

The Nature of Small and Medium Scale Enterprises (SMEs): Government and Financial Institutions Support in Nigeria

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Abstract

The role play by Small and Medium Scale Enterprises (SMEs) in economic growth and sustainable development of any nation cannot be downsized. Nigeria, in particular, SMEs serves as the major employer of labour and represent about 95% of its enterprises, This statistic is a pointer to the expected contribution of this segment to the economy. This study discusses the nature of SMEs: Government and financial institutions supports in Nigeria. This study discovers that despite Government and financial institutions support towards SMEs in Nigeria, SMEs fall short of expectations that make the Nigerian economy un-stable than what it is expected. Therefore, this study recommends that the SMEs entrepreneurs should re-

strategize the ways there do carry out operations from as-usual to un-usual. The Government should appoint competent people to handle ministries and parastatals, provide adequate funds to SMEs and make sure it gets to the right people that are in need of it for its potentials to revive back, and the financial institution should subsidize the loan requirement and interest rate to SMEs entrepreneurs. Therefore, with this SMEs will have a comfortable place to play around in Nigeria as it serves as the major mover of the economy.

Keywords: SMEs, Government, Financial Institutions, economy, Nigeria

1.1 Introduction

Obadan (2003) claimed that Nigeria is a blessed and prosperous country with enormous human, petroleum, agricultural, gas and untapped solid mineral resources, with all these blessed natural resources still yet Nigeria has not developed. Nigeria has gone through political instability that has resulted in a climate of social tension and the unpredictable market for businesses since her independent from British rule in 1960. The powerful and peaceful takeover of government by the military through coup and the indigenization policy of the late 1970's has make investors or individual with excellent high spirit of doing business to feel reluctant to invest in any kind of business despite hitherto saw the country as significant and growing market. Although perceived corruption, inadequate infrastructural facilities, policy instability, and lack of accountability of public funds gives set back on the market but it is as a result of the inconsistency of the Government. This fact, make the World Bank to described Nigeria as a paradox (World Bank, 1996). Nigeria's challenges in terms of development are vast, including SMEs development. But enormous oil wealth has brought few benefits to the average person. As a result, the factors such as; corruption, crime and inadequate infrastructural facilities make entrepreneurs not to create enough jobs in the country which tremendously affect the economy. In Nigeria almost two-third of its citizen are living below the poverty line; about half are unemployed, and overall GNP per capital falls below the average for sub-Saharan Africa (World Bank, 2002).

Ariyo (2000) states that at the forefront of recent efforts to modernize and improve Nigeria's ailing economy, there has been a sharp focus on macroeconomic stabilization and the pursuit of investment liberalization, and massive trade programmes in order to encourage Foreign Direct Investment in the country. Multi-national corporations help to bring in foreign exchange and also contribute towards creating jobs in the country that give room for high revenue generation, but in real sense, how they boost and promote the economic development and how there have been assisting in attaining sustainable prosperity are not well appreciative or merely speculative. Consequently, for Nigeria to reach its full potential in terms of economic and social development, SMEs should not be neglected or ignore because it contributes simultaneously to the economy of the country actually. Therefore, the policies of trade liberalization and the encouragement of foreign direct investment have to be pursued in conjunction with a systematic and resolute effort to boost the development and growth of SMEs in the country (Dabo, 2006). Nigeria, like other developing countries with relatively low per capital income, looks forward to industrialization to give it the structural transformation that is imperative in its quest for growth and development. Consequently, one of the most critical development issues in Nigeria is the need to design and implement policies and strategies for an efficient, competitive and diversified economy that will create employment, generate wealth and eradicate poverty. To achieve these goals, therefore, a

strong and viable entrepreneurial base is seen as being essential for the attainment of growth and prosperity in the economy (Dabo, 2006).

