CHALLENGES AND PROSPECTS OF THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN NIGERIA: A REVIEW ARTICLE

EDIM N. OBIM¹, ATSEYE FIDELIS ANAKE², RITA E. OBIM³

¹DEPARTMENT OF BANKING AND FINANCE, UNIVERSITY OF CALABAR, NIGERIA
²GOVERNMENT TECHNICAL COLLEGE, MAYNE AVENUE, CALABAR, NIGERIA
³LIBRARY DEPT. UNIVERSITY OF CALABAR, NIGERIA.

ABSTRACT

SMEs are regarded as engine room of economic growth and development. They are indispensable in all categories of economies (developed or developing). This paper attempts a discourse on the challenges of SMEs’ growth in Nigeria. The implications and prospects of such growth are x-rayed. The authors argued that the rich potentials of SMEs can be harnessed to stem the tides of poverty, unemployment, insecurity and youth restiveness across the various regions of Nigeria. However, the challenges facing the growth of SMEs in Nigeria can be overcome through government policies and programmes, individual participation and collaboration with local and international donor agencies.

Keywords: Challenges, growth, development, SMEs, enterprises.

1. INTRODUCTION

There is a consensus among scholars, researchers and managers of business firms that small and medium scale enterprises are catalysts for economic growth and development. For instance, Agwu and Emeti (2014), pointed out that small and medium scale enterprises (SMES) are generally regarded as the engine of economic growth and equitable development in developing economics. Lalkaka (1997) was succinct about the nature of SMES – they are labour intensive, capital saving and capable of helping create most of the one billion new jobs the world will need by the end of the century. Which acknowledging the role of SMES in the Nigeria economic, Yerima and Danjuma (2007) submitted that these enterprises are means through which rapid industrialization, job creation, poverty alleviation, and other developmental goals are realized. Similarly, Kombo et al (2011) reported that SMES have contributed greatly to the growth of Kenyan economy, accounting for 12 – 14% of GDP, through creating employment opportunities,
training entrepreneurs, generating income and providing a source of livelihood for the majority
of low income households in the country. Rogers (2002), while emphasizing the importance of
SMES, states that: they enhanced capacity building as they serve entrepreneurial avenues; they
create more employment opportunities per unit of investment because of their labour intensive
operations; they achieve a much more relative high value added operations because they are
propelled by basic economic activities that depend mostly on locally sourced raw materials, they
provide feeder industry services as they serve as major suppliers of intermediate goods and
components to large – scale industries as well as major agents for the distribution of find
products of such industries; they provide opportunities for the development of local skills and
technology acquisition through adaptation.

2. CONCEPTUAL FRAMEWORK

Definitions of SMEs are conceptualized based on the level of development of the economy. For
instance, in the U.S.A, U.K and Canada, definition criterion adopts a combination of annual
turnover and employment levels. However in Nigeria, the Small and Medium Industries
Enterprises Investment Scheme (SMEIEIS) defined SME as any enterprise with a maximum
asset base of N200 million excluding land and working capital and with a number of staff
employed not less than 10 or not more than 300. According to Nwokoye (1988), small and
medium scale business is any enterprise employing between 5 and 100 workers with an annual
turn-over of about N400,000. The Federal Ministry of Commerce and Industry provided another
definition of SMES as firms with a total investment (excluding cost of land but including capital)
of up to N750,000, and paid employment of up to 50 persons.

The National Council of Industries defined SMEs as enterprises whose total costs excluding land
is not more than N200 Million. See other definitions for instance, Obelegu (1990), Osaze and
Anaho (1990), Anderson Etta (2004), UNIDO, Central Bank of Nigeria (CBN) and the
Committee for Economic Development (CED), among others. The definitions may differ
semantically, but they all revolve around some common features or characteristics such as:
restricted ownership structure and management, small size of firm, limited sales volume, small
capital/asset base, few technology and localized market. A business is therefore classified as
small and medium scale enterprise if it operates within these characteristics.

