Stolen Dreams: How Corruption Negates Government Assistance to Nigeria’s Small Businesses

Matthew T. Page and Celestine Okeke
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<table>
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<th>Acronym</th>
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<tr>
<td>ACGS</td>
<td>Agricultural Credit Guarantee Scheme</td>
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<td>APC</td>
<td>All Progressives Congress</td>
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<td>BCDA</td>
<td>Border Communities Development Agency</td>
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<td>BOA</td>
<td>Bank of Agriculture</td>
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<td>BOI</td>
<td>Bank of Industry</td>
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<td>CBI</td>
<td>Cassava Bread Initiative</td>
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<td>CBN</td>
<td>Central Bank of Nigeria</td>
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<td>DBN</td>
<td>Development Bank of Nigeria</td>
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<td>DFRRI</td>
<td>Directorate of Food, Roads, and Rural Infrastructure</td>
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<td>DSBD</td>
<td>Department of Small Business Development (South Africa)</td>
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<td>FCT</td>
<td>Federal Capital Territory</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>ITF</td>
<td>Industrial Training Fund</td>
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<td>LCCI</td>
<td>Lagos Chamber of Commerce and Industry</td>
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<td>LSETF</td>
<td>Lagos State Employment Trust Fund</td>
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<td>MSME</td>
<td>Micro, small, and medium-sized enterprises</td>
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<td>MSMEDF</td>
<td>MSME Development Fund</td>
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<td>N</td>
<td>Nigerian naira</td>
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<td>NASME</td>
<td>Nigerian Association of Small and Medium Enterprises</td>
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<td>NASSI</td>
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<td>NDE</td>
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<td>NEPC</td>
<td>Nigerian Export Promotion Council</td>
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<td>OFN</td>
<td>Operation Feed the Nation</td>
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<td>OSSAP-SDGs</td>
<td>Office of the Senior Special Assistant to the President on Sustainable Development Goals</td>
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<td>PIC</td>
<td>Presidential Initiative on Cassava</td>
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<td>R</td>
<td>South African rand</td>
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<td>SEDA</td>
<td>Small Enterprise Development Agency (South Africa)</td>
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<td>SEFA</td>
<td>Small Enterprise Finance Agency (South Africa)</td>
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<td>SMEDAN</td>
<td>Small and Medium Enterprises Development Agency of Nigeria</td>
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<td>SMEEIS</td>
<td>Small and Medium Enterprises Equity Investment Scheme</td>
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<td>SSG</td>
<td>Secretary to the state government</td>
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Summary

Nigeria is known globally as a petro-economy, but in reality it is a country of small business people. These entrepreneurs, whether informal traders, cottage industry workers, and smallholder farmers, collectively power Africa’s largest economy. Operating in one of the world’s most difficult business environments, these micro, small, and medium-sized enterprises (MSMEs) face many challenges. Foremost among these is corruption in its many forms. There is an especially damaging but little-studied facet of this threat to Nigeria’s long-term development: corruption involving government agencies and programs created to help MSMEs. Such corruption has become routine and widespread, and it has toxic effects on Africa’s largest economy and most strategically important nation. Left unchecked, this financial malfeasance will undermine the resilience and long-term prospects of Nigeria’s MSMEs.

The Corrosive of Effects of Corruption on Nigeria’s MSME Sector

- Corruption is endemic within Nigerian government agencies meant to help MSMEs. Relative to their high cost, these agencies’ programs appear to help very few actual small business people. Instead, they are set up to fail—eroding trust in government and functioning as conduits for embezzlement, contract fraud, deliberate waste, and the distribution of political patronage.

- Exacerbated by mismanagement and broader policy failures, this form of corruption has disproportionately high multiplier effects. It stymies economic diversification and inflicts lasting damage and opportunity costs on a sector that employs 84 percent of Nigerian workers and contributes roughly 50 percent to Nigeria’s gross domestic product (GDP).

- Though difficult to calculate, MSME-related corruption has likely siphoned over $1 billion from Nigerian state coffers between 2014 and 2018. This exceeds Nigeria’s capital expenditure on health and education combined over the same period.

- Expansive and complicated, MSME-related corruption rarely grabs headlines, making it an attractive target for Nigeria’s resourceful kleptocrats. Civil servants, unscrupulous business people, legislators, and even some presidential appointees appear to be complicit. Officials routinely obfuscate and stonewall journalists and civil society groups when asked about these programs. Anticorruption agencies, meanwhile, have shown little interest in investigating this increasingly prevalent form of corruption.

- MSME-related corruption in Nigeria is much more institutionalized than in South Africa, where similar government programs are more transparent, better audited, and subjected to
stronger legislative oversight. Comparative analysis of South African MSME assistance programs suggests that their corruption risks will continue to grow as government allocates more funding toward them.

**Policy Implications and Feasible Pathways to Reform**

- Nigerian officials use populist, private-sector friendly rhetoric to justify new MSME assistance programs even though they are a drain on public finances because corruption and mismanagement negates their intended impact. These programs and the agencies that oversee them must be made more transparent and accountable if they are to be made fit for purpose and cost effective.

- The destructive effects of corruption limit how much the MSME sector can contribute to Nigeria’s socioeconomic development. Unless the government reforms its programs, the future potential of small businesses to boost GDP, soak up unemployed youth, generate tax revenue, and stabilize postconflict areas will remain limited. Many of these reforms will not only require presidential and ministerial leadership, but carefully crafted legislative remedies as well.

- In many ways, MSME-related corruption adds insult to injury. The Nigerian government has been unwilling to tackle obvious problems like multiple taxation, retail corruption, antiquated land tenure laws, overregulation, or the country’s decaying power and transportation infrastructure. Instead of giving even larger sums to corruption-prone palliative agencies, the government should undertake preventative regulatory fixes that make it easier for struggling businesses to stay afloat.

- This type of corruption undermines small business’s trust in government and sows enmity between borrowers and lenders, making public-private assistance programs less successful with each iteration. Nigerian government agencies need to open up and more closely involve the organized private sector in the planning and implementation of MSME-focused programs. International partners could play a role in facilitating this closer cooperation.

- Barring root-and-branch reform, Nigeria’s MSME-focused agencies and programs almost certainly will continue to operate as corruption mechanisms that provide few, if any, benefits to tens of millions of struggling entrepreneurs. It could therefore be argued that such entities are doing more harm than good and should be eliminated altogether in favor of an entirely private-sector-led approach.
Introduction

Nigeria is known globally as a petro-economy but, in reality, it is a country of small business people. These entrepreneurs, including informal traders, cottage industry workers, and smallholder farmers, collectively power Africa’s largest economy. Operating in one of the world’s most difficult business environments, these micro, small, and medium-sized enterprises (MSMEs) face many challenges. Foremost among these is corruption in its many different forms. On track to be the world’s third-most populous country by 2050, Nigeria will need to rein in this corruption so its MSME sector can play a greater role in powering its economy and providing the needed jobs for its rapidly growing population. Although Nigerian MSMEs face many challenges—high borrowing costs, multiple taxation, currency volatility, insufficient electrical power, poor roads, unfair land tenure laws, crime and insecurity, among others—experts and small business people themselves consistently rank corruption among the most important. Critical to Nigeria’s long-term development, MSMEs could become a major source of growth in the country’s gross domestic product (GDP), non-oil government revenues, and youth employment if unencumbered by the damaging effects of corruption.

The effects of corruption on MSMEs cannot be ignored because such enterprises are vital to Nigeria’s economy. According to a comprehensive 2013 nationwide survey, MSMEs accounted for almost 50 percent of Nigeria’s GDP and employed 84 percent of the country’s labor force—roughly 60 million Nigerians. They also represent an important engine of economic diversification for Nigeria’s oil-dependent economy, helping insulate the country from price shocks. Likewise, their potential as a source of tax revenue remains mostly untapped; MSMEs accounted for a decreasing share—just 7 percent—of all federal tax revenue collected between 2015 and 2018. Beyond macroeconomics, small businesses are an important means of gender empowerment and socioeconomic advancement in a country that—with nearly 87 million extremely poor—was recently ranked the poverty capital of the world.

MSMEs are an important focus of Nigeria’s political narrative too. Successive Nigerian governments have invoked their development as a justification for perpetuating statist import substitution policies and costly but ineffective economic diversification and employment generation initiatives. Dating back to the late 1970s, these programs failed to offset the toxic effects of prolonged kleptocratic rule, economic mismanagement, and fiscal volatility during the Ibrahim Babangida (1985–1993) and Sani Abacha regimes (who subsequently ruled from 1985 to 1998).

Ahead of Nigeria’s 2019 presidential elections, several candidates promised increased funding and new initiatives to help MSMEs. President Muhammadu Buhari rolled out Trader Moni—a nationwide social investment program providing collateral-free microloans to informal traders—
alongside his reelection campaign. Buhari has also proposed creating two new government-run banks—the People Moni Bank and the Entrepreneur Bank—despite the poor track record of other state-run banks. He also promised to build light industrial centers in each of Nigeria’s 109 senatorial districts. Perhaps overly ambitious, it is unclear what these centers would produce, how commercially viable they would be, and what would prevent them from becoming yet another white elephant scheme.