The entrepreneurship that is part of SMEs is very relevant to the empowerment of the citizens for sustainable development. It gives substantial opportunities for the assumption and the use of local raw materials for vertical and horizontal linkages. Therefore, it has been estimated that the growth and development of SMEs would improve the economy and welfare of Nigerians. Also, new businesses bring new and improved products and services thereby increasing competition and challenging existing business to improve their performance (Carpenter, 2001). Study conducted by Nigeria Corporate Affairs Commission posits that almost ninety percent of companies in Nigeria in 2001 absorb less than fifty people while in another study conducted by Nigeria Federal Office of Statistics opined that ninety-seven percent of Nigeria businesses also absorb less than or below one hundred employees or staffs, while going through the earlier explanation of SMEs it clearly signifies that almost ninety-seven percent of the entire business in the country are all small businesses. Similarly, a study by the International Finance Corporation (IFC) in the same period estimates that ninety-six percent of all companies in Nigeria are SMEs, compared to fifty-three percent in USA and sixty-five percent in the EU (World Bank, 2002). Carpenter (2001) and Kalanje (2002) argue that SMEs are significantly contributing to the Nigerian economy, with about ten percent of total manufacturing output and seventy percent of industrial employment. Similarly, according to Owualah (1999) claimed that SMEs in the country account for forty percent of its output and at the same time account thirty percent to value added in the manufacturing sector and he further opined that during 1972, SMEs accounted for seventy-four percent of the national employment and fifteen percent of that been accounted by the manufacturing sector with less than one hundred employees or staffs. The current status of the contribution of the manufacturing sector to GDP is seven percent with 1.4 million employment level (The Nigerian Financial Standard, May 3, 2004 p. 1 & 18).

In Nigeria, SMEs account for fifty percent to employment on average and also fifty percent of its industrial output. SMEs represent about ninety percent of the industrial sector in terms of number of enterprises or firms, and however they contribute a meager one percent of GDP. With these, it is inappropriate when we are talking about countries or comparing countries like Thailand, India and Indonesia where SMEs contribute almost forty percent to GDP (Ariyo, 2004). Industrial and economic developments are flourished by SMEs in the country through efficient utilization of local resources; production of intermediate goods and services; transformation of rural technology. SMEs are the backbone, and there play a significant role in the business landscape of any country, but there are also faced with a lot of obstacles that make the sector not to contribute optimally to the economy. In this regard, Aregbeyen (1999) argues that the industrial development of Nigeria depends, to a large extent, on the growth and development of SME potentials. Although Nigeria witness reasonable but fluctuating growth in the industrial sector, in 1957 the manufacturing sector account only two percent of the GDP and it rose to ten percent in 1972 and it further increase to sixteen percent in 1981. The industries helped to reduce unemployment, and provided a base for Agro based industrial take-off and helped the Nigerian economy to grow.

Nonetheless, SMEs are constrained or face with high numbers of obstacles that are as a result of inadequate fund that does not allow the sector to grow and expand rapidly. He

further suggests that for SMEs to improve, expand and modernize its operations competitively there are needs for SMEs to have access to long-term funding. Similarly, Ariyo (2000) identifies some of the bottlenecks faced by the indigenous SMEs to include gaining access to bank credits, financial markets; corruption; lack of transparency and high bureaucratic costs which seriously resulted to undercapitalization of the sector. Thus, she argue, which was further compounded in the early period of the oil boom by a seeming government indifference in it enormous support and the role SMEs play in the national economic development and competitiveness in the country. Ariyo (2000) claimed that the Government did not promote, and provide tangible and lasting policies to support small business sector despite the benefit provided by the oil boom. Similarly, Uzodika (1999) stressed that SMEs was negatively affected due to lack of support from government to the sector. The government spent resources and time on a large public project that seem to be less significant, without given emphasis on SMEs in the country. The woeful capital projects, the government engage upon, are the \$10 million Ajaokuta Steel Complex Investment, the Bachita Sugar Factory, the Iwopin paper mill and the Leyland Daf are all good example of the less important public project carry out by the government. With these the EIU (1999) stressed that the government concentrate its resources on woeful public enterprises while showing neglect or abandonment to SMEs, these are considered as effective reason financial support to SMEs and contribution to SMEs to the economy remain weak. Therefore, it is concluded that the assessment of the past contributions of Nigerian governments to SMEs and the manufacturing sector of small business shows a poor performance. Abundant devaluation of the Naira came into existence as a result of the establishment of SAP in 1986, by then most of the SMEs fold up or collapsed as a result of quantum of the Naira that they required purchasing the right amount of foreign exchange for their raw-material considerably. Most are forced to fold up due to inadequate working capital that is necessary to import raw material regularly. The bank does not help them which is the cause as a result of the fact that most of them are undercapitalized or almost get distressed because of the effect of SAP. These usually continue until the Naira was devalued, but the inflation rate and the interest rate got out of hand. With these, the SMEs sector was entirely reduced significantly, and the country economy became weak and slow, and the following conditions ensured that, buying and selling became the mainstay of the economy, the real sector became inactive, the country became a dumping ground for other economies, unemployment escalated, capacity utilization plummeted, unemployment escalated, and also excessive importation became the order of the day.