3. CHALLENGES OF SMEs GROWTH IN NIGERIA

Despite the value of SMEs to the growth and development of any economy, in Nigeria, they are
bedeviled by a myriad of problems. Agwu and Emeti (2014) summarized the operational
challenges of SMEs in Port-Harcourt, South-South, Nigeria as financial, managerial,
infrastructural, Socio-Cultural, locational, strategical and multiple. The authors pointed out that
SMEs suffer multiple taxation just as they operate with low level of capital. Etuk (2010) and Aganga (2013) have also listed the challenges bad corporate governance, managerial inefficiency and ineffectiveness, high production costs, inhibiting government policies, political instability, lack of relevant skills, poor human resource management and development, ineffective sales/marketing strategies and poor enterprise risk management. Abor (2008) stressed that it is imperative for firms in developing countries to be able to finance their activities and grow overtime if they are ever to play an incomes in terms of profit dividends and wages to households. Beckman (1983), contended that most of the problems confronting SMEs are external. They include capital shortage, taxation and regulations, product liability patent and franchising abuses. Internal problems of SMEs in Nigeria include inadequate working capital, stiff competition from larger companies, difficulties in sourcing raw materials, low capacity utilization, lack of managerial strategies, poor educational background of operators, and huge financial problems. While the external problems include policy, somersaults, multiple taxation, harsh regulatory requirement and trade groups (Osamwonyi, (2009) and Emeti and Agwu (2014).

The fact remains however that meaningful economic growth and development cannot be achieved without appropriate funding of the productive economic units and provision / strengthening of the relevant institutional frameworks. SMEs are the means through which rapid industrialization, job creation, poverty alleviation and other developmental goals can be realized (Abor 2008, Yerima and Danjuma, 2007). The high poverty rate in Nigeria has been linked to the growing unemployment rate, income inequality, ethnic conflicts and political instability. Ekpenyong and Nyong (1992) posited that one way to alleviate poverty is to increase the productivity of those engaged in small–scale production, through a shift of focus towards a rurally oriented smallholder (ROSH) industrialization strategy. This will stimulate employment generation, assets creation, growth in earnings, improvement in living standards, stemming of rural-urban drift tendencies among youths. Crime rate will also reduce as the youths become actively engaged, more self reliant, economically independent and socially responsible. This new horizon of reasoning stimulated a compelling need for a home grown approach to addressing the Nigerian problem.

Efforts to disentangle from colonial economic policies in Nigeria assumed prominence in the 1970s when the Federal government introduced new industrialization policies (Sharpe, 2013). Among the early enabling status was the Nigerian Enterprise Promotion Decree of 1972 (amended in 1977 and 1989) as part of effort to reposition the economy for accelerated growth and development. There was a conscious switch in the industrialization policy from import substitution to small and medium scale business development (Adejumo & Olaoye, 2012). The policy focus of government at this point in time was the diversification of the productive base of
the economy, creation of jobs, promotion of indigenous technology, capacity building and diffusion of economic power through development of the SME sector. According to World Bank report (1994), the existence of small and medium scale Enterprises (SMEs) engenders competition and entrepreneurship, thus leading to efficiency, innovation and aggregate productivity growth in the economy.

4. IMPLICATIONS OF SMEs GROWTH IN THE NIGERIAN ECONOMY

The deregulation of the Nigerian economy in 1989 provided the needed impetus for the emergence of these micro industries. In 1988, the military administration of General Ibrahim Badamasi Babangida introduced the famous Structural Adjustment Programme (SAP). The advent of this macro economic policy heralded the era of economic liberalization. Uche (2000), wrote that SAP was designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy; eliminating price distortions, reducing the heavy dependence on consumer goods, imports and crude oil exports, enhancing the non oil export base, rationalizing the role of the private sector and achieving sustainable growth. To achieve these objectives, the main strategies of the programme where the adoption of the market exchange rate for the Naira, the deregulation of external trade and balance of payment arrangements, reduction in the price and administrative control and more reliance on market forces as a major determinants of economic activity. According to Ojo (1991), government’s reasons for deregulation of the economy were legion; stagnant growth, raising inflation, unemployment, food shortage and mounting external debts.