The opposition frontrunner, former vice president Atiku Abubakar, made similarly ambitious promises about MSME financing, vowing to create a National Research and Innovation Fund to disburse grants and loans to “at least 100,000 budding entrepreneurs annually.” He also promised to set up a $250 million, privately funded MSME Venture Capital Fund and a Financial Innovation Fund designed to incentivize commercial bank lending to small-scale entrepreneurs. Dark horse presidential candidate Kingsley Moghalu—a former deputy central bank governor—likewise mooted an MSME innovation fund holding $2.75 billion, or 1 trillion Nigerian naira (N). The 2019 candidates’ focus on MSME development was as much a sign of the universal political popularity of the issue as it was a recognition of the sector’s economic importance. Nigerian politicians have nothing to lose by promising more money to help MSMEs, fund ill-defined youth empowerment programs, or provide small, direct cash transfers to Nigeria’s millions of market traders and smallholder farmers. Public reactions to politicians’ rhetoric and field interviews indicate that Nigerians believe some benefits from government MSME programs trickle down to the grass roots—even if they are flawed, corruption prone, or rolled out “just to score political points,” as one expert commented.

MSME-related corruption is an important but often underrecognized drain on Africa’s largest economy. Several government and private sector stakeholders are involved in it and their activities raise many corruption red flags at both the state- and national level. The situation contrasts with conditions in South Africa—the continent’s second-largest economy—where corruption involving MSME government programs is a salient issue, but not as ubiquitous as in Nigeria.

For Nigeria, there are four mutually reinforcing pathways to reform that could help reduce the strategic corruption challenges facing MSMEs: requiring more transparency and accountability, pushing for legislative reforms, demanding regulatory fixes, and embracing the organized private sector. Absent such reforms, are Nigerian government MSME programs actually doing more harm than good?

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* Unless otherwise noted, all currency equivalencies are calculated by the March 2019 parallel market rate of $1 = 360 naira.
Why MSME-Related Corruption Matters

In Nigeria—like any country—corruption affects MSMEs in two crosscutting and interacting ways. These corruption vectors are not dichotomous; rather they blend together, overlap, and reinforce each other.

First, there is retail-level (bottom-up) corruption: a shifting set of obstacles that MSMEs struggle to navigate on a day-to-day basis. These include shakedowns by licensing and permitting officials, extortion by safety inspectors, predatory taxation, as well as racketeering police, customs officers, and local gang members known as area boys. This everyday, retail-level corruption significantly raises costs and interrupts business operations, cutting into MSMEs’ already thin margins. It is also one of the main reasons why many of Nigeria’s small business people struggle to get by, thereby justifying an expansion in the government agencies and assistance programs targeting them.

Second, MSMEs are impacted by strategic-level (top-down) corruption. Essentially a form of bureaucratic corruption, it distorts the outcomes of Nigerian government programs to assist MSMEs, channeling their benefits to corrupt officials and their accomplices instead. As corruption undermines the effectiveness and impact of MSME programs, such programs become more

![Figure 1: Recent Corruption-Prone Nigerian Government MSME Spending]

**TOTAL: N206 billion ($701.8 million)**

- **Central Bank of Nigeria MSMEDF Program (2014-2015)**
  - N39 billion ($236.4 million)
  - (in early 2016 dollars)

- **MSME-Related Constituency Project Spending (2016-2018)**
  - N156 billion ($433.3 million)

- **Cassava Breeding Initiative Spending (2012-2018)**
  - N10 billion ($27.8 million)

- **NDE Programs (2011-2015)**
  - N1.53 billion ($4.3 million)

**Source:** SMEDAN constituency project budget data via Tracka.ng; State of Governments Financing and Support of MSMEs for Economic Growth and Job Creation (Abuja: SEEDi, 2017).
necessary to fill the gaps. Politicians thus find it easier to justify new programs and, in turn, small business people grow more distrustful of government. “[My members] don’t know where the money goes,” averred a business association leader, claiming that there is “so much motion, but no movement” by government.\textsuperscript{15}

Top-down corruption does not simply incur opportunity costs by diverting funds that could have been used to help develop Nigeria’s economically vital MSME sector. It also has significant, long-term multiplier effects through missing tax revenue and lost employment opportunities. Nigeria—where the unemployment rate increased 5 percent last year to hit 23 percent—desperately needs the jobs that a thriving MSME sector could provide.\textsuperscript{16} This unemployment enables violent extremism, and it fuels outmigration and rural-to-urban migration that compounds the socioeconomic challenges in Nigeria’s sprawling, unplanned cities.

Likewise, MSMEs are more resilient and better able to resume operating in areas like Borno State in northeastern Nigeria that are struggling to stabilize and rebuild after years of conflict and humanitarian crisis. Across Nigeria, MSMEs offer youth in conflict-prone areas a constructive alternative to life as a violence entrepreneur. By capturing programs meant to help MSMEs, kleptocrats are indirectly aggravating conditions across Nigeria’s many conflict zones.

There has been some previous research on MSME-related corruption in both Nigeria and other developing countries. Recent scholarship provides useful comparative case studies of how such corruption impacts small businesses in neighboring Cameroon and nearby Ghana and Sierra Leone.\textsuperscript{17} The bulk of this literature focuses on retail-level corruption or discusses the strategic challenges corruption poses to MSME sector development writ large. This scholarship, along with reports by the International Finance Corporation, United Nations Industrial Development Organization, and the Organization for Economic Cooperation and Development, all suggest that excessive red tape and bureaucratic corruption pose an even greater threat to MSMEs than access to affordable finance.

There is a competing vein of literature, however, arguing that retail corruption can facilitate (“grease”), rather than frustrate (“throw sand into the wheels”), commerce by helping MSMEs overcome burdensome bureaucratic processes.\textsuperscript{18} Seeking to test this theory, a recent study of 2,000 MSMEs in the Philippines found that bribery had a positive impact on the performance of some small firms, especially those disproportionately weighed down by red tape.\textsuperscript{19} Many MSMEs view complicity in retail corruption as a short term survival tactic—even if it is risky and unsustainable over the long term.
Nigerian Government MSME Programs: A Primer

Nigerian government programs meant to help MSMEs are not new. The first major program (which ran from 1976 to 1980)—Operation Feed the Nation (OFN), championed by the military government of Olusegun Obasanjo—sought to jump-start smallholder farming to reduce costly food imports. Nigerians quickly realized the program was merely a propaganda campaign and did little to raise food production. Critics mocked the program, saying OFN stood for “Obasanjo Finish Naira.” Obasanjo’s civilian successor, Shehu Shagari (in office from 1979 to 1983), championed a similar program—the Green Revolution. Yet the Shagari government’s rhetoric belied its actual policy: food imports rose sharply as it relaxed bans, driving down prices for local farmers and enriching political and business elites.

Babangida, another general who led the government (from 1985 to 1993), created the People’s Bank of Nigeria—aimed at small, informal business operators—and the Directorate of Food, Roads, and Rural Infrastructure (DFRRI), a broader poverty alleviation program that included an MSME component. Hampered by corruption, bureaucratic infighting, and incoherent planning, DFRRI developed a reputation for poorly executing projects and failing to maintain them. Presaging modern day critiques of Nigerian government assistance programs, one scholar at the time observed that “media propaganda, without concrete facts on the ground, cannot give [DFRRI] the credibility it desperately needs.” Like those of today, past government programs were often more about burnishing politicians’ public image and lining their own pockets than providing tangible and cost-effective help to struggling Nigerians.

Fast forward to today and Nigerian government programs meant to help small businesses now involve an alphabet soup of different ministries, agencies, and other entities. Some of the most important are discussed below.

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)

Established to provide training and advice to small businesses, SMEDAN has been largely ineffective in that role but has thrived as a conduit for political patronage. Leveraging its broad, twenty-three-point mandate as well as the agency’s politically connected leadership and sizable budget, federal legislators use SMEDAN to steer high-dollar contracts to their constituencies. According to what data are available, the agency spent N10.056 billion ($55.8 million in 2015 dollars) between 2011 and 2015, mostly on more than 500 “capacity building” training sessions for MSMEs. Eighty percent of this expenditure took the form of funds allocated to SMEDAN by lawmakers for constituency projects—akin to pork barrel spending in the United States.
SMEDAN lacks basic transparency; its opaque budgetary and procurement practices constitute a significant red flag, heightening corruption risks to its activities. In an apparent effort to obfuscate its risky conduct, the agency has repeatedly refused to provide detailed information about its programs and expenditures in response to Freedom of Information Act requests by civil society groups. SMEDAN appears to be unwilling—or unable—to provide data on the individuals it has trained, how they have used the training, or whether the same beneficiaries are being nominated for the same training year after year. Nor does SMEDAN review and approve the training materials used by the consultants it hires. As a result, many trade associations are wary of “diving into anything” involving SMEDAN, seeing it as incompetent, ineffective, and untrustworthy.

