



Concepts and Risks of Entrepreneurship

**The Institute of Chartered Accountants of
Nigeria (ICAN)
Seminar on Entrepreneurship**

**Theme:
Transforming to a successful Entrepreneur:
Opportunities and Challenges**

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11 September 2020

“Young entrepreneurs and
those they inspire are the
lifeblood of Africa’s rise”

Tony Elumelu



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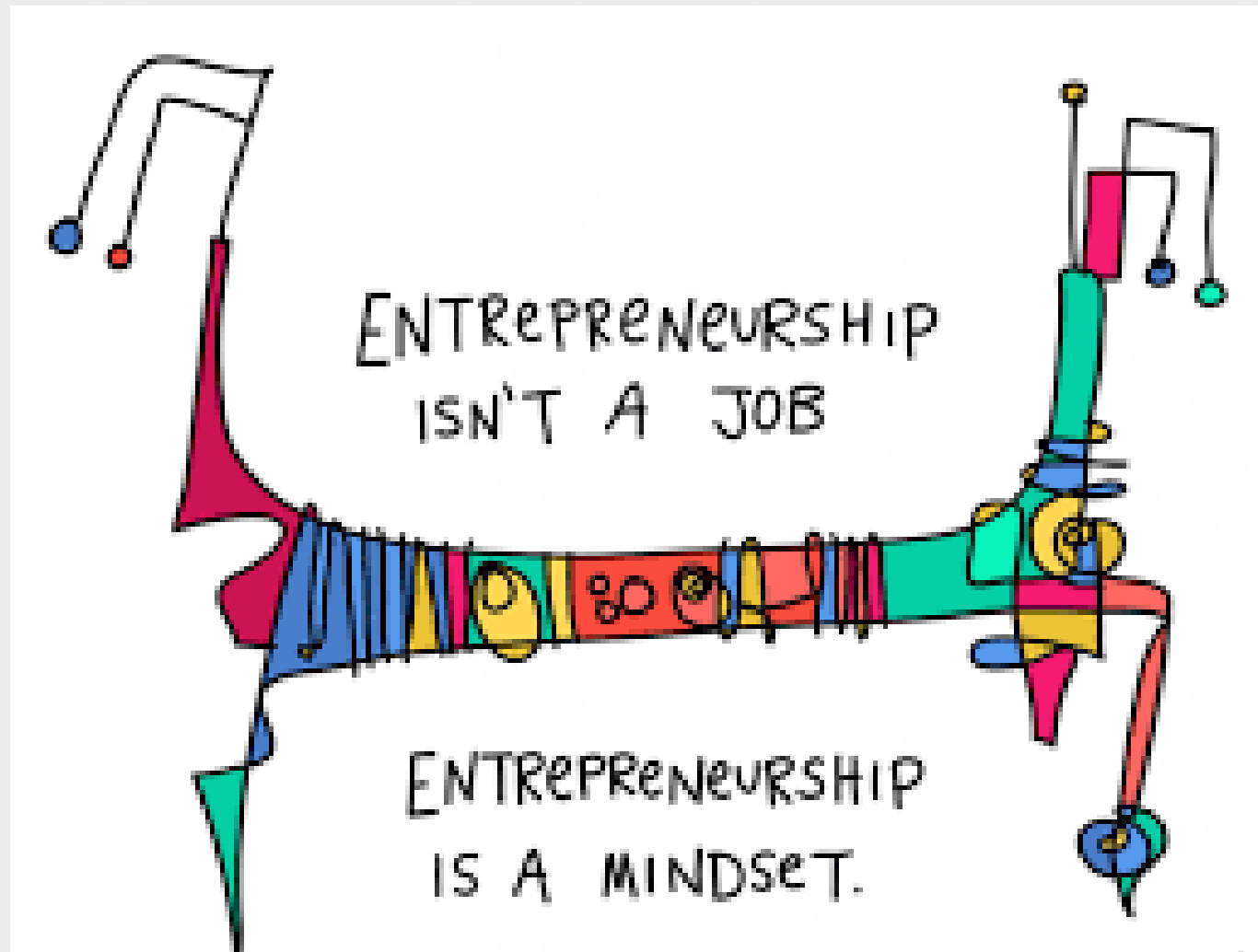
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A word cloud background featuring the word 'Entrepreneurship' in large red letters. Other words include 'innovation', 'wealth', 'new', 'venture', 'small', 'creation', 'entrepreneurial', 'business', 'million', 'substantial', 'generating', 'wealth', 'new', 'venture', 'small', 'creation', 'entrepreneurial', 'business', 'million', 'substantial', 'generating'.





