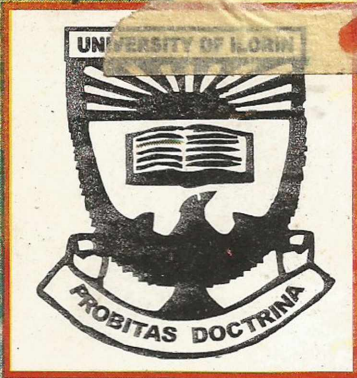


Volume 7, Number 1, 2008



I. B. Kadi

ADVANCES IN MANAGEMENT

*A Publication of
The Department of Business Administration,
University of Ilorin, Nigeria.*

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DEVELOPING SMALL AND MEDIUM ENTERPRISE IN NIGERIA: PROBLEMS AND PROSPECTS

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Abstract

It is evident from literatures that the role of Small and Medium Enterprise (SMEs) development for employment generation, wealth creation, poverty reduction and economic development still need be investigated in developing economies of the world. The SMEs is believed to have played dominant role in the growth and development of the Asian Tigers and other developed economies of the world. It serves as the engine room used to energize the economy for better performance. However, in the last two decades, overt efforts have been put in place in Nigeria to promote the sector in order to reposition the economy from its ailing state. Various programmes were put in place to achieve these objectives. The paper observes that Lack of adequate Market. Inadequate Finance. Lack of indigenous technology, Dearth of Research and Development, unfavourable government policies and poor infrastructure facilities have often belittled these efforts. The Paper is therefore of the opinion that upgrading and expansion of infrastructures such as good roads and electricity must be vigorously pursued. Also, there is the need by Banks to streamline and simplify the regulatory procedures so as to assist the SMEs to obtain finance at the least costs. The paper is also of the view that SMEs should improve on its production process and quality control to meet export standards.

1. INTRODUCTION

Government of the world today has continued to put in place different programmes and policies towards achieving the millennium development goal of reducing poverty by half the year 2015. In some countries (Nigeria inclusive), this target appears to have been rather slow while in others, it has shown considerable progress. In Sub-Sahara Africa for example, the percentage of people living on less than 1\$ US per day increased from 47.4 percent in 1990 to 49 percent in 2000, and is projected to decline only to 42.3 percent in 2015 (International Labour Organization). Countries that have succeeded in reducing poverty significantly indicate the importance of sustained

growth and development in achieving better result (See Ijaija; 2006). But high growth is not enough, the pattern and sources of growth are extremely important from the point of view of raising the incomes of the poor. Hence, the search is on for mechanism that would be put in place to achieve a faster economic growth, employment generation and poverty reduction. The centrality of productive and decent employment in achieving pro-poor growth and accelerating the rate of poverty reduction is by now widely recognized (Selim. 2006). Over the years in Nigeria; overt effort had been put in place to achieve economic growth and poverty reduction. The efforts were termed differently and made to serve one or more purposes. Some were economic, social or gender sensitive. More so, as reaction to the Washington accord on Africa in 2000, the Africa Growth and Opportunity Act (AGOA) was established to assist African countries to have stable economic growth and development. With a view of accessing benefits derivable from the AGOA inactive, the Nigeria government set up the National Economic Empowerment and Development Strategies (NEEDS) as an inducement at re-engineering the economy for growth, efficiency and effectiveness. This is an attempt to restructure, right size, professionalize and strengthen government institutions and Nigerians so as to reduce poverty to the nearest minimum and provide gainful employment. This policy is also aimed at eliminating waste and inefficiency, free up resources for investment in infrastructure development and social services. A close examination of these programmes suggests that they were also meant to energize SMEs and achieve advancement in the economy. The purpose of this study therefore is to examine the need for SMEs development, possible problems and prospects and possible solutions.

2.0 CONCEPTUAL ISSUES AND REVIEW OF LITERATURE

2.0.1 Conceptual Clarification

According to the Central Bank of Nigeria and the Bankers Committee; Small and Medium enterprises is any enterprise with a maximum asset base of #200 million excluding cost of land and working capital and with the number of staff employed not less than 10 or more than 300. Also, SMEs covered must be operating in one or more of the following category of industries;

1. Agro Allied industries: these are industries that engages in the production or heavy use of agricultural products as major input in its production process,
2. Information technology and telecommunication: these are small scale industries that sell or serve as agents to industries that engages in information and technology such as major telecommunication industries in Nigeria,
3. Educational establishment: these are educational establishment. Operators in the nursery, primary and secondary was identified and analyzed.
4. Manufacturing: Industries covered under this category meet the operational definition of the CBN and Bankers Committee,
5. Services (excluding Banking and insurance): Here filling station, saloons and other providers of services was be considered,
6. Tourism and leisure: Hotels, Relaxation points and eateries was examined under this category.
7. Solid mineral: Industries in this category examined met the operational definition of the CBN and Bankers Committee,

8. Construction: Construction firms to be considered met with maximum capital requirement of # 200 million and a work force of between 10 and 300 people.