SMEDAN also has a reputation as a cash cow because of the political pedigree of its leadership and the high-dollar contracts it doles out. Successive presidents have appointed ladder-climbing loyalists—rather than technocrats with specialized experience—to oversee the agency. Even as prominent MSME trade associations struggle to access agency management, SMEDAN bosses readily entertain requests for favors from political associates, steering resources to places where it benefits them and their political allies.

SMEDAN’s last three directors general fit into this mold:

- **Dikko Umaru Radda (2016–present).** Prior to his appointment, Radda was chief of staff to Governor Aminu Bello Masari of Katsina—President Buhari’s home state. He also served for a year on the ruling All Progressives Congress (APC) party’s governing body. Charismatic and well educated, Radda is almost certainly preparing to run for governor in 2023, leveraging his position to “build his campaign structure and address his political needs,” according to one anticorruption expert. His political connections extend beyond the ruling party and to another Katsina political dynasty: his sister married—and later divorced—former president Umaru Musa Yar’Adua. In line with his political ambitions, Radda is keen to improve his agency’s reputation. According to the head of one national business association, Radda is more dynamic than his predecessors and his tenure “is the first time SMEDAN is really doing something for [our] members.”

- **Bature Umar Masari (2013–2016).** The nephew of Aminu Bello Masari, Umar Masari was charged with mismanagement of public funds and bribery in 2018. According to prosecutors, he collected N119.8 million (about $333,000) in bribes from contractors handling constituency projects for himself and on behalf of four legislators. During his tenure, SMEDAN ramped up its collusion with legislators while at the same time becoming less engaged with trade associations representing MSMEs.

- **Muhammad Nadada Umar (2008–2013).** Nadada Umar is a seasoned politician who served as secretary to the state government (SSG) in Bauchi State between 1999 and 2008 under then governor Adamu Mu’azu. Reprising his previous role, Nadada was appointed SSG
again in 2017. A powerful position, the SSG runs the day-to-day affairs of a state
government, coordinating its activities on behalf of the governor. Backed by Mu’azu,
Nadada ran for governor in 2007 but lost. As a consolation prize, he was appointed to lead
SMEDAN.

The Central Bank of Nigeria (CBN)

Over the last decade or so, the CBN has rolled out several programs totaling roughly N2 trillion
($5.56 billion) in loans and grants for MSMEs. In most of these interventions, the CBN lends the
funds to the Bank of Industry (BOI) or other government-run development finance institutions,
which, in turn, lend to commercial banks. From these, individual businesses are then expected to
borrow money at single-digit interest rates (usually 9 percent). In only one case—the Women’s
Intervention Fund—did the CBN bypass commercial banks and lend directly to women-owned
businesses.

The CBN’s flagship program was the N28 billion ($193.1 million in 2009 dollars) Small and
Medium Enterprises Equity Investment Scheme (SMEEIS), which ran from 1999 to 2009.33
Stymied by mismanagement and corruption, SMEEIS did not do much to help small businesses and
was instead used to fund larger enterprises like the Tinapa Conference Center and Resort in Calabar,
a now derelict white elephant project.34

Another such intervention—the Agricultural Credit Guarantee Scheme Fund, or ACGSF—was
supposed to help large- and small-scale commercial farmers jump-start their businesses. The CBN
claimed in 2017 that it had disbursed N473 billion ($1.31 billion) under the scheme.35 Most
farmers, however, found the program poorly designed, badly implemented, and difficult—if not
impossible—to access. For example, only one out of the 190 members of the Lagos State Chamber
of Commerce’s farmers group who applied for a loan eventually received it.36

Instead, farmers claim that the ACGSF was hijacked by “political farmers”: politically connected
individuals often acting on behalf of politicians and civil servants.37 Such pseudo-farmers operate
“briefcase farms”: farms that exist only on paper. Using their political connections, they are able to
obtain the certificates of occupancy—land titles only state governors can bestow—needed to qualify
for the ACGSF. Once obtained, the briefcase farmer is free to abscond with the funds or invest them
in some other way. As a result, not only did the ACGSF allow for massive fraud, but it compounded
that corruption by doing very little to help genuine smallholder farmers.

Experts agree that SMEEIS, the ACGSF, and subsequent big budget CBN programs have been
largely wasteful, corruption prone, and—most importantly—unsuccessful in tangibly developing
Nigeria’s struggling MSME sector. Hamstrung by mismanagement and corruption, these programs
were inordinately difficult for genuine MSMEs to access, according to two chamber of commerce representatives.\textsuperscript{38} One large MSME trade association could not recall any instance when one of its members had successfully accessed financing via a CBN-sponsored program.\textsuperscript{39}

CBN programs are ineffective, according to MSME sector stakeholders, because the central bank is often “in a rush” to disburse its funds to the commercial banks, development finance institutions, and state governments it uses as intermediaries, and “not bothered about” how well its programs are governed or what actual impact they have. Those stakeholders described the CBN as “tone deaf” and loathe to consult with MSME stakeholders and participating institutions when designing and implementing its programs.\textsuperscript{40}

Unwilling to internalize lessons learned from previous interventions, the CBN often repeats past errors and re-creates already identified barriers to success. The bank also does not make an effort to assess the impact of its programs relative to their high cost and low uptake rates. As one Nigeria-based international development expert lamented, CBN programmatic guidelines tend to get “more complicated, less implementable, less clear, released in a less timely manner with each iteration.”\textsuperscript{41}

Among these unscrutinized costs are each program’s administrative overheads—typically 10 percent of the value of the fund. This is on top of the 3 percent interest the CBN charges financial institutions that participate as intermediary lenders for its programs. Exceedingly generous (N22 billion, which is about $61.1 million—10 percent of the MSME Development Fund—for example), these monies are supposed to cover the central bank’s management expenses and pay for outreach and capacity building among sector stakeholders.

Yet these administrative and program development funds are invariably spent rapidly and opaquely, often before loans are even made from the program. The CBN, for example, did not provide the Nigerian Association of Small and Medium Enterprises (NASME) with any grants to train its members on how to access the MSME Development Fund. That begs the question: which organizations received program development funds from the CBN if not Nigeria’s highest body representing MSMEs nationwide?

**Bank of Industry (BOI)**

Set up in 2000, the BOI provides finance to manufacturing and processing firms looking to buy industrial equipment. It does not provide loans to fund building construction or purchasing land, but has recently started providing loans to fund firms’ operational costs. Even as the BOI trumpets its lending to MSMEs, the bank has, in recent years, shifted its focus away from small enterprises toward larger, better-capitalized firms.\textsuperscript{42} Although the BOI publishes annual audited reports detailing its overall financial health, it has refused to answer Freedom of Information Act requests for
more detailed information on how much money it has provided state governments for onward lending to MSMEs, how those funds are managed, or how individual recipients are chosen.\textsuperscript{43}

The BOI has a reputation for being standoffish and overly bureaucratic, according to MSME stakeholders.\textsuperscript{44} MSMEs are wary about applying for BOI loans because of the onerous paperwork involved; an MSME must meet fourteen pages of requirements before they are eligible to receive any BOI loan. Loan applicants must also use BOI-approved business development consultants to prepare business plans and other documentation as part of a loan application. The BOI, meanwhile, has not placed a cap on what this cartel of handpicked consultants can charge MSMEs forced to use their services: a predatory arrangement that deters entrepreneurs from applying for BOI loans. Furthermore, BOI staff allegedly use these obstacles to steer MSMEs toward higher interest loans, with one business association leader claiming that “if you go through the ‘other channel’ which they have, you can get the money quickly. . . . They would direct you to where you can get it at 25 per cent, compared to the single digit interest.”\textsuperscript{45}

For a relatively small agency that is arguably underperforming, the BOI’s staff members are some of the best paid government employees in Nigeria. In 2016, the BOI spent N6.79 billion ($18.9 million) on salary for its 335 staff—much higher per capita, on average, than Nigeria’s top commercial banks.\textsuperscript{46} That same year it spent N2.7 billion ($7.5 million)—a lavish $22,400 per employee—on business development and travel expenses.\textsuperscript{47} Nigerians readily identify such excessive pay and benefits as a form of legalized corruption.\textsuperscript{48}

More easily recognizable as corruption are allegations trailing Evelyn Oputu, who served as managing director of the BOI from 2004 to 2014. In 2014, the Financial Reporting Council—a government financial reporting and corporate governance watchdog—investigated Oputu and other BOI board members for allegedly embezzling billions of naira from the agency, including two properties along Lagos’s upscale Bourdillon Road.\textsuperscript{49}

Other Federal Institutions

\textit{Development Bank of Nigeria (DBN)}

Launched in 2015, the rationale behind the DBN’s creation was to consolidate Nigeria’s disparate development finance institutions under one roof. The DBN does not loan to consumers directly, but rather undertakes wholesale lending to commercial banks for onward lending to MSMEs. Like the CBN and the BOI, the DBN refuses to divulge information on its agreements with commercial banks—particularly its guidelines for onward lending to MSMEs. This lack of transparency could constitute a corruption risk.\textsuperscript{50} Nevertheless, the bank is managed by a seasoned private sector banker, and its board of directors consists of respected professionals rather than political figures.
Industrial Training Fund (ITF)