They are no doubt to say that unemployment has escalated when the ingredient and the mechanism for building and sustaining SMEs were dismantled and not encourage by SAP. Unemployed is the issue disturbing and confronting Nigeria, and as a result of that it causes violent, crime and make the urban and rural area un-rest. Statistically, forty-eight percent of Nigeria population are unemployed and over one million of Nigeria graduate from the tertiary institution, join any job not because there want it. Example, a lot of people join the army because of high unemployment in the country. We must develop and sustain SMEs by empowering unemployed people through technical training and support. Countries where SMEs enjoyed adequate support, it provides over sixty-five percent of employment and at the same time contributes significantly to the GDP. In Nigeria, the SMEs sector remains stagnant as a result of so many constraint or problem that faces the industry.

2.1 Literature Review

2.2 Small and Medium Scale Enterprises

SMIEIS (2006) claimed that SMEs are those enterprises that has a total capital employed not below one million five hundred thousand but not exceeding two hundred million including working capital but excluding cost of land, with an employee strength of not below ten and not above three hundred. SMEDAN (2005) defines SMEs based on the following criteria: small scale enterprises are businesses with ten to forty-nine people with an annual turnover of five to forty-nine million Naira while a medium scale enterprises that have fifty to one hundred and ninety-nine employees with a year turnover of fifty to four hundred and ninety-nine million Naira. In Nigeria, SMEs cover economic activities within all sectors. It is clear from the various definitions, showing that there is no single concept that constitutes SMEs; the definitions vary across industries and the globe. SMEs are heterogeneous group, and SMEs owners may or may not be poor. Some are dynamic, growth-oriented, and innovative while others are not; there preferred to remain small and also to continue as usual. In some countries, SMEs owner and workers are (or are perceived to be) dominated by a member of particular ethnic groups (Hallberg, 2000).

2.3 Features of Small and Medium Scale Enterprises

Mohammed and Nzelibe (2014) opined that in a report publish in 1994 by the Center for Management Development (CMD) Lagos, noted that in order to create a clear picture of what SMEs is, certain characteristics associated with firms need to be identified and discussed. The report shows the following features of SMEs business: Ownership and Management to SMEs, the chief executive, generally participates actively in the decision-making process and day to day operation of the firm with little or no adequate specialist support, The chief executive can be known by all employees of the company or organization, The chief executive is the owner, founder and manager as well as the controller of the business.

SMEs cut across the industrial sector although the majority is Agro- Allied and food processing. There are quite some wood products and product furniture, in non-metallic mineral, in plastic wares, in clothing, tailoring, and the rest. Considering the facts that they form a large pool of indigenous enterprise and technical know-how and a breeding ground for entrepreneurial management, the SMEs sector needs to be supported and prepared for the uprising in economic activities in Nigeria (Mohammed and Nzelibe, 2014).

2.4 Government Programmes and Financial Institutions Support to Small and Medium Scale Enterprises

Sunusi (2003) opined that over the years, the Federal Government did not fold its arms to watch the performance of SMEs wallow in the gamut of problems. It has taken various steps, including monetary, fiscal and industrial policy measures to improve the performance of SMEs and diversify the country dominance of over – reliance on the oil sector economy. According to Sunusi (2003) some of the government programs, policies, and schemes towards achieving the performance of SMEs are:

2.4.1 Industrial Development Centers (IDCs)

The industrial development centers were develop to extend the provision of services to SMEs in so many areas of endeavour which involve managerial assistance, production planning and control, training of entrepreneurs, product development, project appraisal for

loan application, as well as other extension services which are very important. The first IDCs came into existence in 1962 at Owerri by the Eastern Nigeria Government in 1970. With that a lot of Industrial Development Centers (IDCs) were developed or established in Maiduguri, Bauchi, part Harcourt, Kano, Oshogbo, Abeokuta, Zaria, Sokoto, Akure, Benin City, Ilorin, Ikorodu, and Uyo. The IDCs were implemented in a destitute shape as there are not equipped and funded adequately.