It need be noted, that in line with international practices, banks will not invest its small medium industries equity scheme (SMIEIS) fund in entities whose principal business involve or comprise the manufacture or supply of or any activities in the following sectors,

- i. Tobacco and Tobacco products
- ii. Armaments production or where 25 percent or more of the total production output is in armament
- iii. Turnover of the investee company is derived from military related purposes
- iv. Beverages with alcoholic content exceeding 15 percent
- v. Casino or companies where the principal source of income is gambling
- vi. Speculative investment in real estate or commodities
- vii. Banking, insurance or financial services
- viii. Immoral and illegal activities
- ix. Investments that are harmful to the environment

2.0.2 Role of SMEs in Economic Development

No economy of the world has grown without contribution from its Small and Medium Enterprise. It serves as the engine room needed to energize the economy for better performance. For instance, through the small scale industrial renovation, the antecedent economic and industrial expansion moved some Asian countries into world leaders in poverty reduction, wealth generation and industrial output. During the 70's, Japan outpaced the United States of America in Car, Steel and Electronics production. Presently, Seventy percent of exports from Japan can be traced to the efforts of Small and Medium Enterprise (SME's). The Small and Medium Enterprises with fewer than 300 workers accounts for 99.5 percent of the factories in Tokyo and employs 74 percent of work force there. Large industries accounts for only 0.1 percent of the industries and employs only 13.4 percent of the countries labour force. Korea and Taiwan prospered as they manufacture and export with the aid of its small scale industries. In the United States of America, the small and medium enterprise account for 87.7 percent of its factories and employs 25.4 percent of workforce. Large industries account for only 0.6 percent of factories in the country and employs 27.5 percent of the countries labour force. West Germany Small-scale industry represents 72.6 percent of the total industries in the country and employs only 18.7 percent of its labour force. Past studies shows that small and medium enterprise (SME's) have in many countries provided the mechanism for stimulating indigenous entrepreneurship thus enhancing greater opportunities, mobilizing saving for investment and promote the use of local raw materials (World Bank 1995). This is evident from the contributions of the SMEs to the strengthening of industrial linkages and the sectors of the economy through the production and transformation of intermediate products such as raw materials, spare parts; and machineries into finished products. Recent studies have shown that private sector must be the engine of growth while it is the duty of the government to provide the working environment. According to the Department For International Development (DFID; 2004) as a policy framework "4 pillars" approach to stimulating pro-poor growth need be put in place by the government. Firstly; government should create strong incentives for i

investment in order to increase productivity. Secondly; foster trade and business linkages in order to facilitate technology transfer and improved resource use. Third; provide broad access to assets and markets in order to build up the asset base of the poor as well as increase the returns to such asset and lastly; to reduce risk and vulnerability and enable the poorest to participate in, and benefit from, growth processes. The challenge of poverty reduction is often made tougher in this kind of society. In that context, productive employment i.e small and medium enterprise development play a key role in linking growth with employment generation, wealth creation, poverty reduction and economic development.

It is evident from literatures that the role of SMEs development and poverty eradication still need be investigated in developing economies of the world. This is so because poverty has continued to rise at an alarming rate. For instance, the poverty level in the country between 1960 and the early 1970's, which was at the lowest level, rose to unimaginable level. As a result of the oil shock experienced between late 1970's and early 1980's, this period could be regarded as the beginning of poverty in the country. The shock caused deterioration in the countries terms of trade, heavy debt burden and macro economic shocks. Between 1985 and 1986, 43 percent of Nigerians were already living in poverty. This figure rose sharply from 53 to 61 percent between 1996 and 1997. By 1999, 66 percent of Nigerians lived below the poverty line was ranked 54th in the Human Poverty Index (HPI) and among the twentieth poorest nations in the world. (CBN Bullion 2003). Efforts at eradicating poverty in the includes among others; Directorate for Food Road and Rural Infrastructure (DFRRI) set up in 1986, Family Support Programme later changed to Better Life for Rural Women established in 1987; National Directorate of Employment (NDE) established in 1987; Family Economic Advancement Programme (FEAP) established in 1997; and Poverty Alleviation Programme (PAP) established in 2000 and later changed to National Poverty Eradication Programme (NAPAP) 2001; the poverty rate in Nigeria still rose to 70 percent in 2000.

3.0 PROBLEMS FACING SMALL AND MEDIUM ENTERPRISE IN NIGERIA

a) Market

The market for Small and Medium enterprises has stagnated due to the formal sector's control of product markets, raw materials and credit facilities in Nigeria. When markets of the SMEs grow beyond a certain size, they are often bought over by the large companies. The SMEs tend to carry the trade mark and labels of the big industries. Some times it may trigger a discrete shift to "international" technology that incorporated this market by virtue of its great market power (Expert group; 2004). This is further manifested in loss of market share to the large industries which in turn affects the innovative capability of the Small and Medium enterprises. These Band wagon effects often diminish the creativity and resourcefulness of the frontiers of the SMEs.