Created to provide skills acquisition and professional training to the general public, the ITF claims to have trained 14 million Nigerians since it was established in 1971. Subordinate to the Ministry of Industry, Trade, and Investment, the ITF’s exact annual budget is almost entirely opaque, with just a single line item in the federal budget—N1 billion ($2.78 million) for personnel salaries in 2018. In response to a Freedom of Information Act request, the ITF claimed it carried out 1,172 “capacity building” training session from 2012 to 2015, but was unwilling or unable to provide a rationale for the kinds of training it offered, basic information on trainees and whether they underwent needs assessments, details about the use of contractors and their costs, or whether trainees were monitored to evaluate their progress.\(^{51}\)

National Directorate of Employment (NDE)

A holdover from the era of military rule, the NDE was established in 1986 to tackle rising youth unemployment. Many of the programs and training initiatives the NDE provides target MSMEs, spending roughly N1.1 billion ($3.1 million) between 2011 and 2015.\(^{52}\) Like other agencies tasked with providing assistance to MSMEs, the NDE is not transparent. It has ignored civil society requests for information on the beneficiaries of its various programs, whether they were selected using a needs assessment, and the names of contractors used by the agency and details about contracts it awarded.\(^{53}\) Similarly, the NDE has been unable to provide updates on N434 million ($1.2 million) of part-grant/part-loans it disbursed between 2011 and 2015. Likewise, the NDE says it trained over 152,000 Nigerians during the same period, but is unable to provide evidence to back up this claim.\(^{54}\)

State-Level Agencies

At least twenty-six of Nigeria’s thirty-six state governments have established at least one MSME development agency or office. In addition to their stated purpose, these entities give governors and other state political elites a way to distribute patronage and channel funds into opaque, corruption-prone empowerment programs. They also serve as special purpose vehicles: mechanisms through which state governments can access millions of dollars worth of federal assistance.

Lagos State—with more MSMEs than any other state—has arguably developed a more sophisticated and effective strategy for working with MSMEs than the federal government. Local business groups praise state officials for engaging constructively with them and other key stakeholders, seeking their advice as they design and implement new initiatives.\(^{55}\) For example, the Lagos State Employment Trust Fund (LSETF)—a professionally staffed state agency created to help MSMEs boost
productivity—has carefully planned its programs after internalizing best practices and studying the successes and failures of other schemes.  

Anticipating political pressures on the program, the LSETF insists all beneficiaries—including those nominated by politicians—must meet minimum criteria. This has helped reduce outside political interference and keep loan failure rates low. Other successful Lagos State programs include a small claims court that allows smaller firms to resolve disputes without incurring prohibitive legal costs and an SOS Hotline through which any MSME can call to complain about an interaction with government and seek help resolving bureaucratic obstacles affecting their business.

Organized Private Sector

Despite their vibrancy, Nigeria’s business trade associations play a limited role in shaping government programs meant to help their small and medium-sized members. Whether relatively new or venerable like the 130-year-old Lagos Chamber of Commerce (LCCI), the country’s organized private sector is expansive and routinely attempts to engage with government officials on behalf of its members. Nigeria’s thirty-six states and the Federal Capital Territory each have their own chamber of commerce and host state chapters of national MSME bodies like NASME and the Nigerian Association of Small Scale Industrialists.

Yet these trade organizations claim that government officials rarely consult them: “[They] will not always want to involve you” except when they want media attention for their initiatives, lamented one interviewee. The leaders of these trade groups, elected by and attuned to the needs of their dues-paying membership, struggle even to get meetings with officials from SMEDAN, the BOI, and the CBN. This leaves them unable even to provide unsolicited but much needed advice to policymakers and to raise concerns flagged by their members. By giving the organized private sector the cold shoulder, government agencies further undermine MSMEs’ trust in them and their grandiose but often underwhelming and corruption-prone programs.
Corruption Red Flags

As the primer above suggests, the day-to-day operations and longer-term programs undertaken by Nigerian government MSME-focused agencies are replete with unmistakable corruption risks.

Lack of Transparency

A significant red flag that all Nigerian government MSME programs share is a lack of basic financial and operational transparency. Not only do these agencies fail to publish sufficiently detailed data about their program expenditures, loan activities, and overhead expenses, they do not disclose the names of firms to whom they award lucrative contracts. Many agencies have ignored or provided
incomplete or evasive responses to attempts by civil society watchdogs to obtain this information via Freedom of Information Act requests. Agencies routinely use vague terminology or jargon like “strategic empowerment,” “take off grants,” and “empowerment items” to describe multimillion-dollar constituency-level projects purporting to benefit MSMEs.\(^6^0\)

**Poor Accountability**

Among the most problematic causes—and consequences—of this lack of transparency are widespread accountability failures. Despite weathering several corruption scandals, these agencies have not put basic anti-corruption measures in place. Nor has the Buhari administration or its predecessors required them to do so. Neither SMEDAN, the CBN, the BOI, nor any of their sister agencies proactively share information, making it more difficult for legislators, business people, civil society, or the press to hold them accountable for how they spend public funds. Legislative oversight of these agencies is lax and inadequate, and legislators often collude with them to siphon public funds via MSME programs. Also, because youth empowerment and MSME assistance are widely popular concepts among Nigerians, journalists and civil society struggle to hold government accountable for how such funds are spent. This could be because politicians and officials have yet to experience any public backlash over this.

Furthermore, MSME-focused agencies make little effort to monitor and evaluate their loans, grants, and other expenditures to ensure they have impact, are cost-effective, or even benefit bona fide MSMEs instead of briefcase companies controlled by corrupt profiteers. SMEDAN, for example, has failed to maintain a basic database of the 6,000 individuals it claims to have trained between 2011 and 2015, meaning that it has no way of ensuring the same individuals are not repeatedly nominated to receive training and the stipend that comes with it.

**Bureaucratic Obstacles**

Excessive red tape entangles Nigerian MSMEs, reducing their margins and creating opportunities for predatory officials to exploit them. At the strategic level, these bureaucratic processes play a filtering function, deterring time-conscious and cash-strapped MSME operators from trying to navigate the byzantine processes associated with government assistance programs. The BOI, for example, imposes the same bureaucratic conditionalities on its small loans (under N10 million, or $27,800) as it does on loans in excess of that amount.\(^6^1\) Such filtering enables fake and politically connected MSMEs, many of which have been created for the sole purpose of siphoning off public funds, to gain financial rewards using their bureaucratic savvy and insider connections.

At the retail level, bureaucratic obstacles and convoluted processes create opportunities for toll-taking—a type of corruption in which mid-to-low-level officials demand bribes in exchange for
performing routine duties such as processing paperwork or issuing permits. “Many of our members are crying,” commented one chamber of commerce representative, who further noted that the members are unable to afford the huge up-front costs (documentation, bribes, fees, tax payments, collateral, and interest) needed to access government MSME programs. Because this toll-taking is not centrally coordinated, it adds up quickly and can easily negate any benefit a small business operator might gain from participating in a government program.

High Administrative Costs

Nigerian government MSME-assistance programs set aside an unusually high share—usually 10 percent—of their budgets to cover programmatic overheads and other administrative costs. Yet because these funds are opaquey spent, excessive when compared to programs’ requirements, and often fraudulently claimed, they constitute a corruption risk. Recognizing that all government programs cost money to administer and implement, these costs should be factored into an agency’s annual budget, rather than recouped up-front as a lump sum.

In the Nigerian context, these overheads resemble mobilization fees, corruption-prone payments that agencies routinely provide to firms given government contracts. In many cases, contractors abscond with these initial payments or go through the motions of implementing a project before later abandoning it. SMEDAN, the CBN, and other government agencies involved in planning and implementing MSME-assistance programs appear to have adopted this problematic business model, spending liberally on consultants, fact-finding trips, and other perks before allowing their efforts to languish. They then shift focus, fielding new programs freshly endowed with funds for overhead expenses. Such deliberate waste constitutes a form of corruption yet has become customary.

Policy Incoherence

Other red flags are the glaring policy missteps and deliberate circumvention of program guidance that create corruption opportunities for officials or their political allies. Though counterintuitive, such self-destructive actions allow officials to eat through the management expenses and unsustainably give out loans and contracts knowing that the program will soon collapse, be written off by politicians, and—after a short hiatus—be replaced with a new program ripe for exploitation.

Policy incoherence also facilitates deliberate waste and duplication of effort to the detriment of Nigeria’s MSMEs. For example, two similar programs—SMEDAN’s One Local Government One Product initiative and the Nigerian Export Promotion Council’s (NEPC) One State One Product campaign—failed to communicate or deconflict with one another, baffling applicants and discouraging their participation. This is despite the fact that SMEDAN and the NEPC are both supervised by the same ministry and launched these programs within months of each other.
Political Interference

As MSME corruption has blossomed in recent years, political involvement has increased. This is reflected by the customary appointment of party loyalists—rather than experienced technocrats—to head SMEDAN. Likewise, the growth of MSME-focused constituency projects is a warning sign. Indeed, political interference in the distribution of funding and other assistance to MSMEs has been effectively formalized through bureaucratic processes. SMEDAN, for example, unquestioningly allows state politicians to select recipients for its projects. The result of this politicized selection process, according to experts, is that genuine MSME operators are marginalized and thus the “outputs of SMEDAN training are not felt.”

