



**A STUDY OF THE DYNAMICS OF INSTITUTIONAL
SUPPORT MEASURES TO SMALL AND MEDIUM
ENTERPRISES (SMEs) IN NIGERIA.**

BY

RAYMOND NNEJI IHENACHO

OCTOBER, 2005

**A STUDY OF THE DYNAMICS OF INSTITUTIONAL
SUPPORT MEASURES TO SMALL AND MEDIUM
ENTERPRISES (SMEs) IN NIGERIA.**

BY

RAYMOND NNEJI IHENACHO

(MATRICULATION NO.2951)

A Dissertation submitted to St. Clements University
in Partial Fulfilment of the Requirements for the
Award of the Degree of
Doctor of Philosophy (PhD) in Management
St. Clements University.

October, 2005

DECLARATION

I hereby wish to declare that this Dissertation is a product of my own research efforts.

While undertaking this research work, sustained and concerted efforts were made to ensure due acknowledgement through bibliography of all sources of data and information consulted and/or used where there are omissions or incomplete referencing, I express my candid appreciation and acknowledgement of such sources.

Finally I wish to state unequivocally that I take responsibilities for all shortcomings and errors of judgment noticed or observed in this research work.

RAYMOND NNEJI IHENACHO.

.....
Signed

CERTIFICATION

This is to certify that this dissertation entitled, “A study of the Dynamics of Institutional Support Measures to Small and Medium Enterprises (SMEs) in Nigeria” by Raymond Nneji Ihenacho (Matriculation No 2951) was carried out under my supervision and guidance. I also certify that this dissertation has been approved for submission to St. Clements University for the award of the Degree of Doctor of Philosophy (Ph.D) in Management.

.....
Dr. Gabriel Moti
Supervisor

.....
Prof. David Iornem
Academic Adviser

.....
Administrator
St. Clements University

DEDICATION

I dedicate this research work to my wife Augusta Ihenacho and my Children Nnaemeka, Nkemdirim and Chiebuka for providing the conducive atmosphere at the 'home front', which greatly facilitated the completion of the research work.

I also dedicated this research work to my senior brother Professor H'Dede Ihenacho (a Professor of Cardiology) whom God used to touch my life positively. He bore the burden of seeing me through my university education and continued till date to show interest in my well being.

My vision of acquiring a Ph.D would not have been possible without all their contributions one way or the other.

ACKNOWLEDGEMENT

I wish to give thanks to the Almighty God for His invaluable and inestimable favours, especially for blessing me with good health, wisdom and other essential ingredients of life to undertake this Ph.D research work.

I acknowledge with immense gratitude and respect all the support given to me by my former Director-General, Dr. Abubakar Abdullahi, an amiable person and a man of excellent disposition, a man of commendable ecumenical spirit who during the spade works for this research work kept on reminding me, "Raymond you can do it, go ahead and don't give up". He remains one of my mentors.

I am especially motivated and encouraged by the support and immense contributions made by my Academic Adviser, Professor David Iornem, an internationally acclaimed scholar and management expert, for his guidance, encouragement and constructive criticisms of the draft document. I also thank him for making my stay in London during my convocation ceremony very memorable.

I also candidly appreciate the contributions of my project supervisor, Dr. Gabriel U. Moti of the University of Abuja who inspite of his tight schedules devoted time to read through the manuscript and also made very useful comments. I cannot thank him enough.

I also gratefully thank and appreciate profoundly the contributions made by Mr. K.B. Ajoku, of the Raw Materials Research and Development Council, towards the completion of this work. I thank him for his painstaking critic of all entire document and very useful comments made.

I also wish to express my thanks to my fellow Directors in Raw Materials Research and Development Council, namely; Dr. D.B. Ayo, Dr. Ado Abdullahi, Dr. L.E. Nsa, Mr. B.A. Adegbesan and Dr. H.D. Ibrahim for their words of encouragement. I also thank Mr. B.A. Aluko, Dr. (Mrs) G.N. Elemo, Dr. Zeinab Hammanga, Mr. Aror and the entire staff of Research Coordination Department for the support especially during the period I took casual leaves to answer some academic "summons".

Even though space would not allow me to mention all the names of staff of Raw Materials Research and Development Council for their various levels of support, it is imperative to mention the names of Mr. S.B. Olaniyan, Dr. Jolaoso, Dr. Omojola, Engineer G. Ladan, Mr. R.O.

Omotosho, Dr. Dan-Azumi Ibrahim, Mr. C. Okeke, Mr. Inyang (a budding intellectual giant) Mrs. Chima Obi, and Mr. Smart Osuoha for their support.