The growth of SMEs are in the following sectors; food processing, cottage arts and crafts, mining, textiles and clothing, leather and leather products, basic metals, metal fabrication and engineering. The following are the economic implication of SMEs growth in Nigeria:

- Employment opportunities: SMEs have been recognized as agents of employment generation. A study by the Federal Office of Statistics shows that 97% of all businesses in Nigeria employ less than 100 employees, implying that 90% of all business in Nigeria are small businesses. (Agwu and Emeti, 2014). According to General Statistic Office 2007, the SMEs sector provides an average, 50% of Nigeria’s employment and 50% of it’s Industrial output.

- An opportunity to build a vibrant, robust and diversified economy.

- Rapid growth of the agricultural sector with attendant effect on the agro-allied industries.

- Empowerment of the agrarian populace to curd rural urban drift.

- Contribution to GDP, for instance Uzor (2004) argued that SMEs are capable of contributing to national development by positively influencing the distribution of income in nominal and function dimensions.
Income distribution; SMEs are agents through which national scarce resources are redistributed especially among low income earners. The greatest difficulty in a market-driven economy such as Nigeria’s, is how to reconcile the conflicting socio-economic goals of government economic growth and income distribution. Economic policy emphasizes economic growth which is dependant upon the market forces to allocate national resources. This policy tends to favour the rich with the understanding that their lower marginal propensity to consume have higher savings rate that usually transform in to higher investment which in turn means higher output. The distribution of the national scarce resources for the benefit of the citizenry (from the top to the lowest stratum of the society) is left to the trickle down hypothesis. But the truth is that the rich in developing countries are not frugal. More so, the low incomes and low level of living for the poor which manifest in poor health, nutrition and education lower a nation’s productivity. A more equitable distribution of income is achieved through the reduction of mass poverty by establishing SMEs to stimulate heal the economic growth and development. This is a material and psychological incentive to widespread public participation in the development process.

Rapid growth in SMEs is a wake-up call on the government to provide a regulatory framework to ensure sustenance of their operation. Regulation in the words of Uche (2000), suggests some form of intervention in any activity, and ranges from explicit legal control to informal peer group control by government or some such authoritative body.

Growth in SMEs can stem the tides of insurgencies of Boko Haram in the north east region of Nigeria. As catalyst of development, they can also be used to route the menace of militants in the Niger Delta region of Nigeria, Oduo People Congress (OPC) in the south west and Bakassi Boys in the South East. Many imperical studies have shown that crime and insecurity are traceable to joblessness.

5. REVIEW OF GOVERNMENT EFFORTS AT SMEs GROWTH IN NIGERIA

Grassroots development has been on the front burner in the scheme of things in recent years in Nigeria. Interestingly, the micro, small and medium scale enterprises are the dominant players at this level. Several programmes and schemes have been initiated over the years in the effort to address the challenges of SMEs sector in Nigeria.

In 1971, the Federal Military Government set up the small industries Development Programme (SIDP) to provide technical and financial support for small scale enterprises (SSES). This led to the creation of the small scale industries Credit Fund (SICF) which transformed into the small scale industries Credit scheme (SSICS) as contained in the third Development plant of 1975 – 1980. The scheme was managed by the state
ministries of industries, trade and corporate to enhance the provision of liberal credit and matching grants to small scale enterprises.

- The National Accelerated Food Programme (NAFP) was initiated in 1972 by the Gowon administration, soon after the civil war. The aim was to increase food production in the country.

- The Nigerian Agricultural Cooperative Bank (NACB). There was a financing lacuna for NAFP and in April, 1973 NACB was established to fill the gap. The objective was to foster qualitative and quantitative growth in credit to agricultural production, storage and marketing (NACB was conceived as an agricultural financial hub).

- Operation Feed the Nation (OFN) was created in May 1976 and it replaced NAFP in view of obvious shortcomings of NAFP.