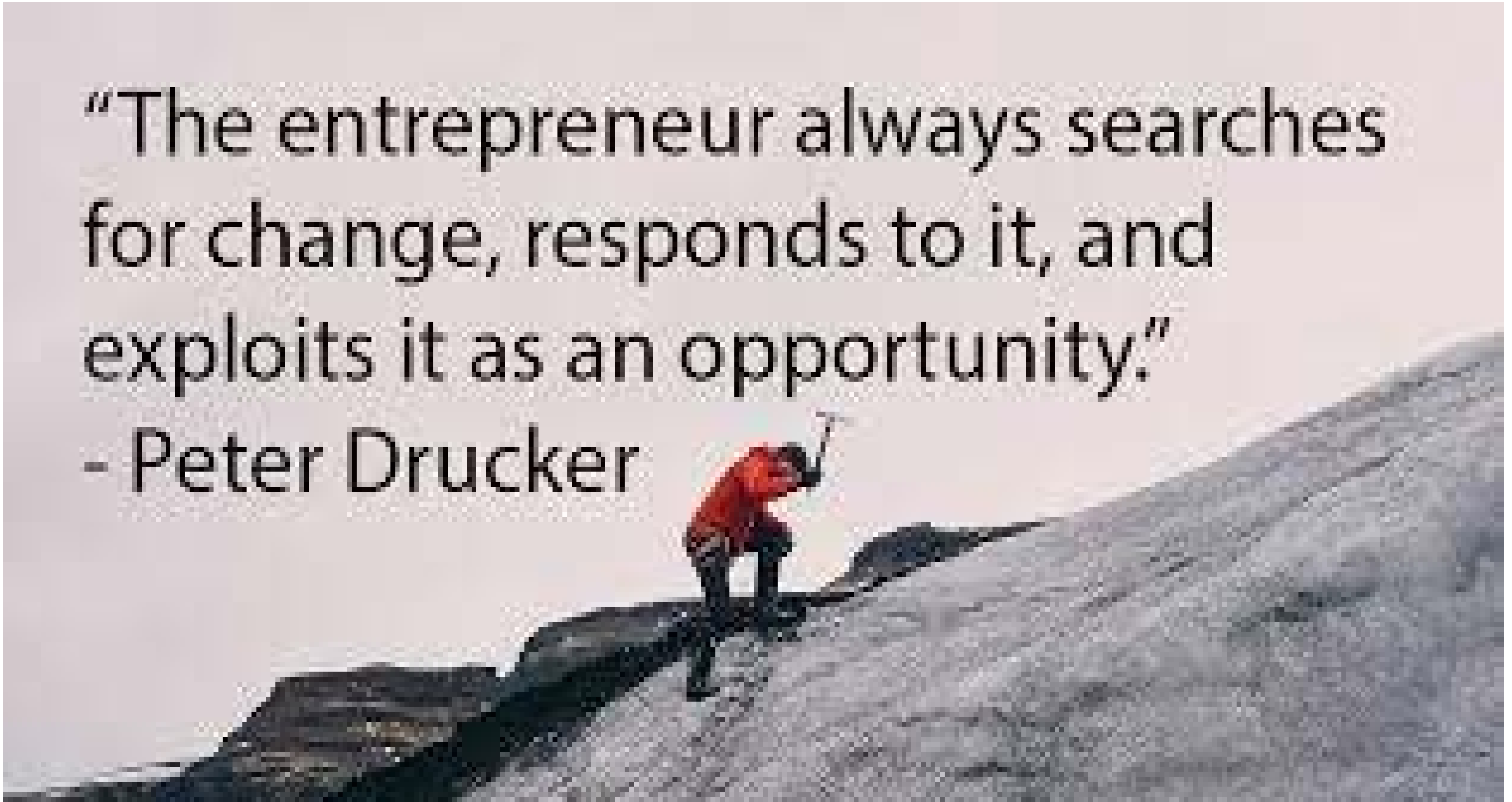
What is Entrepreneurship?