I also thank Dr. Charles Nwakeaku, a good and reliable friend of mine for his encouragement and contributions towards the realization of this Ph.D project.

I wish to put on record the fatherly role Chief B.N. Osuji, Secretary, National Assembly Service Commission, has played in my life as a public servant. I thank him greatly.

Thanks are also well due to Mrs. Okorie who diligently typed the manuscript and for sparing her private time to do justice to the manuscript. My thanks also go to my immediate staff Mrs. Happiness Olisa, Mr. E.G. Akpan, Mr. Zakari Aliyu and Miss Chizoba Enujiofor who served as a Corp Member in my office, for all their help.

I want to acknowledge with appreciation the support I received from Mr. T.F. Okujagu, the Chief Executive, Nigeria Natural Medicine Development Agency (NNMDA), during my convocation in London. To him I say thank you.

My thanks also go to my very close brothers Barrister Edward Ihenacho, Mr. Princewill Ihenacho and my aged mother (who gives me profound joy when ever I see her) for all their support.

Finally, I thank immensely my wife Augusta A. Ihenacho and all my wonderful and excellent children Nnaemeka, Nkemdiri and Chiebuka (my beacons of hope) for their support during the period this research work was being undertaken. May the Almighty God continue to keep us alive.

RAYMOND NNEJI IHENACHO

ABSTRACT

Government supports to private sector development in Nigeria in recent past have been increasingly focused on micro-enterprises, small and medium scale enterprises or informal sector business. This was done in the belief that through these enterprise sectors, government socio-economic programmes such as poverty alleviation, income generation and general social wellbeing of the people will be achieved. Despite the growing attention accorded to the development of SMEs in Nigeria, their impact and growth is yet to be felt in the society. This study investigates the dynamics of institutional support to SMEs and their contributions to the economic development of Nigeria.

As part of the research strategy, extensive literature review was carried out to provide in-depth insight into the subject matter as well as the background information for discussion of findings from the study. Using both qualitative and quantitative methods, the data generated from the fieldwork were analyzed and the hypothesis tested. In all cases of stated hypothesis, the researcher could not reject the null hypothesis which was attributed to lack of enough evidence to decide against it. Nevertheless, the study revealed lack of clarity of the concept of SMEs to be promoted as well as the prevailing confusion of SME with other micro/informal/self-employment activities which affected the level and scope of assistance. Furthermore, the various institutions promoting SME development were found to operate in their enclave without a harmonized or distinct guidelines encapsulated in a national policy. For R&D support to SMEs, the findings indicated that the delivery system for support by research institutes is very weak or not in existence which invariably affected the effective assistance to SMEs in terms of technology upgrading, improvement on product quality, innovativeness and competitiveness. Finance was recognized as a critical factor to SME development and commercial banks dominates SMEs financing, offering mainly short term loans with high interest rate. The study concluded that neither the public R&D and business support institutions nor the financial sector have been able to effectively support the SME sector in order to maximize their contributions to economic development of Nigeria. Based on these findings, pertinent recommendations were made which include, the need for private sector to provide the desired support measures rather than the public sector institutions, the importance of achieving economies of scale and synergy in providing institutional support as well as shared commitment to a network of support system.

Finally, it is imperative for the formulation of an appropriate SME policy which should reflect the views and aspirations of SMEs and also aim at

improving business culture, promote trust, transparency, accountability and good governance, considered as hallmarks for building a strong SME sector.

TABLE OF CONTENTS

Title Page	ii
Declaration	iii
Certification	iv
Dedication	v
Acknowledgements	vi
Abstract	vii
Table of Contents	viii
List of Tables	ix
List of Figures	x
List of Appendices	xi
 Chapter One: Introduction	 1
1.1 Background of the Study	1
1.2 Statements of The Research Problem	11
1.3 Research Objectives	12
1.4 Justification of the Study	15
1.5 Statement of Hypothesis	17
1.6 Scope of the Study	18
1.7 References	20
 Chapter Two: Literature Review	 21
2.1 Introduction	21
2.2 Institutions to SMEs	29
2.3 Technology Development for SMEs	37
2.4 SMEs Financing	45
2.5 Business Development Services (BDS)	53
2.6 Problems Facing SMEs	56