- The rural banking scheme was introduced in 1977 to complement NACB in enhancing access to credit by rural dwellers for production activities and commerce. The schemes suffered a huge setback due to reluctance of commercial banks to operate rural branches coupled with glaring unwillingness to extend credit facilities to micro small and medium scale businesses. According to Steel and Webster (1989) as cited in Akpan (2004), commercial banks are well disposed to lend to the small scale business sector but they do so with great reluctance because of the high incidence of risk associated with the sector, the inability of the operations to provide acceptable collateral securities and credit rationing.

- Agricultural credit guarantee scheme Fund (ACGSF). The scheme was established through Decree 20 of 1977 to provide guarantees for loans granted for agricultural purposes by banks. The guarantee is given by the Central Bank of Nigeria with an interest draw-back incentive for the loan beneficiary. The scheme is sustained till date and the result has been encouraging.

- As part of the efforts to boost agricultural production and food sufficiency, the Green Revolution Scheme and the Back – To – Land Scheme were introduced in 1979 and 1984 by the Shagari Administration and the Buhari administration respectively.

- In 1986 structural Adjustment programme (SAP) was introduced by the Babangida administration. It came with a set of economic reform measures designed to achieve economic recovery and growth. A notable feature of SAP was the deregulation of the economy with emphasis on enhancing domestic production over imports. SAP was externally induced and saw to the unprecedented devaluation of the Nigerian currency. Before SAP was introduced, the value of Nigerian Currency (the naira) was very strong in the international market, exchanging at the rate of one Nigerian naira to one British pound and to two American dollars respectively. But now (as at May, 2015), it is two hundred naira to one American dollar and three hundred naira to one British pound.
Rather than salvage the economy, SAP compounded the economic woes of the country which have persisted till date. The accompanying austerity measures were severe and devastating to the Nigerian nation and people.

- The National Agricultural Land Development Authority (NALDA) was equally introduced in 1986 for agricultural land development and improvement.

- In September of the same year (1986), Her Excellency Mrs. Maryam Babangida introduced the Better life for Rural Women programme. It was for the empowerment and enhancement of the status of women economically, socially and politically. This was the fore runner to article 3 of the Millennium Development Goals which emphasizes women empowerment/affirmative action for women globally.

- Directorate for Food, Road and Rural Infrastructure (DFRRI). This was a creation of the Act of parliament (Act no 4 of 1987). Its main focus was the mass mobilization of the rural communities and development of the rural areas in Nigeria towards improvement of the quality of life among rural dwellers. This was to also minimize the rural – urban drift tendencies especially among the Nigerian youths.

- National Directorate of Employment (NDE). It was established by Act No 24 of 1989 and saddled with the responsibility of designing and implementing programmes targeted at combating unemployment.

- Peoples Bank of Nigeria (PBN). This was a creation of Act no 22 of 1990. The objective was to provide basic credit to the under-privileged Nigerians who were economically active and productive. Peoples bank of Nigeria has now transformed into the Bank of Agriculture through merger arrangements.

- Community Banking Scheme (CB): The community Banking scheme was established by Decree 46 of 1992 and played a complementary role to peoples Bank. Its objective was to provide credit, banking and other financial services to low income earners and the economically active poor on the basis of their self recognition and credit worthiness. Although complementing the role of peoples Bank, the community banking scheme was wider in scope and reputed for its character lending approach. The use of tangible collateral securities for lending was reasonably de-emphasized by the scheme. This however created serious recovery problems for the loans.

- Family Economic Advancement Programme (FEAP) and Family Support Programme (FSP). In 1993 the family Economic Advancement Programme (FEAP) and family support programme (FSP) were introduced by General Abacha and his wife respectively. Both programmes were aimed at enhancing the welfare and standard of living of family units as well as boosting economic activities of households and potential entrepreneurs.

- Nigerian Agricultural Insurance Corporation (NAIC) in the same 1993 the Nigerian Agricultural Insurance Corporation (NAIC) was created by Decree 37 of 1993. NAIC
was created to protect Nigerian farmers from the effects of natural hazards by indemnifying their businesses, providing financial support to farmers, promoting agricultural production and minimizing or eliminating agricultural disasters. In nutshell NAIC was created to mitigate agricultural sector risks, particularly those associated with Micro, small and medium scale agricultural businesses. The Nations Newspaper of 28th April, 2014 reported that over 100 small scale farmers in Lagos, Nigeria were compensated by NAIC for loss of over 120,000 hectares of rice fields and other crops to the September 2013 drought.