- Entrepreneurship is the oldest form of business organisation in the world.
- In fact, the concept of entrepreneurship is believed to have emerged in the 1700s and has evolved to keep up with the changes in our world.
- The earliest definition of entrepreneurship, dating back to the 18th century, explained it as an economic term – the process of taking the risk of buying at certain prices and selling at uncertain prices (see Chell, 2008; Hebert and Link, 2009)
- Later commentators have broadened the definition to include the concept of bringing together the factors of production.
- Since the turn of the 20th century, studies have identified four (4) key elements of entrepreneurship, which have helped refine its definition (Outcalt, 2000):
 - ✓ **Innovation**
 - ✓ **Risk taking**
 - ✓ **Complementary management experience**
 - ✓ **Creative opportunism**

What is Entrepreneurship?

- Entrepreneurship is said to begin with action, the creation of a new organisation including the antecedents to its creation, inter alia, scanning the environment for opportunities, the identification of the opportunities to be pursued, the evaluation of the feasibility of the new venture (Carton et al., 1998).
- Entrepreneurship is a continuous economic process undertaken to initiate, maintain or organise a business unit for the production and or distribution of economic goods and services (see Chell, 2008; Hebert and Link, 2009).
- Entrepreneurship is the process by which individuals pursue opportunities without regard to resources they currently control (Stevenson and Jarillo)
- The term “entrepreneur” is often used interchangeably with “entrepreneurship” . But conceptually they are different.
 - Entrepreneurship is a continuous economic process which recognizes the need to change and an Entrepreneur is a key person who initiates any change.
 - Entrepreneurship is a set of activities performed by an entrepreneur

"The entrepreneur always searches for change, responds to it, and exploits it as an opportunity."
- Peter Drucker



Entrepreneurship and Risk

- As pointed out earlier, one of the most salient dimensions of entrepreneurship is risk and uncertainty.
- Entrepreneurs face multiple risks, which include:
 - ✓ Financial risk – inadequate access to funds either in the form of loans, savings or equity
 - ✓ Strategic risk – changes in the market or the business environment, particularly in a dynamic and fast-paced industry
 - ✓ Market risk – economic fluctuations and new market trends
 - ✓ Competitive risk – market saturation or thin competition
 - ✓ Technology risk – paradigm shifts or disruptive technology
 - ✓ Others are reputational risk, environmental risk, political risk, economic risk, and employee risk
- The U.S. Bureau of Labor Statistics found that of the small businesses that 80% make it to their second year, 70% make it to the third year, 62% made it to the fourth year, and only 56% made it to the fifth year.