2.4.2 Small Scale Industries Credit Scheme (SSICS)

The federal military governments in 1971 established Small Industries Development Programme to provide financial support and technical services for SMEs, which really led to the establishment of Small Industries Credit Fund (SICF) that was launched as the SSICS in 1975-1980 at the third national development plan. It was making care off as a combined effort or matching grant from federal and state government. And the scheme was launched to make funds available to the SMEs, and it was controlled by the states ministry of industry, trade and co-operatives. The project was hindered by manpower to supervise and monitor the projects. And it is clear that many unviable projects were funded, which have led to massive repayment default.

2.4.3 Nigerian Bank for Commerce and Industry (NBCI)

The SMEs were promoted through NBCI that was established in 1973 to provide financial services to the indigenous business community, more importantly SMEs. NBCI carry out its operation as apex financial institution in order to promote SMEs and also administered or implement the SMEs world bank loan scheme under which a sum of N241.8 million were approved and the actual disbursement were 36.5% lower than the approved amount during 1981 and 1988. By then banks also financed one hundred and twenty projects, which is under world bank loan scheme, and out of them some, are cancelled as a result of lapses from the project sponsors to contribute to their counterpart funding. NBCI face a lot of operational obstacles or problems, in the state of insolvency in 1989, and it later became Bank of Industry in 2002.

2.4.4 Nigerian Industrial Development Bank (NIDB)

SMEs were supported by the NIDB that was set-up in 1962 within a motive to provide medium and long-term loan for investment in industrial activities. But its investment portfolio covers only large-scale industries. The attractive or primary features of NIDB's was entirely responsible for the bulk of finance delivered to the sector under the loan scheme of the world bank SME II which account for more than 80% of the overall amount of disbursements. It disbursed a sum of N74.6 million to SMEs between 1980 and 1988, and several institutions come together to form the newly established Bank of Industry.

2.4.5 Central Bank of Nigeria (CBN)

Development of CBN has been the instrument that develops SMEs. The CBN on its credit guidelines or procedures direct banks should set aside specific minimum percentage share of credit for the most important sectors, including that of SMEs at a preferential interest rates. For instance, in 1979 or 1980 the CBN directed that a minimum of 10% advanced loan that was granted to the indigenous borrowers should be allocated to the SMEs sector. The percentage was later raised to 16% in 1988 and to 20% in 1990. Loans and advances to the SMEs sector as a proportion of the total loans rising from 1.8%, 9.3% in 1986, 22.9% in 1990,

40% in 1992, 26.8% in 1996, 6.6% in 2001, and 8.6% in 2002, respectively. With the risks attendant to such loan and the high cost of its operation, banks like to pay prescribed penalties for not complying rather than to give credit to the SMEs sector. CBN resulted to transfer the shortfall taken from defaulting banks to NBCI for so it can be used to cater for SMEs. With this, it has brought about a remarkably improved performance in complying with bank lending to the SMEs sector. Because of the inefficiency of direct credit control by the CBN, this practice was stop and replaced by the system of the market mechanism, which was supported by moral suasion.

2.4.6 Bank –Assisted SMEs II Loan Project

Federal Government, in 1989, expands credit allocation to SMEs establishing or negotiating a financial assistance programme with the World Bank to complement sources of funding to SMEs sector. The facility required a sum of US\$ 270 million to develop or on-lending the SMEs sector through the participating banks. The World Bank loan, credit components and other related activities were administered or initiated by the CBN, and in 1990 set up an SMEs Apex unit for its effective implementation. The SMEs Apex unit approved loans for 211 projects valued at US\$132.8 million between 1990 and 1994, after that time further approval were stopped. And total disbursements of US\$ 107.1 million were recorded as at June 1996 in respect of 102 projects.