Political interference also manifests itself in the form of top-down contract fraud. Politicians and civil servants routinely use briefcase companies to hijack lucrative contracts and direct them to their political allies, friends, and family members. Despite their ephemeral nature, such briefcase firms often possess all of the documentation—incorporation documents, land permits, and tax records—needed to obtain loans and other assistance under government MSME programs. In recent years, politicians and officials have even created briefcase trade associations to lobby government and compete with genuine, more established bodies. Meanwhile, the time and money small business people must spend politicking to compete with these fake firms is an unreimbursed overhead cost that could be spent more productively.

Three Case Studies

In order to better understand the causes and consequences of these corruption risks, here are three case studies:

The CBN MSMEDF Fund: A Preelection Windfall

Launched in August 2013, the CBN’s Micro, Small and Medium Enterprises Development Fund (MSMEDF) promised to make N220 billion (worth $1.35 billion at the time) worth of inexpensive credit available to MSMEs across Nigeria. Less than two years later, however, N36 billion had been hastily disbursed from the fund, given out to twenty-four state governors—with few strings attached—on the eve of the 2015 elections. Four years on, none of these states has provided a detailed list of MSMEs that received loans under the program. Instead, evidence suggests many governors outright embezzled most or all of the funds. Except in one instance, this overt diversion of public funds has yet to be properly investigated.
Although it might seem to be a victim of preelection political scheming, the CBN in fact facilitated the fraud by circumventing its own procedures, ignoring the fund’s published guidelines, and—in the first instance—designing the program to fail. These initial programmatic weaknesses were a direct result of the CBN’s failure to consult MSME associations or commercial lenders with expertise in lending to small businesses. Those flaws explain why state governors became involved in the program in the first place. They included:

- **Unreasonably high collateral requirements.** From the start, many MSMEs found the fund unattractive because it required prospective applicants to provide a bank guarantee—that is, cash collateral—worth 75 percent of the value of the loan. After two years of receiving very few applications to the fund, the CBN reduced the mandatory bank guarantee to 50 percent of the loan value. Nevertheless, few borrowers had the ability or desire to place N50,000 in escrow to borrow N100,000 at a 9 percent interest rate. In interviews, Lagos market traders scoffed at this requirement, noting that they would be better off using the required collateral as working capital and forgoing a costly loan involving banks and government agencies they did not trust.

- **Unrealistic gender participation requirements.** Likewise, the requirement that 60 percent of all loans made from the fund had to go to women-owned MSMEs did not address the major obstacle women face when trying to borrow: the discrimination they face under Nigeria’s antiquated land tenure laws. Land is an important form of loan collateral, yet only 2 percent of Nigerian women—compared to 17 percent of Nigerian men—own land. Though well intentioned, this simplistic quota did not make it any easier for women MSME owners to borrow. Instead, it made it more difficult for the majority of MSMEs (that is, those that are male-owned) to obtain affordable loans. This made the gender participation requirement effectively impossible.

Having put major obstacles in place, the CBN effectively prevented the overwhelming majority of MSMEs from accessing the program via commercial banks, causing it to languish. Having closed off the better regulated, more direct avenue for small businesses to access the MSMEDF, the CBN began channeling funds through the program’s more opaque and corruption-prone route. In 2014, the CBN began disbursing funds to twenty-four state governments that agreed to guarantee their repayment and designate particular parastatals (special purpose vehicles) to interface with the local microfinance banks handling the loan application process. Interestingly, Lagos State—the source of 60 percent of Nigeria’s GDP and the largest share of its MSMEs—chose not to access the fund, wary of getting involved with a program run by the CBN.

Lagos policymakers’ concerns were well founded. Between October 2014 and April 2015—from ninety days before the 2015 election to just after it—the CBN paid out about N39 billion ($236.4
million at the time) in MSMEDF funds to these state governments, often directly to accounts controlled by state governors. These payouts ignored the fund’s guideline that states should receive only the amounts applied for by verified borrowers and that the CBN should transfer the requisite funds to the participating finance institutions (local microfinance and commercial banks) in each state once it was sent details about recipient MSMEs. At no time should the CBN have transferred money from the MSMEDF directly into state governments’ accounts. Even so, this is exactly what the CBN did, breaking its own rules to pay out large arbitrary sums to state governors on the eve of the 2015 elections. Unsurprisingly, this money rapidly evaporated into state governors’ personal patronage networks, either used to fund their party’s 2015 election campaign or embezzled outright.

Denying it constitutes a major red flag. The CBN has refused to respond to Freedom of Information Act requests for data on loan and grant recipients in each state, information on the exact projects the MSMEDF ostensibly funded in each state, a breakdown of total disbursements from the fund, or a detailed accounting of the 10 percent of the fund’s value reserved for management expenses. The CBN has also ignored the robust monitoring and evaluation framework stipulated in its own guidelines by failing to publish—or indeed conduct—such evaluations of the loans and grants it made under the MSMEDF. State governments have also refused to divulge details about MSMEs that supposedly received funds through the program.

Civil society field research conducted in Benue, Borno, Kogi, and Jigawa—four states that received MSMEDF windfalls—supports this analysis. In Benue, respondents confirmed that then-governor Gabriel Suswam exercised direct control over the funds and personally chose beneficiaries. In April and May 2015, he disbursed just 10 percent of the N2 billion ($12.1 million in early 2015 dollars) his state received from the CBN, allegedly embezzling the remainder in the final weeks of his governorship. In war-torn Borno, Governor Kashim Shettima accepted the N2 billion but did not disburse any of it, despite his state’s pressing socioeconomic challenges.

Even though many state governors defrauded the MSMEDF, prosecutors have charged just one: former Plateau State governor Jonah Jang. It is unclear why the Buhari government has not investigated or prosecuted other sitting or ex-governors. The current governors of Kogi and Jigawa states—neither of whom was in office at the time of the payouts—have publicly accused their predecessors of embezzling the MSMEDF funds. Both have promised to launch investigations, but have yet to do so. Meanwhile, organizations representing MSMEs in these and other states claim they were not asked to apply for the funds, nor do they know who supposedly received them. “A lot of governors used the funds for political reasons” and “instructed it should be given to certain people,” according to the head of a national body representing MSMEs.

The long-term damage to MSMEs—and Nigeria’s socioeconomic development—resulting from the kleptocratic capture of the MSMEDF far exceeds the value of the missing and misspent funds.
Because it was a loan program, states are obliged to pay the CBN back even if it was embezzled by officials. In other words, by absconding with MSMEDF funds, corrupt state officials made it so small businesses in their state might not be able to access such loans until state governors repay what their predecessors took. If Nigeria’s cash-strapped states are unwilling or unable to repay the CBN by May 2020, then their MSME sectors will have one more challenge to cope with.

**Constituency Projects: Barely Disguised Corruption**

Nigeria’s federal legislators earmark N200 billion ($556 million) worth of constituency projects annually. Over the last few years, the share of these projects targeting MSME development, often vaguely described by legislators as empowerment, has spiked. In 2018, legislators channeled N61 billion ($169.4 million) into such projects, up from N41 billion ($113.9 million) in 2016 and N54 billion ($150 million) in 2017. This sharp increase—almost 50 percent in just two years—is not accidental. Opaque, difficult to track, and directed at politicians’ discretion rather than according to objectively assessed needs, these projects are barely disguised vehicles for engaging in contract fraud and embezzlement. This is because the effectiveness—or even existence—of empowerment items and training is difficult to verify and assess, unlike more tangible projects like roads, schools, or clinics.

Legislators handpick which government agency they would like to implement these projects, inserting the money into its annual budget. Rather than select an agency based on its capacity and remit, legislators direct constituency project funds to agencies known to be pliable or led by individuals with whom they enjoy close relationships. Constituency projects are treated as ad hoc interventions; receiving agencies make no effort to deconflict them with other ministries or state governments. Likewise, agencies do not select beneficiaries using objective criteria, but instead allow legislators—or local political cronies they designate—to choose them.