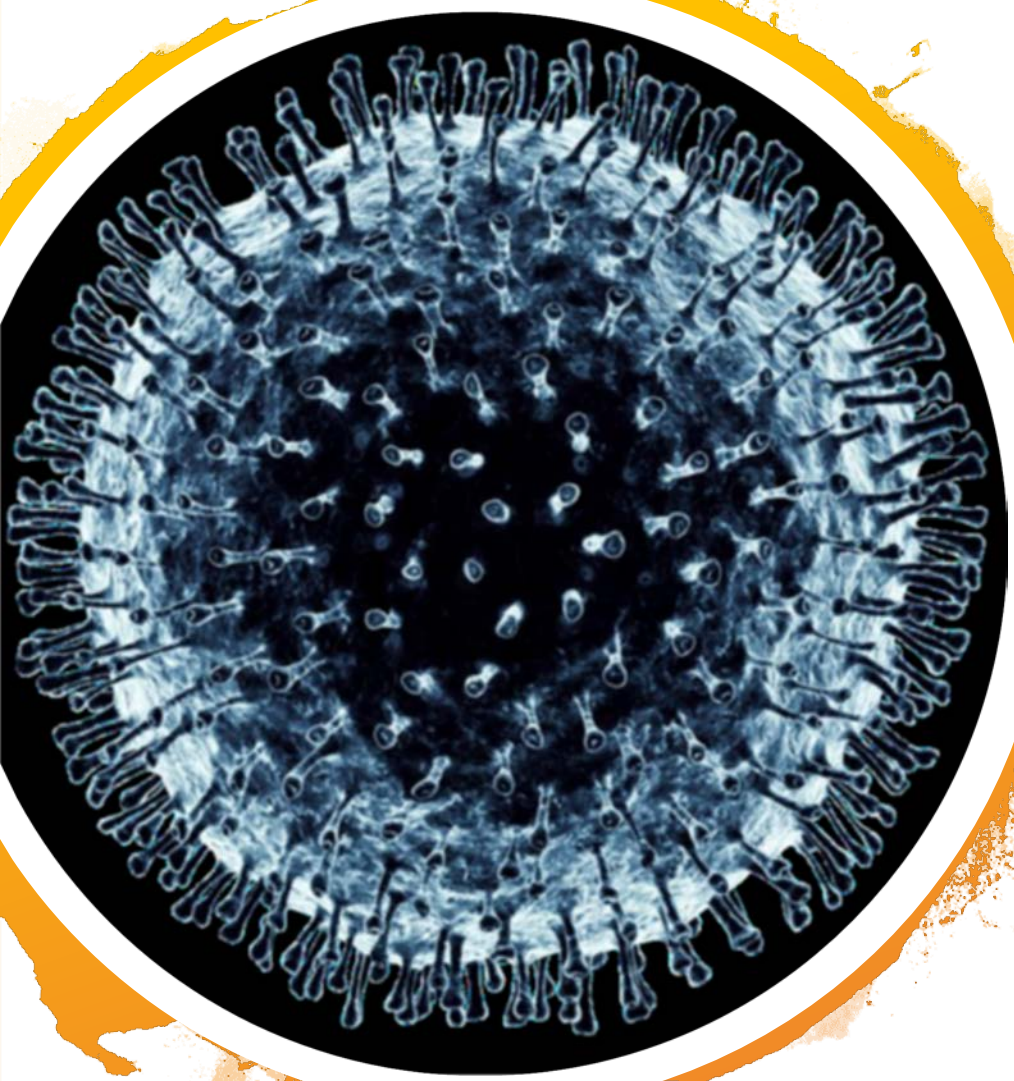


The Risks in Entrepreneurship

- Walking away from security and career path to create something new
- Risk of plunging yourself and family into an unfamiliar storm of stress and uncertainty
- Miscalculated opportunity and depletion of own resources
- Potential business failure
- Financial insecurity
- Unexpected obstacles
- Long hours and hard work



Entrepreneurship in Nigeria: An Overview



- Nigeria is the largest economy in sub-Saharan Africa with 41.5 million MSMEs (of which 99.8% are micro enterprises).
- The enterprises, MSMEs, are engine for economic growth and industrial development, accounting for:
 - ✓ 49.78% of GDP
 - ✓ 96.3% of national labour force
 - ✓ 7.64% of export earnings
- Entrepreneurship thus remains the bedrock of Nigeria's industrialization and inclusive economic development; and the most important component of industrialization as set out in the Economic Recovery and Growth Plan
- With the effects of the COVID-19 pandemic, the need for entrepreneurship development in Nigeria has never been so high, as there has been significant disruption to global supply chains which have had negative impact on foods and raw materials for the industry
- The agricultural sector is a game changer in this, as it has a lot of entrepreneurial potentials and is embedded in our culture as Nigerians.