2.7	References	67
Chapter Three: Research Methodology		71
3.1	Introduction	71
3.2	Research Design	75
3.3	The Study Population	81
3.4	Data Collection	88
3.5	Quality of Research Data	92
3.6	Processing of Data	93
3.7	Limitations of the Methodology	94
3.8	References	96
Chapter Four: Presentation and Analysis of Data		98
4.1	Introduction	98
4.2	Responses to Questionnaire	99
4.3	Business Environment	104
4.4	Research and Development Support	132
4.5	Finance Support Services	149
Chapter Five: Discussion of the Results		161
5.1	Introduction	161
5.2	Business Environment	162
5.3	Research and Development Support	194
5.4	Finance Support Services	205
5.5	References	222
Chapter Six: Summary of Findings, Conclusions and Recommendations		226
6.1	Summary of Findings	226

6.2	Conclusion and Recommendations	240
-----	--------------------------------	-----

Bibliography

Appendices

LIST OF TABLES

4.1	Distribution of Survey Responses	101
4.2	Classification of SME based on Sizes	105
4.3	Classification of SMEs by Employees	105
4.4	Classes of SMEs Based on Activities	108
4.5	Efficient Judicial System	110
4.6	Knowledge of Commercial Law in Dispute Settlement	111
4.7	Suggestions on Improvement of Legal Framework For SMEs Development in Nigeria	112
4.8	Business Regulations as they Affects SMEs	113
4.9	SMEs Perception of Effects of Taxation	115
4.10	Initiatives on Improvement of Taxation System	117
4.11	Institutional Support Framework for SMEs Development	119
4.12	Reasons for or Against Harmonization of SMEs Promotional Activities	122
4.13	Perception of Business Culture among SMEs	124
4.14	Stability of Macroeconomic Policy and Monetary Supply	128
4.15	Critical Infrastructural Constraint to SMEs Development	129
4.16	Infrastructures Adequately Addressed by Government	131
4.17	Distribution of Responses from Public Institutions	133

4.18	Nature of R&D Activities of Research Institutions	135
4.19	Type of R&D Service Offered by Research Institutes	136
4.20	Relationship Between SMEs and RIs Based on Services and Information Availability	139
4.21	Identification of SMEs needs for Service Delivery	141
4.22	Factors Limiting SMEs Access to R&D of RIs	144
4.23	Attitude of SMEs to activities of RIs	146
4.24	Type of Services Required by SMEs	147
4.25	Communication with SMEs on R&D activities	148
4.26:	Financial Services that Target SMEs Needs	150
4.27	Lending Rate to SMEs	151
4.28	Lending Rate Supportive to SMEs	151
4.29	Specific Support with Respect to Stock Market Equity Guarantee and Leasing Opportunities	153
4.30	Processes of Identifying SMEs Needs	155
4.31	Factors Limiting SMEs from Accessing Financial Support Services	157
4.32	SMEs Attitude towards Banking Institutions	158
4.33	Type of Services Desired by SMEs	159
4.34	Communication of Finance Institutions with SMEs	159
5.1	Structure of Manufacturing Activities in Nigeria	163
5.2	Observed Frequencies of Response on Business Regulations and Effect of fee structure	171
5.3	Expected Frequencies of Response on Business Regulations and Effect of Fee Structure	171

5.4	Observed Frequencies of Response on Tax Structure and Tax Refund	174
5.5	Expected Frequencies of Response on Tax Structure and Tax Refund.	174
5.6	Institutions Involved in SMEs Development in Nigeria	179
5.7	Job Creation Ability of TBIC in Nigeria	191
5.8	Skill Acquisition Capability of TBICs in Nigeria	191
5.9	Observed Frequencies of Response	199
5.10	Expected Frequencies of Response	199
5.11	Commercial Bank Lending to SMEs	207
5.12	Sectoral Distribution of SMIEIS Investment by Banks as at July 2004	213
5.13	Observed Frequencies of Responses on Type of Services Desired by SMEs	219
5.14	Expected Frequencies of Response on Type of Services Desired by SMEs	219

LIST OF FIGURES

3.1	Conceptual Framework of Relationship Between Support Measures and SMEs	72
3.2	Research Methods Concept	76
4.1	Distribution of Responses Based on Sector Coverage	102
4.2	Distribution of Staff Strength of SMEs	107
4.3	Distribution Pattern of SMEs Based on Activities	108
4.4	Assessment of the Legal Framework	110
4.5	Distribution of Mean Responses of Public Institutions Supportive to SMEs	119
4.6	Nature of SMEs Development Policy	120
4.7	Mandates of SMEs Support Institutions	121
4.8	Harmonization of Activities of SMEs Support Institution	122
4.9	Favourable Macroeconomic Policy	127
4.10	Mean Response to Critical Infrastructural Constraint	130
4.11	Staff Strength Distribution of Research Institutes Studied	134
4.12	Major Clients of Research Institutions	136
4.13	Research Activities in Relation to SMEs	137