As a result, these grants, equipment donations, and training expenditures become a form of political patronage that is disproportionately directed toward constituencies of powerful federal legislators rather than areas with a high density of MSMEs. Agencies typically allow legislators to handpick which contractor is paid to implement their constituency project contract: a clear violation of government procurement rules that increases the chance their preferred firm will inflate or fail to execute the project. Adding to the confusion and opacity, agencies sometimes pass off constituency projects to one another or duplicate the same project year after year. This makes civil society efforts to hold legislators accountable for how constituency project funds are managed and spent much more difficult.
FIGURE 3
Examples of Suspicious Legislators’ Constituency Projects Awarded to SMEDAN in 2018

1. KATSINA CENTRAL
   N480 million ($1.3 million)
   “Training and Empowerment of Youth & Women”
   Sen. Umaru Kirfi

2. FEDERAL CAPITAL TERRITORY
   N500 million ($1.4 million)
   “Grants to Small and Medium Enterprise”
   Sen. Philip Aduda

3. EKITI SOUTH
   N1.1 billion ($3.1 million)
   “Strategic Empowerment Grants to Women & Youths”
   Sen. Abiodun Olujimi

4. LAGOS WEST
   N700 million ($2 million)
   “Strategic Empowerment”
   Sen. Solomon Adeola

5. YOBE NORTH
   N320 million ($0.9 million)
   “Provision of Grants”
   Sen. Ahmed Lawan, Senate Majority Leader

6. ABIA NORTH
   N250 million ($0.7 million)
   “Provision of Grants”
   Sen. MAO Ohuabunwa

7. AKWA IBOM NORTH WEST
   N1.87 billion ($5.2 million)
   “Training and Grants”
   Sen. Godswill Akpabio

SOURCE: SMEDAN 2018 constituency project budget data via Tracka.ng

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Out of the dozens of ministries and agencies involved in executing constituency projects—the plurality of which are MSME-related—the following are the three most prolific.

**Border Communities Development Agency (BCDA)**

This obscure agency—set up in 2006 to help disadvantaged communities along Nigeria’s borders—is heavily involved in suspicious constituency projects and contract fraud. The BCDA is one of the numerous conduits members of the National Assembly found to be a willing ally to funnel proceeds from over 6,000 projects illegally introduced in the 2018 budget, according to one senior Finance Ministry official. Despite its small size and narrow remit, the pliant BCDA acted as a conduit for N8.75 billion ($24.3 million) in constituency project funding in 2017—more than any other ministry or agency.

Many of these dubious projects involved MSMEs, promising unspecified training and empowerment items. In 2018, the agency flouted procurement rules by prequalifying hundreds of briefcase companies to bid on 390 constituency project contracts even though they lacked proper documentation: a corruption red flag. President Buhari’s recent decision to put his son-in-law in charge of the BCDA—after the previous head falsified documents to stay on past her mandatory retirement age—is yet another indication of the little-known agency’s outsized political significance.

**SMEDAN**

Like BCDA, SMEDAN has become a nexus of questionable contracting on behalf of legislators’ pet projects. In 2017, the agency—whose total annual budget was only N2.75 billion ($7.6 million)—helped the National Assembly disgorge N8.6 billion ($23.9 million) in constituency projects. In violation of Nigerian government procurement laws, SMEDAN even allows the sponsoring legislator to choose the firm it contracts and nominate individual recipients of training, stipends, or empowerment items like motorcycles or other equipment. The resulting contracts are often mismanaged and poorly monitored contracts, thereby yielding corruption opportunities for all those involved in favoritism, kickbacks, inflated or faked costs, and deliberate waste.

A disproportionate number of SMEDAN projects are implemented in the home constituencies of the principal officers of the National Assembly or can be indirectly linked to other senior government officials. In 2015, for example, the agency channeled a disproportionate amount of funds directly into the constituencies of two prominent legislators. House Majority Leader Femi Gbajabiamila’s constituency received six projects worth over N275.5 million ($1.4 million at the time) while a representative from Kaduna State—possibly acting as a proxy for then vice president Namadi Sambo—got five projects worth N211.25 million (about $1 million). The agency has no
evidence to the effect that the trainings were conducted nor does it have data about the MSME operators it supposedly trained.

Office of the Senior Special Assistant to the President on Sustainable Development Goals (OSSAP-SDGs)

Not even a full-fledged agency, this small office under the presidency has surreptitiously become a magnet for legislators’ constituency project funds, despite the fact that managing and overseeing such contracts exceed its mandate and bureaucratic capacity. It is led by Adejoke Orelope-Adefulire, a former deputy governor of Lagos State (2011–2015) and protégé of Bola Tinubu, one of Buhari’s key political and financial backers. With a humble budget of just N111.7 million ($310,000) the office’s remit is to provide strategic policy advice and represent Nigeria at SDG-related meetings abroad. Yet, in 2017, it managed to issue N4.6 billion ($12.7 million) worth of constituency project contracts—the third-highest amount of any agency or ministry. Implementing and monitoring these contracts would be a Herculean task for the office’s seven-person Procurement Unit.

Cassava Bread Initiative: Fake Farmers, Costly Consultants, Moldering Machinery

Since 1982, federal officials have tried to promote the production of bread using flour made from cassava—a starchy tuber widely grown in central and southern Nigeria. The Cassava Bread Initiative (CBI) is the reincarnation of the failed Presidential Initiative on Cassava (PIC), launched in 2002 by then president Olusegun Obasanjo. The PIC aimed to reduce costly wheat imports by mandating bakeries use 10 percent domestically produced cassava flour in their bread. Essentially an MSME program, it provided incentives to three groups—growers, processors, and bakers—to encourage them to support cassava bread production. The federal government also promised to link growers to buyers and to purchase any excess cassava. The government spent lavishly on contracts to build cassava processing plants in several states, using politically connected contractors to build dozens of uneconomical—or even nonfunctioning—facilities.

From its inception, however, the PIC was beset by policy missteps, programmatic failures, and corruption. Up to eighty percent of the N500 million ($4.5 million in 2002 dollars) budgeted under the PIC allegedly cannot be accounted for. Moreover, the program did not take into account consumers’ ambivalence toward the different taste and spongier texture of bread baked with a mix of cassava and wheat flour. Uneven implementation and poor coordination between the agencies involved in the program created a cassava glut as farmers grew more cassava—up to 50 percent more in 2006 than in 1999—without a processor-baker value chain in place to absorb it. Sluggish and standoffish, the BOI proved a major bottleneck in the program, failing to release funds the cassava processors needed to expand their production capacity. The result: wasted expenditure and a
product glut that drove down cassava prices nationwide. By the mid-2000s, farmers had lost faith—and money—in the program and shifted toward cultivating other crops.

After Obasanjo left office in 2007, the PIC languished for several years as separate funds set aside for each of the three groups were not fully disbursed. Then president Goodluck Jonathan revived the program in 2012, but soon extraneous consultants became involved in the CBI, most likely as proxies for senior civil servants looking to divert funds from its budget. Some cassava farmers felt the Jonathan government’s revival of the program was mostly media hype. “[It is] the same old story . . . we hear it in the media every time, yet the farmers did not get anything,” one cassava farmer from Ekiti State complained to a local newspaper.

Following Jonathan’s 2015 election defeat, the Buhari government took the unusual step of recalling funds disbursed under the program, requiring cassava growers to remit them back to the Nigerian treasury. Without funds and without a minister to oversee the initiative (Buhari took an unprecedented six months to name his cabinet), the CBI once again stalled. In 2016, Agriculture and Rural Development Minister Audu Ogbeh slowly reengaged on the issue, holding a meeting with cassava stakeholders, recouping billions of naira in unspent CBI funds from the BOI, and directing the BOA to take over responsibility for making payments to cassava growers. Processors and bakers, meanwhile, were told to revise and resubmit their funding requests.

Three years later, the CBI remains moribund. Two cassava-related government committees continue to draw allowances and consume management expenses despite this lack of activity. Meanwhile, representatives of Nigeria’s main cassava growers’ and processors’ associations lament that “nothing has happened” following a 2017 media blitz in which Ogbeh promised to revive the CBI. Farmers are disappointed that, out of the roughly N12 billion ($33.3 million) promised by government over the years, only about N2 billion ($5.6 million) was ever paid out to them. Although the reasons for this inaction are unclear, it may be politically motivated. Cassava is mostly grown in southern Nigeria and is not consumed as a staple food crop in much of northern Nigeria, the part of the country where Buhari’s APC party draws much of its political strength.

Adding to the CBI’s policy and programmatic failures, the initiative has been undermined by various kinds of corruption. Officials involved in administering the program created briefcase farms they could use to siphon funds from the program by awarding grants and giving loans to fake beneficiaries they control. In the Federal Capital Territory alone, civil servants allegedly use 3,000 fake farms for this purpose, thereby preventing genuine farmers from getting assistance.

On paper, many of these pretend farms even belong to fake agricultural associations, thereby giving them greater access to government assistance programs. Up to one-quarter of all agricultural associations may be fraudulent, set up by officials or others seeking to embezzle government funds
meant to help small agro-businesses. The CBI also excessively relied on costly, handpicked outside consultants: another corruption red flag. Since Obasanjo’s time, agencies’ cassava-related programs spent a disproportionate amount on public relations and media consulting firms—more than farmers themselves ever received. The result of this slow-motion, corruption-plagued policy debacle? Nigeria’s cassava growers and processors are no better off than they were nearly two decades ago.

Comparative Case Study: South Africa

Like Nigeria, South Africa has a panoply of agencies—spread across multiple government departments—tasked with helping MSMEs. Like their Nigerian peers, South African small business operators struggle to access affordable credit and build their businesses in the face of withering retail corruption by working-level bureaucrats. Unlike Nigeria, however, South Africa government programs set up to assist MSMEs do not appear to have been captured by kleptocratic political elites intent on using them as mechanisms for enriching themselves and distributing patronage. The agencies and programs involved in promoting small business development in South Africa also function much more transparently than their Nigerian counterparts, thereby reducing—though by no means eliminating—the scope and opportunity for high-level corruption.