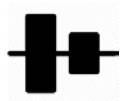

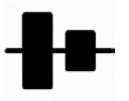
Challenges to Entrepreneurship in Nigeria

Key challenges faced by entrepreneurs in Nigeria



Access to finance is the most critical obstacle to entrepreneurship development in Nigeria (IFC)

In recognition of access to finance as a critical factor for MSME growth, the Central Bank of Nigeria has undertaken some developmental functions, to facilitate the attainment of its objectives through inclusive growth and sustainable finance. It does so in three major ways as shown below:

-  Stimulate finance to the agric and real sector
-  Facilitate investment in critical infrastructure development
-  Deepen financial services inclusiveness

Since 1962, the CBN undertakes developmental functions to facilitate the attainment of its objective

CBN's Development Finance Interventions

The focal areas of the Bank's development finance intervention are:

AGRICULTURE



MANUFACTURING



MSMEs



INFRASTRUCTURE



HEALTH

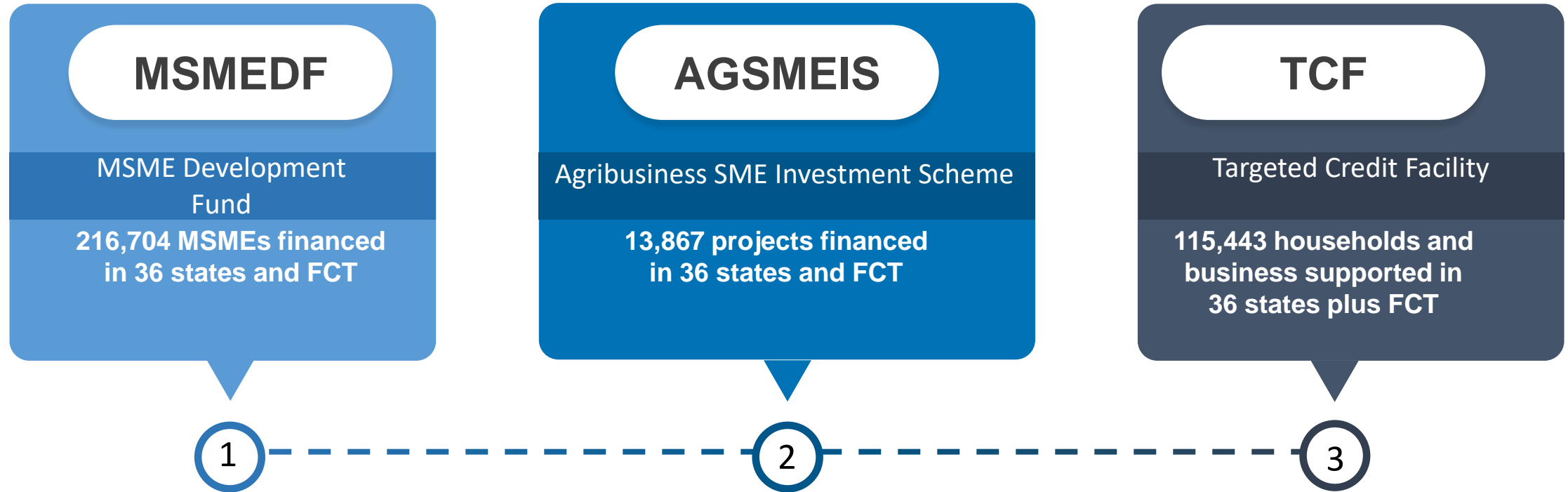


CBN's Support for Entrepreneurs

INTERVENTION	DESCRIPTION
Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMEIS)	Established to ensure access to finance for small and medium enterprises and develop the agricultural value chain by leveraging equity contribution of commercial banks