2.4.7 National Economic Reconstruction Fund (NERFUND)

Structural Adjustment Programmes (SAP) was established in 1986, for the subsequent or continuous tightening of the monetary policy, which SMEs find it difficult to secure fund for their investment and working capital purposes. To bridge the observed resources gap for the SMEs sector, the Federal Government established the NERFUND, which commence on 9th January, 1990, whereby CBN stands as one of its facilitating agent or institution. NERFUND was aimed to provide medium and long-term loan ranging from 5-10 years to SMEs at a reasonable rate of interest, with this the formidable handicaps, which militate against SMEs development, was removed. From 1990 to 1998, the NERFUND disbursed a total sum of US\$144.9 million, which was on foreign exchange component, and N681.5 million which was in Naira component in other to support two hundred and eighteen projects. NERFUND activities were seriously ineffective and constrained as a result of the impact of Naira devaluation that escalate or worsen the burden of debt servicing the programme in 2001. The NERFUND was merged with two DFIs to form or established the Bank of Industry.

2.4.8 State Governments (SG)

Most SG has taken an excellent and emphatic steps or procedures to ameliorate the excessive lack of fund facing SMEs even at the grassroots entrepreneurs. Various States, through their Ministries of Commerce and Industries, and the states owned Finance and Investment Organization, provide technical and financial support to SMEs sector.

2.4.9 National Directorate of Employment (NDE)

NDE was introduced on 24th October, 1986; it commences full operation in January 1987. NDE comes up with some programmes to generate or develop self-employment. These were (I) Special Public Work Programme (II) Small Scale Industries (SSI), (III) Agriculture and (IV) Youth Employment and Vocational Skills development. The programme run two credit schemes proposed by an entrepreneur development programme to support the development

of SMEs sector. The two credit scheme for Graduate Loan Scheme (GLS) for job creation, and for the Mature People's Scheme (MPS). The facilities that was provided under the two scheme was repaid over five year's period at a reasonable interest rate. SMEs projects include food processing, flour milling, soap making, and the rest.

2.4.10 International Financial Assistance Bank (IFAB)

The IFAB such as World Bank (WB), the United Nations Agencies (UNA) and the African Development Bank (ADB) have been approach by the Government to secure funds for the SMEs sector. The Federal government has guaranteed to supervise/monitor or co-finance the SMEs and to receive external financial support. For instant, ADB in 1988 issue an export stimulation loan, in the sum of US\$252 million and it has to be paid back in twenty years with a reasonable interest rate of 7.3% for SMEs in Nigeria.

2.4.11 Bank's Equity Holding Companies (BEHC)

Banks and other financial institutions of 1988 amendment reviewed that Section 7.3 (F) upgrade the provision that all the restricted banks and other financial institutions from holding equity shares in non-banking enterprises. The aims and policy were to stimulate and improve the availability of equity capital for SMEs sector and at the same time help in restricting their capital base for growth and survival.

2.4.12 Second Tier Securities Market (SSM)

SSM was introduced in 1985 with an aim to assist and support indigenous SMEs to access or acquire funds from the capital market for modernization and expansion of the SMEs sector. The total numbers of SMEs that was listed on the SSM have increased from Sixteen in 1990, Nineteen in 1991, and at the same time raised to twenty in 1995, respectively, but the least four SMEs have been shifted to the main list of the market.

2.4.13 Technical, Training and Extension Services Programmes (TTESP)

Various institution such as Project Development Agency (PRODA), Federal Institute of Industrial Research Oshodi (FIIRO), Raw Material Research and Development Council (RMRDC), and Centre for Management Development (CMD) all supported the promotion of SMEs in the country.

2.4.14 Bank of Industry (BOI)

Ekwem (2011) posits that BOI is an amalgamation of the former the Nigeria Bank for Commerce (NBC), NERFUND, and the NIDB whose mission was to transform and support Nigeria Industrial Sector, and to promote and integrate it into global economy by providing financial assistance and business support services as well to attain modern technology for the efficient production of products that are competitive in domestic and international markets, and it also help national and foreign entrepreneurs to establish new industries or ventures as well as to modernize and expand the existing ones.. It was set up in 2001 with the principal objective of providing financial support for the establishment of small, medium, and large projects as well as modernization, diversification, and expansion of existing enterprises, and for the repair or rehabilitation of the ailing once.