A Thumbnail Guide to South Africa’s MSME Development Agencies

**Small Enterprise Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA)**

South Africa’s main MSME support agency, SEDA, is the cornerstone of the country’s Department of Small Business Development (DSBD). Unlike SMEDAN in Nigeria, SEDA operates transparently, posting detailed audited annual reports, budgetary and programmatic documents, and research publications on its website. SEDA’s chief executive, Mandisa Tshikwatamba, is a seasoned corporate administrator with an MBA rather than an inexperienced party politician. Her boss, Lindiwe Zulu, the minister of small business development since 2014, however, is seen as a more partisan figure who has underperformed in the position. SEDA’s sister agency, SEFA—established through a 2012 merger of three separate lending entities—is overseen by the DSBD. It was created to provide early stage and expansion capital to MSMEs, especially those that are in rural areas and are majority black-owned.

**National Empowerment Fund (NEF)**

Overseen by the Department of Trade and Industry, the NEF is responsible for enabling the success of black-owned businesses financially via multiple tailored financing programs, as well as by
providing advisory services. Like SEDA, the NEF publishes annual reports on its website, which also prominently displays a phone number and email address for corruption whistleblowers. There is no evidence indicating that the NEF or its programs have been exploited by rent-seeking political elites.

**Provincial Agencies**

Across South Africa’s nine provinces, several quasi-governmental entities—the Gauteng Enterprise Propeller, Ithala Development Finance Corporation, Limpopo Economic Development Agency, among others—provide funding and assistance to small businesses. It is unclear, however, how much oversight these provincial entities receive and to what degree they coordinate and deconflict their expenditures and activities with national agencies.

**Warning Signs**

Until now, very few stakeholders reported experiencing corruption in their dealings with agencies that provide loans and other assistance to MSMEs, like SEDA and SEFA. Instead, officials at other agencies elicit unofficial payments (bribes) from business people trying to obtain tax permits and other regulatory compliance certificates they need to access such support. South Africa’s small business owners—who spend an average of eight days per month dealing with red tape—can save time and money by backhanding cash to working-level officials, thereby bypassing various fees, costly bureaucratic delays, and high compliance costs. In other words, like in Nigeria, it can be easier, quicker, and cheaper for South Africa’s MSMEs to pay these bribes than it is to follow proper procedures.

Yet the normalization of corrupt behaviors among officials and the government’s diminishing willingness to investigates cases, prosecute malfeasance, and protect whistleblowers is helping corruption metastasize, according to Toby Chance, South Africa’s shadow minister of small business development. As government funding for MSMEs has increased over recent years, he argues, so have the scope and scale of corruption opportunities.

Over the last two years, parliamentary oversight efforts have uncovered prima facie evidence of corruption by officials and contractors involved in the DSBD’s Cooperative Incentive Scheme, prompting a formal investigation by South Africa’s auditor general into possible malfeasance. Overdue but expected soon, the auditor general’s report will reveal whether South African government MSME programs are vulnerable to the same kind of grand corruption that is endemic to their Nigerian counterparts.
In 2017, parliamentarians also uncovered a corruption scheme involving a SEFA-financed chicken farming project. SEFA subsequently revealed that its technical partner embezzled almost 6 million South African rand (R) (over $420,000 in 2017 dollars) from the project as a result of the agency’s own negligence and procedural misconduct. SEFA did take corrective action once its failures were exposed, but the incident left many unanswered questions, including whether SEFA officials were complicit in the fraud and whether other agency-funded loans—a high percent of which are nonperforming—were similarly tainted.

South African government policies meant to help MSMEs—as well as loan criteria designed to encourage more black-, women-, and locally owned small businesses to apply for assistance—may inadvertently be increasing corruption risks as unscrupulous firms try to game the process. New public procurement regulations promulgated in 2017, while well intentioned, could heighten corruption risks in the MSME sector.

These new rules were designed to favor small and black-owned businesses bidding on government contracts and require that any firm awarded a contract over R30 million must subcontract at least 30 percent of it to a type of MSME or black-owned business specified by the awarding agency. While laudable in principle, these new rules have fueled the creation of briefcase MSMEs and black-owned firms that specialize in fronting bids on behalf of larger companies or majority white-owned businesses. Unless deterred through robust oversight and contract monitoring, such manipulation of procurement rules allows big firms to masquerade as MSMEs and usurp their preferential access to government contracts.

Contrasts With Nigeria

Small business people in Nigeria and South Africa share many of the same day-to-day problems as they struggle to obtain affordable credit, access government assistance programs, and cut through red tape. Both countries are challenged by high-level graft and more pedestrian forms of low-level bureaucratic corruption. Yet South African government MSME programs are far less corruption prone than their Nigerian counterparts. Here are three major reasons why.

First, South African programs are more transparent and enjoy more robust legislative oversight. Although such transparency is not sufficient to inoculate these programs against corruption, it makes it easier for legislators and civil society advocates to detect. Detailed readouts of meetings hosted by parliament’s Small Business Development Committee show that its members—regardless of political party—do not hesitate to ask government officials knowledgeable, hard-hitting questions about their activities and programs. The South African government is constitutionally bound to answer parliamentary questions, allowing for much stronger legislative oversight than found in Nigeria.
Second, compared to their Nigerian counterparts, South African politicians have fewer incentives or direct mechanisms for unduly influencing MSME-related programs. Compared to better-funded ministries responsible for awarding large contracts, the Department of Small Business Development has a relatively tiny budget of R1.3 billion budget (equal to $95 million or about 1 percent of overall government expenditure). Furthermore, ruling party politicians have little reason to manipulate how the ministry spends—most of its funding is directed toward those predominantly black, rural, and economically underprivileged areas where the ruling African National Congress typically enjoys strong political support.

Third, MSME operators are not yet ubiquitous and influential enough a demographic to constitute an attractive target for political patronage. A new baseline study estimates that micro, small, and medium-sized enterprises together employ just 28 percent of South Africa’s workforce, compared to more than 60 percent internationally and 84 percent in Nigeria. However, with South Africa’s percentage likely to grow and funding to MSMEs expected to increase steadily over the next decade, corrupt politicians almost certainly will begin looking to siphon campaign funds and patronage from government small business programs.

Feasible Pathways to Reform

In comparison to South Africa, it is clear that Nigerian government MSME initiatives have been much more problematic and corruption prone. These programs exhibit many clear warning signs, a history of malfeasance, and an ineffective track record. These agencies and programs do not need more funding as officials and even some well-meaning private sector and civil society proponents often claim. Rather, they need careful reexamination and preventative reforms aimed at narrowing the scope of MSME-related corruption and mitigating its most corrosive socioeconomic effects. With these aims in mind, the clearest and most realistic pathways to reform follow.

Require Transparency and Accountability

First and foremost, Nigerian government MSME programs and agencies need to demonstrate basic transparency and accountability. This can be achieved through better use of established mechanisms and existing laws. Currently, these entities operate opaquely and bristle when asked how they spend public funds, even when corruption allegations about their activities surface. Likewise, the common practice of using MSME assistance to disguise constituency project fraud should have been curtailed since it was first exposed more than two years ago. Instead, it has risen steadily under the Buhari government and now heavily involves at least three entities—the BCDA, SMEDAN, and the OSSAP-SDGs—that enjoy close personal, political, and financial ties to ruling party heavyweights.
Grassroots-driven accountability efforts also need more support. The good news is that civil society groups and investigative journalists are already taking notice of MSME-related corruption. Watchdogs like Tracka (@TrackaNG), Udeme (@UdemeNG), SEEDi (@OpenFundingNG), and Elites Network for Sustainable Development (@enetsud) have zeroed in on the corruption risks phantom or poorly implemented constituency projects pose—especially those thinly disguised as MSME empowerment. Aware that local communities want constituency projects, civil society groups have focused their advocacy efforts on challenging politicians to publicly disclose and fully implement their pet schemes, rather than questioning the legitimacy of pork barrel spending. International donors should partner with these entities to incentivize collaboration between them and provide them with the sustained, long-term financial and technical assistance needed to ramp up their efforts.

**Push for Legislative Remedies**

Rather than enabling it using opaque constituency projects or turning a blind eye to the failings of SMEDAN and the CBN, Nigeria’s National Assembly should step up and help rein in MSME-related corruption. One important reform that would require legislative action is the streamlining and consolidation of all MSME-related agencies and programs under the Ministry of Trade and Investment. Civil society organizations could partner with legal experts to write mock legislation that could be used by domestic groups and international partners as an advocacy tool in their meetings with legislators and other top government officials.