4.14	Difficulty in Engaging SMEs in R&D	138
4.15	Dedicated Unit of SMEs Support Services	142
4.16	Factors Limiting SMEs access to R&D	145
4.17	Nature of Finance Institutions	150
4.18	Banking Activities Supportive to SMEs	152
4.18	Illustration of the Ranking of Factors Limiting SMEs from Accessing Financial Support Services	157

LIST OF APPENDICES

- 1.0 Major Issues, Constraints and Recommendations
for an appropriate Policy Framework for Promotion
and Development of SMEs in Nigeria
- 2.0. Questionnaire

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Prior to independence and thereafter, the Nigerian economy had been characterized by increased focus on large scale enterprise development. This attention to large enterprise development was part of the national industrial development strategy aimed at diversifying the economy which hitherto, focused on agriculture. It is during this period that huge investments were made in state-owned enterprises such as iron and steel, petrochemicals and refineries and cement industries. These accounted for over 60 per cent of Federal government investments in the industrial sector between 1980-85.

A study on SME development in Nigeria observed that the economy had been characterized by support for large enterprises (FMI/UNDP, 1997). The study revealed that between 1962 and 1987, SMEs contributed more than 50 per cent of value added manufacturing as a percentage of gross domestic output while large enterprises (LEs) contributed below less. To encourage the growth of large companies, government policies had been characterized by special favour for large enterprises in terms of incentives, tax structure, marketing, investment and export promotion (FMI/UNDP, 1997). Unfortunately, in subsequent attempts to pursue industrialization, no special attention was given to SMEs.

Furthermore, there was no significant consideration to technology acquisition and adaptation in the industrial strategy that saw the establishment of the State-owned Large Enterprises. This situation no doubt, hampered technology acquisition in the SME sector due to lack of sub-contracting system.

The incentives provided under the various macroeconomic policies enunciated by government were not specifically targeted at SMEs. Also, SMEs have not been able to take advantage of previous policy opportunities due to lopsided administrative procedures and operations of the support institutions designed to provide support (FMI/UNDP, 1997). It is against this background that it is commonly accepted that public sector implemented intervention or support measures have not contributed sufficiently to develop sustainable SME sector in Nigeria.

SMEs Definition

The term small business refers to enterprises engaged in low level manufacturing, services, commerce, tourism, franchising, etc. The definition of small business is often based on the following criteria, size and nature of assets, number of employees, registered or unregistered business and formality of management structure. Governments in both developed and developing countries are giving special attention to the promotion of small and medium enterprises (SMEs) as they are considered the providers of bulk of

employment as well as their substantial contribution to exports and innovative activity. (Mansur, 2001). Consequently, governments are investing considerable efforts and resources in supporting SME growth and development. The contribution of SMEs to employment and output differs on country bases. Mansur (2001) in his study on the competitiveness of SMEs in the Arab region noted that the share of SMEs in total manufacturing employment reaches 74% and 78% respectively in Thailand and Korea, 66% in Germany and 91% in Greece compared to 31% in Bahrain and 41% in Jordan.

Furthermore, he observed that SMEs in developed countries tends to be in “modern” manufacturing and services, often in the field of cutting edge technology with strong entrepreneurial bases, vibrant export sectors and a large base of educated and technical manpower. In contrast to less developed countries, SMEs are concentrated in labour-intensive and traditional activities with low levels of productivity and poor quality products. Also, there is little or no technological dynamism among SMEs and a few graduate into larger sizes or modern technologies (Mansour 2001).

Profiles of Entrepreneurs in the SME group

Entrepreneurs in the SME sector in Nigeria share a common feature or characteristics compared with those in most less developed countries. Their profiles show a common trait such as the following:

- Family, background:-Most are family businesses and entrepreneurs come from a traditional business family background. Business family relatives are important for new start-up businesses, particularly in countries characterized by a relative absence of institutional support for entrepreneurs.
- Reliance on Personal Savings: The formal banking system does not play any significant role in the provision of financial support to start-ups or existing enterprises. This implies that entrepreneurs must search for informal sources of finance. Personal savings accumulated from previous jobs or money borrowed from family and relatives formed the seed money for start-ups to establish the business.
- Lack of Innovation: - SMEs entrepreneurs in less developed countries have been observed to lack innovation as most businesses are repetition of existing enterprises. Often, they have limited innovation in business ideas, production processes or targeted market. The marketing constraints which are considered as the major problem by most of the entrepreneurs are in fact related to the product itself which does not satisfy customer needs, in terms of quality, taste, design and price (Mansur, 2001).