- National Centre for Women Development (NCWD). This was established in all the 36 states of Nigeria with its Head Quarters at Abuja. The objective was to design and develop programmes and activities for the advancement of women in Nigeria. It is concerned with training of women in various vocations and trades such as hair dressing, fashion designing, tailoring, interior decoration, catering, baking, modeling, weaving, knitting etc. The aim was to empower the women and make them economically, socially and politically relevant in the system. This is also in keeping with the women affirmative action of the millennium Development Goals (MDGS).

- Small and Medium Industries Equity and Investment Scheme (SMIEIS). The scheme was set up in 1999 as a voluntary initiative of the Bankers committee in Agreement with the Central Bank of Nigeria (CBN). All the commercial banks in Nigeria were required to set aside annually 10% of their profit before tax as equity contribution to the scheme. The fund was meant for the promotion of equity investment in SMES. The scheme also helped in mitigating the risk adverse behaviour of banks, as well as providing financial advisory services and technical/managerial support from the banking industry (Soludo 2005). The scheme has actually encouraged not just the banks but also more private sector participation in venture capital investments in the SME sector.

- Bank of industry (BOI). It was established in year 2000 through the amalgamation of the Nigerian Industrial Development Bank (NIDB) and the Nigerian Bank for Commerce and Industry (NBCI). The sole objective of BOI was to assist the small and medium scale enterprises (SMEs), not only in granting them loan facilities but also in mid-wiving entrepreneurial Development Programmes (EDP) as a means of creating awareness for self development, skills development and employment generation. The bank is still waxing strong and alive to the objective of its establishment to date.

- National Agency for poverty Eradication Programme (NAPEP). NAPEP was formed by the Obasanjo administration in 2001 to replace the poverty Alleviation programme (PAP) of 1999. Its objective was to reduce absolute poverty in Nigeria though vocational training, internship, provision of micro credit and job creation. So far the programme has
fared well. NAPEP report for 2008 showed that the agency had trained over 30,000 youths and engaged about 216,000 persons within 7 years.

- Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN). This agency was established by the SMEDAN Act of 2003 to promote the development of the micro, small and medium scale enterprises (MSMES) sector in the following ways:

  i. Facilitating MSMES access to technology and technical support.
  ii. Linking MSMES to reliable sources of credit facilities (Adelaja, 2004).
  iii. Co-ordinating the activities of other government agencies such as Federal Institute of Industrial Research (FIIRO), National Office for Technology Acquisition and Promotion (NOTAP), National Science and Engineering Infrastructure (NASENI), project Development Agency (PRODA), etc.
  iv. Keeping data inventory of raw materials of states and local governments for dissemination to various MSMES.
  v. Partnering with donor agencies such as UNDP, UNIDO, World Bank (IFC and IDA) for necessary support in skills development and financing of MSMES.
  vi. Encouraging the setting up of product clusters.
  vii. Encouraging the development of industrial parks for MSMES business support services.
  viii. Linking MSMES strategically with large industries for out-sourcing and sub-contracting to facilitate their active role in the value and support chain.
  ix. Facilitating MSMES access to local and foreign market information. SMEDAN was one of the most comprehensively packaged policy programmes of government for the MSMES sector but had equally suffered implementation problems like its predecessors.

- National Economic Empowerment Development Strategy (NEEDS). It was introduced in 2003 as an economic reform programme to raise the standard of living by addressing basic deficiencies in the system such as lack of good water (for households, cattle and irrigation uses), erratic power supply, infrastructure decay, education, health, corruption, etc. NEEDS took a cue from the United States experience. After the great depression, President F.D. Roosevelt in 1933 embarked on massive economic reconstruction and infrastructure development to rehabilitate America. This created lots of employment and improvement in standard of living which reversed the recession trend and put the American economy back on the path of sustainable progress (Peterside, 2003). NEEDS has made remarkable impact too in the Nigerian economy, though with a lot of hiccups.