2.4.15 Small and Medium Industries Equity Investment Scheme (SMIEIS)

Sunusi (2003) opined that The SMIEIS was formally launched on August 21, 2001, by the President of the Federal Republic of Nigeria, Chief Olusegun Obasanjo. The SMIEIS was initiated not only to bridge the dearth of long-term finance, but also to deal with other bottlenecks to small and medium scale industries development in Nigeria. Banks have historically been averse to lending to SMEs in Nigeria due to the perceived high risk inherent in lending to the sub-sector. Nonetheless with active pressure from the CBN, the banks set up a committee, comprising of 11 banks, to review the challenges in lending to SMEs and advice on how to support SMEs. The board's principal recommendations resulted in the agreement by banks to commit 10% of their profits before tax to the funding of equity investments in SMEs. The goal of this scheme was to reduce SMEs borrowing and consequently relieve them from interest and other bank charges that were not favourable to their capital structure. It advocated the provision of financial, advisory, technical and managerial support to the performance of SMEs in Nigeria (Dabo, 2006). The objective of SMIEIS was to address some of the factors impeding the attainment of the full potentials of SMEs. It is anticipated that as banks get involved in SME funding and management, confidence in the sub-sector will improve, such that international financial institutions will be encouraged to provide needed financial support for SMEs in Nigeria (CBN, 2003). Also, the CBN had sought and obtained the co-operation of SEC, in enhancing the registration of venture capital companies being set up by banks for participation in the scheme (Dabo, 2006).

2.4.16 Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)

According to Ekwem (2011) stressed that SMEDAN was established by SMEDAN Act of 2003 to boost and upgrade the Micro, Small and Medium Enterprises Sector for sustainable development of the economy. The agency fixed itself as a "One Stop Shop" for the development of Micro, small and medium enterprises. Micro Enterprises is included in the agency since it forms the bedrock of the SMEs.

The SMEDAN function as been contained in the enabling Act which is summarized as follows:

Stimulating, coordinating and monitoring the development of the MSMEs sector, initiating and articulating policy ideas for micro, small and medium enterprises' growth and development, facilitating and promoting development programmes or initiative, support services in other to accelerate the modernization of MSME operations in the country, serving as vanguard for poverty reduction, rural industrialization, job creation and enhance sustainable livelihoods, Linking SMEs to internal and external sources of finance, appropriate technology, and technical skills as well as to large businesses, promoting information and providing access to industrial infrastructures such as layouts, incubators, and industrial parks, intermediating between MSMEs and the Government while SMEDAN is the voice of the MSMEs, working with other institutions like private and the public sectors to create an effective enabling environment for businesses to flourish in general, and MSME activities, in particular.

A well develop MSMEs sector have known as the one that can fight poverty in the country. The coming up of SMEDAN has justified the need to develop the Nigeria's MSMEs in a well structured and efficient manner (Ekwem, 2011).

Conclusion And Recommendations

Nonetheless, programmes and measures embarked upon by the government and financial institutions to ensure effective performance of SMEs (growth and development) in Nigeria have witnessed limited success despite its effort to promote the sub-sector. Since independence, Government spends enormous resources on entrepreneurial and SMEs development programmes that have yielded poor results. Unfortunately, the funds, incentives and other materials hardly reach the desired businesses as there may be lost, due to bureaucratic bottlenecks and end up in the account of public office holders. Nigeria remains a country with high potentials, but an equally high inertia to develop. Nigeria has the largest market in the African continent where investment opportunities are beckoning to be exploited, but yet SMEs is faced with so many constraints. With this, it makes the SMEs in Nigeria to be low when compared to many countries. This study recommends that the SMEs entrepreneurs should re-strategize the ways there do carry out operations from as-usual to un-usual. The Government should appoint competent people to handle ministries and parastatals, provide adequate funds to SMEs and make sure it gets to the right people that are in need of it for its potentials to revive back, and the financial institution should subsidize the loan requirement and interest rate to SMEs entrepreneurs. Therefore, with this SMEs will have a comfortable place to play around in Nigeria as it serves as the major mover of the economy

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