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	This is to channel low interest funds to the MSME sub-sector to enhance access by MSMEs, especially people with disability, start ups, youth and women entrepreneurs, to credit
Youth Entrepreneurship Development Programme (YEDP)	The programme is to enhance the deployment of the ingenuity and resourcefulness of Nigerian youth for maximum economic development.
Entrepreneurship Development Centres (EDCs)	The EDCs provide technical, managerial and financial training for start-ups and experienced entrepreneurs to increase their capacity and productivity
Creative Industry Financing Initiative (CIFI)	Introduced in collaboration with the Bankers' Committee, to improve access to long-term and low-interest financing to entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors.
National Collateral Registry (NCR)	Established to deepen entrepreneur's access to credit through the use of movable assets as collateral for loans and help reduce risks associated with MSME lending
Targeted Credit Facility	Introduced as a COVID-19 palliative measure to cushion the negative effects of the pandemic on households and businesses across the country

Financial Support for MSMEs

Financed projects by the figures

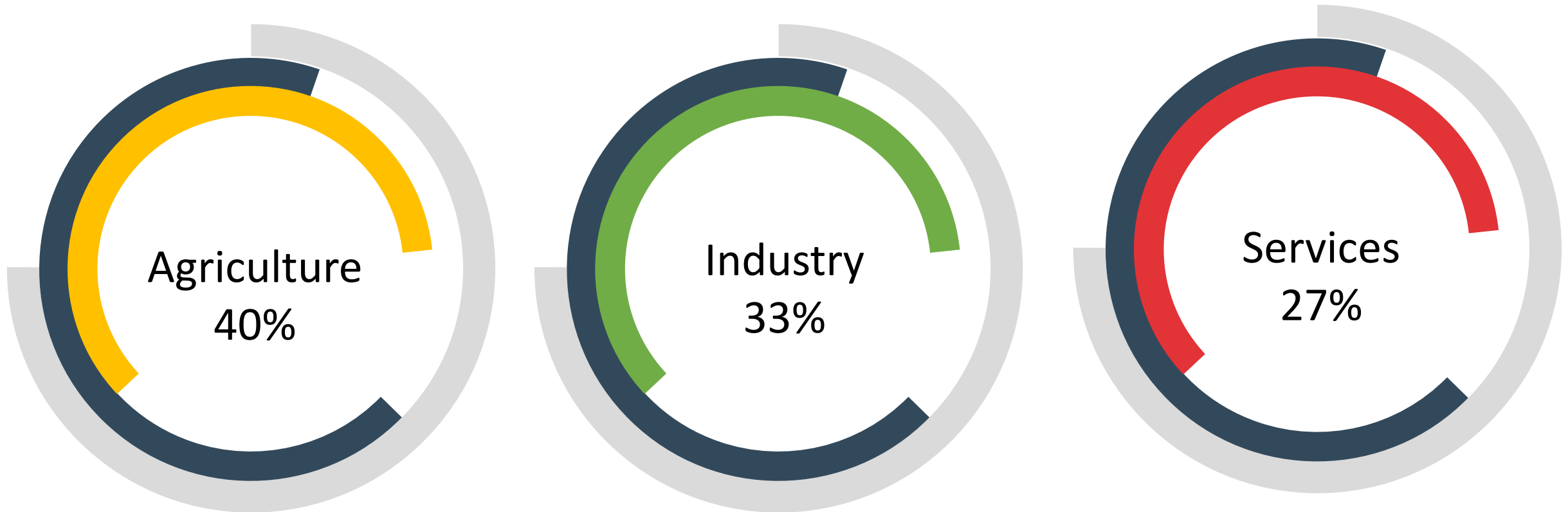


Other development finance interventions of the CBN include:

- Anchor Borrowers' Programme (ABP)
- Commercial Agriculture Credit Scheme (CACS)
- Small and Medium Enterprise Credit Guarantee Scheme (SMECGS)
- Real Sector Support Facility – Differentiated Cash Reserve Requirement (RSSF-DCRR)
- Intervention Facility for the National Gas Expansion Programme (IFNGEP) – recently introduced

Financial Support for MSMEs

Cumulative Disbursements by Economic Sectors



- Agriculture retained priority status in intervention funding over time (40%).
- Industrial and Services sectors have 33% and 27% of cumulative financing, respectively.
- On the aggregate, private sector financing is about 67%..

COVID 19 - Specific Interventions to provide support to MSMEs



~~₦~~3.5 trillion Combined Stimulus Package – Targeted measures at households, businesses, manufacturers and healthcare providers. The Guidelines for its implementation is currently



~~₦~~50 billion Targeted Credit Facility (TCF) – Introduced in March 2020 as a stimulus package to cushion the effects of the COVID-19 pandemic on households and MSMEs across the country. First batch of the disbursements under the initiative has been approved for disbursement by the Bank.



~~₦~~100 billion Credit Support for Healthcare Sector (CSHS) – Established in April 2020 by the CBN as part of proactive measures to cushion the impact of the COVID-19 pandemic on the healthcare industry. Specifically, the scheme is to provide credit to indigenous pharmaceutical companies and other healthcare value chain players intending to build or expand capacity.



Healthcare Sector Research and Development Intervention (Grant) Scheme – Introduced to trigger research into the development of the Nigerian drugs and vaccines for the control, prevention and treatment of COVID-19 and other infectious diseases.



~~₦~~1 trillion COVID-19 Intervention Facility for the Manufacturing Sector – Designed to help strengthen the resilience of the Nigerian manufacturing sector.

Non-financial Support for MSMEs



- **1. CBN's Entrepreneurship Development Centres (EDCs):**
 - Six (6) EDCs established across the six (6) geo-political zones to build capacity in entrepreneurship and business management skills
- **2. National Collateral Registry (NCR):**
 - An institutional initiative of the CBN (with support from the International Finance Corporation, IFC) aimed at improving access to finance particularly for MSMEs.
 - Web-based system that allows lenders to determine any prior security interest, as well as establish their security interest over movable assets pledged as collateral.
- **3. Partnership with international agencies:**
 - Improved expertise in terms of international best practices for MSME endeavors in Nigeria.
 - Access to long term and moderately priced funding for MSMEs in Nigeria.
 - In the long run, sector visibility for MSMEs consequently attracting other stakeholders to create an enabling environment

Conclusion

The opportunities for entrepreneurial development in Nigeria are significant. There are, however, a number of structural and institutional challenges limiting the potentials of MSMEs to deliver on economic growth, job creation, and development.

The key takeaways are:

- Entrepreneurship is the building blocks of any economy, as it supports industrial productivity, inclusive growth and job creation.
- A major element of entrepreneurship is risk taking, as entrepreneur is defined as a person who starts a business and is willing to risk loss in order to make money (Merriam-Webster Dictionary)
- Entrepreneurs are indeed diverse in terms of age, size, business model and profile, and aspirations of entrepreneurs, which all have implications for risk appetite of business.
- An entrepreneur's willingness to take risks and exploit opportunities gives him/her a competitive edge in the economy.
- Entrepreneurs face multiple risks, namely financial risk, competitive risks, market risks, strategic risk, technology risks and so on, which often account for high failure rates of MSMEs.
- Access to finance remains a key priority for entrepreneurial development, as there is a paucity of investors in MSMEs, thus starving entrepreneurs of low-cost and sustainable financing.
- Entrepreneurs are also faced with a number of risks and uncertainty. While some risks can be insurable because they have occurred enough times in the past that the expected loss from such risks can be calculated. uncertainty, on the other hand, is not subject to probability calculations.