Likewise, the National Assembly should pass legislation collapsing all federal development finance institutions into one entity—ideally the technocrat-led, apolitical Development Bank of Nigeria. Legislators should also exercise more robust day-to-day oversight of and demand greater transparency from SMEDAN and other government entities purporting to help MSMEs. Better oversight would reduce agencies’ complacency and better illuminate corruption risks. The organized private sector and other MSME stakeholders should partner with legislators to help craft new laws and reform existing regulations so that their businesses can thrive.

**Demand Regulatory Fixes**

Laser-focused on incentivizing commercial banks to loan to MSMEs, the Nigerian government has done very little to rein in the profoundly negative impact its officials have on the country’s day-to-day business environment. Across the country, businesses struggle to succeed due to multiple taxation, retail corruption, antiquated land tenure laws, overregulation, and decaying public infrastructure, among many other obstacles. Instead of giving even larger sums to officious, corruption-prone agencies in an effort to offset these challenges, government should step back and
ask how it can do no harm. Nigeria’s international development partners can begin the process by realigning their support and engagement away from these problematic entities.

Addressing these regulatory challenges would reduce the fiscal strain on many MSMEs and improve their financial footing, better positioning them to apply for a nonsubsidized bank loan if they needed one. With government out of the loan-making business, MSMEs would not need to waste valuable time politicking and paying bribes to gain access to government programs. Likewise, politically connected briefcase companies would have fewer opportunities to waylay loans, rebuilding trust between MSMEs and commercial banks that government presence in the MSME financing space has exacerbated.125

**Embrace the Organized Private Sector**

Nigeria’s MSME programs—and the many agencies involved in spending the money associated with them—appear to have lost touch with the very same small business people they are supposed to be helping. In some cases, their behavior can only be characterized as deliberate avoidance. These glaring disconnects between public policy and the businesses it is supposed to assist reinforces the perception that government programs meant to help MSMEs function primarily as mechanisms for official corruption.

Improved engagement between government agencies and private sector stakeholders would mitigate against the lack of coordination and strategic vision that creates a vacuum for corruption to fill. Nigeria ostensibly has a national MSME strategy, but there is no evidence to suggest it has been used to craft policy. If the Nigerian government were to revitalize this strategy and stick to a common, coherent, and well-coordinated approach to providing affordable finance and other support services to MSMEs, it would constrain opportunities for financial malfeasance and deliberate waste.

To rebuild lost trust and improve the effectiveness of its programs, the Nigerian government needs to cooperate much more closely with organized private sector entities like state chambers of commerce and industry and reputable, well-established business associations like NASME. Until government agencies can win back the respect of grassroots small business people like the disillusioned Lagos market traders interviewed for this paper, it is difficult to see how they can claim to be having a real-word impact.126

For their part, Nigeria’s international partners should also increase their level of engagement and collaboration with the organized private sector and civil society groups so they can more effectively undertake advocacy on behalf of small business operators, expose corruption and mismanagement, and develop sustainable, privately managed alternatives to government MSME-assistance programs.
Would Nigerian MSMEs Be Better Off Without Government Help?

Thirty years ago, a Nigerian academic writing about the then military government’s rural poverty alleviation schemes commented:

Rural poverty persists in Nigeria because there is no serious commitment on the part of the political elite to change. . . . Mere decorative titles and high sounding ideas are not enough to transform rural Nigeria from its past neglect. It is only true political and administrative action on the part of the government that can do the magic. The inhabitants of these rural areas must be incorporated at all stages of the decision-making process, not just as appendages, but as true contributors to policy input. . . . Finally, the duplication of government agencies under different names impedes the achievements of these organizations. There is simply no reason for the duplication of rural development agencies . . . certainly their merger will help reduce the resources usually spent on an overbloated number of officials.\textsuperscript{127}

Little has changed and the parallels between the late 1980s and today are striking. Barring root-and-branch reform, Nigeria’s MSME-focused agencies and programs almost certainly will continue to operate as barely disguised conduits for corruption that provide few, if any, benefits to Nigeria’s millions of hard-pressed entrepreneurs. Until such reform happens, Nigerian government MSME programs will continue to do more harm than good.
About the Authors

Matthew T. Page is a nonresident scholar with the Carnegie Endowment for International Peace, an associate fellow with the Africa Programme at Chatham House, and nonresident fellow with the Centre for Democracy and Development in Abuja. He does consultancy work and co-authored Nigeria: What Everyone Needs to Know (Oxford University Press, 2018). Until recently, Page was the U.S. intelligence community’s top Nigeria expert at the Department of State’s Bureau of Intelligence and Research. He has also served on the National Intelligence Council, at the Defense Intelligence Agency, and as an international affairs fellow with the Council on Foreign Relations.

Celestine Okeke is a development consultant who has worked with small businesses over a ten-year period. He is the lead partner at SEEDi, a civic technology organization working with partners to address the challenges faced by small businesses in Nigeria. Along with his partners, Okeke works to highlight the impacts of corruption and absence of common approach in government-sponsored interventions for MSMEs. He is presently the national coordinator for the National Advocacy Group on Access to Quality Seeds for Smallholder Farmers in Nigeria.
Notes

1 This conservative estimate includes missing and unaccounted-for funds purportedly disbursed to MSMEs via legislators’ constituency projects, the Cassava Bread Initiative, and Central Bank of Nigeria loan schemes such as the MSMEDF and ACGS.


6 For more on this issue, see: Peter M. Lewis, Growing Apart: Oil, Politics, and Economic Change in Indonesia and Nigeria (Ann Arbor, MI: University of Michigan Press, 2007).


11 Abubakar, 62.


13 Authors’ interviews with a senior official from one of Nigeria’s largest chambers of commerce, October 8, 2018.

14 Authors’ interviews with Balogun Market traders, Lagos Island, October 9, 2018.

15 Authors’ interview with the leader of a national commercial association, October 8, 2018.


Ibid., 20.

Ibid., 13.

Author field experiences working with SMEDAN training sessions, 2013.

Authors’ interview with senior official from a major chamber of commerce and industry, October 11, 2018.

Authors’ interview with anticorruption expert, October 11, 2018; interview with the leader of a national commercial association, October 8, 2018.

Authors’ interview with anticorruption expert, October 11, 2018.

Authors’ interview with the leader of a national commercial association, October 8, 2018.


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Authors’ interviews with senior officials from two of Nigeria’s largest chambers of commerce, October 8 and 11, 2018.

Authors’ interview with the leader of a national commercial association, October 8, 2018.

Authors’ interview with senior official at an MSME-focused state agency, October 9, 2018.

Authors’ interview with international development expert based in Abuja, October 12, 2018.

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“State of Governments,” SEEDi, 11.

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“State of Governments,” SEEDi, 29.

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“State of Governments,” SEEDi, 8.

Authors’ interview with anticorruption expert and state chapter chairman of a national organization representing MSMEs, October 11, 2018.

Authors’ interview with the head of a national organization representing MSMEs, October 8, 2018.

Authors’ interview with anticorruption expert and state chapter chairman of a national organization representing MSMEs, October 11, 2018.

Authors’ interview with senior official at an MSME-focused state agency, October 9, 2018.
One additional state, Kano, received its tranche after the elections.

“State of Governments,” SEEDi, 8.

Ibid.

Authors’ interviews with the head of a national organization representing MSMEs and a former commercial banker involved in lending to MSMEs, October 8 and 9, 2018.

“State of Governments,” SEEDi, 10.

Authors’ interviews with Balogun Market traders, Lagos Island, October 9, 2018.


Authors’ interview with the head of a national organization representing MSMEs, October 8, 2018.

“State of Governments,” SEEDi, 6.

“State of Governments,” SEEDi, 8.

Authors’ discussions with beneficiaries and government officials in Benue State in 2015 and 2016. Research by the authors revealed that the CBN has no data indicating disbursement took place, nor do MSME informants report that loans or grants were made from these funds during his tenure.

Authors’ interviews with MSME operators in selected state capitals between 2016 and 2018.

Authors’ interview with the head of a national organization representing SMEs, October 8, 2018.

The Senate and the House of Representatives split this sum, awarding themselves N100 billion each. The principal officers of each chamber (Senate president, speaker of the House, their deputies, party leaders, et al) receive N40 billion of this amount. The remaining N60 billion is shared out among rank-and-file legislators (N10 billion per geopolitical zone).


Derived using constituency project data maintained by civil society groups Tracka.ng and Udeme.ng; see Udeme.ng (@UdemeNG), “BCDA received N8.7 Billion to implement #constituencyprojects in 2017,” Twitter, November 5, 2018, 3:04 p.m., https://twitter.com/UdemeNG/status/1059536906499833858.


For more on deliberate waste as a form of corruption, see: Page, “A New Taxonomy,” 23.

“State of Governments,” SEEDi, 18.


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Researcher interview with academic expert on small businesses in South Africa, November 2018.


Author interview with Toby Chance, January 15, 2018.


122 Author interview with Toby Chance, January 15, 2018.


124 Authors’ interview with senior official from a major chamber of commerce and industry, October 11, 2018.

125 Authors’ interview with anti-corruption expert and state chapter chairman of a national organization representing MSMEs, October 11, 2018.

126 Authors’ interviews with Balogun Market traders, Lagos Island, October 9, 2018.