b) Finance

Finance is a very expensive and risky yet essential resource in the growth of the SMEs in Nigeria. In developed economy, Finance is not a major hindrance to the growth and development of SMEs due to the well functioning credit system. A bank generates a profit from the differential between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities. This difference is referred to as the spread between the cost of funds and the loan interest rate. Historically, profitability from lending activities has been cyclic and dependent on

the needs and strengths of loan customers. In recent history, investors have demanded a more stable revenue stream and banks have therefore placed more emphasis on transaction fees, primarily loan fees but also including service charges on array of deposit activities and ancillary services (Wikipedia 2008). In Nigeria as a result of the conditionalities often put in place by the formal financial institutions (Banks) such as collateral, repayment terms, interest on loan, repayment periods etc. it is usually almost impossible for SMEs to obtain needed finance from this sector. Even when available, nearly all credit policies for micro enterprises favour working capital rather than investment in assets. These issues tend to inhibit the introduction of new machines and equipment hence often lead to stagnation in the growth of the SMEs.

c) Lack of indigenous technology development and transfer mechanisms

Indigenous technology development is normally centered on research and development programs that include a complete cycle from problems identification, research and development to solution, which is lacking in SMEs in Nigeria. Innovations in indigenous technology can be stimulated in some cases by technology transfer of new technology from outside and in other cases by the inability to transfer technology. Lack of coordinated transfer systems and mechanisms among micro enterprises therefore stifles advancement of innovation in this sector. The formal education in many African countries is not geared towards acquisition and development of requisite technological skills needed in the SMEs.

d) Dearth of Research and Development Institutes

In many African countries, the public infrastructure for research comprises a large range of institutions, universities, standards and research institutes. The weaknesses of the support structures become apparent due to their multiplicity, inadequate staffing, inadequate funding and lack of appropriate policies focusing on Small and Medium enterprises. This seriously affects the growth of technology in this sector. Large producers often have a wide selection of technology packages to choose from while small producers rarely have a range of processes to justify use of such technology. This discourages producers of technology from factoring the requirements of SMEs which often leads to less availability of appropriate technology in this end of the market. Further more, the source of technology in many African countries is foreign which means that SMEs will not enjoy access to it. Those that manage to access it on the other hand may not utilize it fully due to lack of adequate skills, spares and servicing facilities.

e) Government Policies

The government and its policies also affect the growth and development of the SMEs. Many African government policies are not geared towards economic growth, some where politically motivated. This leads to lack of support services thereby constraining growth in this sector. No matter the efforts exerted by the frontiers of the SMEs, political support is not only important but also necessary. Also there is the problem of multiple statutory levies imposed by the various agencies of the government,

f) Poor infrastructure facilities

Despite all efforts to improve the infrastructure in Nigeria, the outcomes are usually not encouraging. Although an improvement in the telecommunication industry have been noticed the years in the country since private industries were granted license to operate in the country; the poor state of the road network, water supply and electricity are worthy of note. The Small and Medium enterprise incur substantial cost in

the provision of alternative source of power supply. These additional but substantial costs do erode the competitiveness of the SMEs to the bigger firm or potential foreign investors. This often results into the dumping of sub-standard products in the country.

4.0 PROSPECTS AND FUTURE POLICY FOCUS FOR SME DEVELOPMENT

The SMEs provide great prospect for sustainable economic development in the economies of the world. Past evidences have shown that it can be valuable agent to initiate growth and development in the economy.

SMEs can also serve as instruments for achieving poverty alleviation because they are largely labour intensive. It similarly has tremendous potential in the expansion of non-oil exports. However, these can only be achieved if future policy focus seeks to address.

(i) Inadequate and deteriorated state of the nation's infrastructures such as roads, electricity and security. There is the urgent need to address these economic ills. This would include up grading and expansion of the infrastructures. Experiences from developed countries of the world have shown that government should initiate policies that will encourage public-private partnership. This no doubt will lead to more efficiency and effectiveness in these core infrastructures.

(ii) Restricted access of SMEs to Finance in the formal financial institutions needs to be re-examined for better performance. The SMEs must be assisted with a view of accessing funds not only the money market alone, but also at the capital market. The cumbersome administrative bottleneck and other procedures should be further simplified for more active participation of the SMEs.

(iii) Penetrating the export market through the strategy of promoting specific export oriented SMEs. This would include the promotion of extractive and agro-processing textiles and garments leather, oil products as well as computer component other light industries. More so, improved production processes and quality control to meet exports standard should be vigorously pursued by the SMEs.

5.0 CONCLUSION AND POLICY RECOMMENDATIONS

The Small and Medium enterprise over the years have continued to play a dominant role in the growth and development on the nations of the world. It serves as the engine room needed to energize the economy for better performance. In the last two decades overt efforts have been put in place to promote the sector in order to reposition the economy from its ailing state. Various programmes have been put in place to achieve this objective. The paper is of the opinion that policy frame work should be put in place by the government to create strong incentives for investment in the small and medium enterprise. Also, the paper suggests the need for linkages among the SMEs in order to facilitate technology transfer. More so, the asset base of the SMEs must be energized so as to increase its return. The provision of adequate and sustained power supply is also a precondition for the growth and development of SMEs in the country. The various electrification projects in the country should be encouraged and pursued vigorously so as to increase the industrial potentialities of the SMEs. The foreign firms must be discouraged from dumping heir finished products in the country.

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