which category of people?
2. What are the causes of unemployment in your community?
3. How can we reduce unemployment?
4. Do small businesses have the capacity to reduce employment, which businesses and how can they do so?
5. What constraints do small businesses face in growing their businesses to create jobs?
6. What can be done to address these constraints?
7. How do you view BOA activities in your community? Are there other options for microfinance services here? How do you compare them to each other?
8. Is BOA playing the role for which it was established effectively and contributing to employment generation and local economic development?
9. Suggest ways of improving the access of local businesses to credit and other financial services in your community.
10. Knowing the peculiarity of your locality what can be done to make it a buoyant economy that can generate employment?

Thank you

KII Guide for BOA Officials

Topic: Evaluation of the Impact of Micro, Small and Medium Enterprises Finance Policy on Job Creation in Nigeria: Case of Bank of Agriculture.

1. Are you aware of the MSME Policy goal and associated interventions?
2. Is the policy coherent, with measurable targets and appropriate M and E framework? How does your Bank fit into this policy agenda? What other frameworks are you guide your operation?

3. What is the profile of MSMEs in the community of your operation? Which are the fast growing businesses and why? Are they your clients?
4. What are the constraints of MSMEs here?
5. How is your bank addressing some of these constraints and what are your challenges in addressing them?
6. What is the role of development finance institutions such as BOA in the addressing some of these constraints?
7. Do you think BOA has the capacity to facilitate MSMEs to grow? Explain in detail.
8. How can we measure progress towards the attainment of the fundamental objective of job creation in your operations?
9. Do you have an M and E Framework? Is it used regularly? What challenges do you face using it? Can it capture progress towards the attainment of your objectives?
10. How can your activities be improved to enhance the growth of enterprises and contribute to the development of this community?

Each question will be probed in detail

Thank you

**KII Interview Guide for MSME Policy Makers and Programme Implementers Topic:
Evaluation of the Impact of Micro, Small and Medium Enterprises Finance Policy on Job
Creation in Nigeria: Case of Bank of Agriculture.**



1. Do you know the MSME Policy and associated interventions?
2. Do you know that it has job creation as a fundamental objective?
3. Is the policy coherent, with measurable targets and appropriate M and E framework?
4. What is the profile of MSMEs in Nigeria?
5. What are the constraints of MSMEs in Nigeria?
6. Are the strategies adopted for addressing the financial constraints of MSMEs adequate to capture these constraints?
7. How can MSMEs be assisted to create jobs in Nigeria?
8. Who are the stakeholders in MSME development and what are their roles in job creation.
9. How can we ensure that stakeholders are playing their roles effectively?
10. What is the role of development finance institutions such as BOA in the development of MSMEs?
10. Do you think BOA has the capacity to facilitate MSMEs to grow? Explain in detail.

11. How can we measure progress towards the attainment of the fundamental objective of job creation in development finance institutions.