- Entrepreneurship Development Centres (EDC). This is an initiative of the Central Bank of Nigeria as part of the on-going entrepreneurial development policy of the Federal Government. The first phase of the programme kicked off in 2008 with the establishment
of three EDC centres at Onitsha (South East), Kano (North West) and Ota (South west). The distribution was to cover the six geo-political zones of the country (Ikeme, 2010). And so, the second phase in 2013 gave birth to Calabar (South South), Makurdi (North Central) and Maiduguri (North East) centres. The prime objective of government here was to raise a new class of entrepreneurs who can successfully manage micro, small and medium scale enterprises (MSME) and compete globally, build capacity and develop skills through training, facilitate easy access to start-up capital and create job opportunities. The awareness of the programme is rapidly growing among Nigerians especially the youths, and many who have already undergone the training are not just self reliant but have also become employers of labour.

6. MITIGATING THE CHALLENGES OF GROWTH OF SMEs IN NIGERIA

Political philosophers like Hobbes and Locke have given serious consideration to the hypothetical disadvantages of life without government. They posited that public expenditure accelerates the pace of economic growth and narrows down the difference between social and marginal productivity depending on the form and magnitude of economic activities and investments (Miles, 2003, Bhatia 2009). Through its public expenditure instruments, government provides funding for diverse purposes such as health care, education, training capacity development, defence, security, sports, social amenities, infrastructure, pension, entertainment, grants, etc. it follows thus, that government is the prime promoter of the economy.

Folster (2001) however, opines that government could reduce the burden of public expenditure by involving and encouraging private sector participation. This will help to free some economic resources for alternative uses in the system. Government effort should rather focus on providing the enabling environment for effective private sector participation. The savings from public expenditure could go a long way in meeting the funding needs of SMEs, with the attendant multiplier effect on economic growth and development in the long run. The SMEs sector engages on estimated 70 – 80% of the Nigerian force, thus making it the highest employer of labour in the country, (Ezeamama, 2013).

Also, the micro, small and medium scale enterprises sector holds great potential for the growth and development of the Nigerian economy, but government efforts must of necessity be complemented by effective private sector participation. The environment should be more investment friendly, government policies should be SME and private sector friendly, hard work should be appreciated and appropriately rewarded and the fight against corruption should be more practical than theoretical. Moreover, government should develop a strong political will to drive the process transparently.
CONCLUSION

Most government policies and programmes have been targeted at transforming the grassroots in order to stimulate the economic growth and development. Our greatest problem in Nigeria is corruption which hampers the attainment of genuine macro economic goals of the government. No wonder many have attributed the failure of such effort to poor implementation and lack of political will. Many have also blamed the obnoxious bureaucratic processes, administrative inefficiencies, culture of waste and poor orientation. Let it be known that the solution to one economic problem is the beginning of another. Government efforts, however, must be complemented by effective private sector participation. Above all, government must exercise the political will to drive the process to a successful end.

RECOMMENDATIONS

Based on the issues discussed, the following recommendations are proffered.

- Government should introduce policies that are SME friendly to enhance accelerated growth of the sector considering its important role in economic growth and development.
- Infrastructural development is key to the growth of SMEs. This will reduce the cost of business operation in Nigeria.
- Security of lives and property. Government can achieve this through proper funding of security agent.
- Public – private sector participation should be encouraged to lesson government burden on public expenditure as well as free some economic resources that could help fund SMEs.
- SME start-ups should be granted tax reliefs/rebates as an incentive.
- The three tiers of government (Federal, State and Local government) should institute a credible award system for rewarding outstanding performance by SME operators as well as individuals and organizations who contribute substantially to SMEs development in Nigeria.
- The women affirmative action should be given more impetus to enhance the economic value and relevance of women for meaningful contribution to economic growth and development.
- Finally, government should exercise the political will to grow the micro, small and medium scale enterprises sector, as well as holistically fight the hydra-headed monster of corruption in the system.
REFERENCES


The Nations Newspaper (2014). “100 Lagos farmers receive claims over losses.” 28th April, P. 34.