- **Management Limitation:** - Most SMEs are owned and managed by one person who is all and all and handles alone activities such as production, organization, marketing, accounting, etc. Often, they are saddled with daily routine and cannot prepare strategic plans for their company. Furthermore, they start their business without a business plan or feasibility study report. Business plans are one of the major instruments that help entrepreneurs understand market needs and therefore generate new products.
- **Educational Background:** - The educational background of SME entrepreneurs differs. Generally, majority of them are not learned and therefore learn business from experience and practice. The activities undertaken by entrepreneurs are usually not related to their educational background. This is due to the fact that entrepreneurial people take advantage of opportunities where they exist, even when they are not related to their specialization.

Past Interventions or Support Measures

Since independence in 1960, the government of Nigeria had at different times implemented a wide range of assistances and support measures aimed at promoting and developing an SME sector. These measures include but not limited to policy measures, financial assistance, legal

and institutional frameworks, technical support and extension services, training and entrepreneurial development, research and development (R&D), infrastructural facilities, multilateral and bilateral assistance programmes, etc.

The national development plans which commenced in the early sixties (1962-68) identified the importance of SMEs in Nigeria's industrialization strategy. The first five—year plan saw the establishment of the first extension institutions for SME which include;

- Industrial Development Centre, Owerri, Eastern region in 1963
- Industrial Development Centre, Zaria, North Central region in 1967.

In the second development plan, emphasis was placed on promotion of indigenous ownership of enterprises and 5.4 million naira was allocated to grant loans through banks to SMEs until 1978 (FMI/UNDP, 1997). The Nigerian Enterprises Promotion Decree of 1972 further strengthened the resolve to promote SME development.

The fourth five year plan of 1981--85 emphasized the importance of SMEs while providing the groundwork for the industrial policy document published in 1989. The Structural Adjustment, Programme (SAP) period of the mid 1980s brought a new dimension to SMEs development as

various measures were put in place such as de-regulation stabilization and privatization. Unfortunately, SMEs did not make good use of the numerous opportunities this period offered due to absence of effective mechanism to promote the sector.

The fiscal incentives put in place at that time include'

- Income tax relief under Industrial Development Act of 1958, amended by Decree No. 22 of 1971,
- Tax holiday for pioneer industries up to 5 years
- Tax relief on R&D work industry (Miscellaneous Taxation Provision No. 2 Decree No. 55 of 1989.
- Tax holidays (3 years) on solid mineral mining.
- Tax relieve on replacement of industrial plants and machinery
- Tax relief (25%) on purchase of locally made spare parts, tools and equipment
- Tax relief of 1.5% on purchase of locally manufactured plant and machinery, etc.

Also, a series of laws and regulations were introduced which affected SMEs directly or indirectly. In addition, a number of support institutions as well as infrastructure facilities were established to promote SMEs.

These include IDC, Department of Small and Medium Industries (SMD) in the Federal Ministry of Industries, National Council on Industries (NCI), Technology Business Incubation Centres (TBICs), National Directorate of Employment (NDE), financial institutions such as Peoples

Bank, Community Banks, etc. Industrial estates were equally established in many states for SMEs. The most significant area of intervention of the government in promoting SME in Nigeria is in the area of financial support. Several Commercial Banks, Merchant Banks, Finance Companies, Industrial Development Bank, Bank of Commerce and Industry, etc, were established some of which later became distressed.

Various funding schemes were initiated and implemented such as the following:

- a. SMI I programme of World Bank – introduced in 1984 with a negotiated loan of US\$ 41 million.
- b. SME II funding loan scheme – introduced in 1989 with US\$ 270 million and it was reduced to \$142 million in 1992.

Between 1975 and 1980 a Small Industry Credit Scheme was launched under the third five year plan, but was later discontinued in 1979. The establishment of National Economic Recovery Fund (NERFUND) as well as various Central Bank of Nigeria financial provisions for loans to SMEs. For instance, in 1970 Central Bank directed commercial banks to provide at least 16% of loan to local borrowers and was eventually raised to 20% in 1984. Through the Nigerian Directorate of Employment Programme (NDE) a Credit Guarantee Scheme was established to help self employment. In the area of R&D, the Raw Materials Research and

Development Council was established to look into the issue of local sourcing of raw materials by industries including SMEs as a way to reduce dependence on importation of raw materials.

Apart from government support, non-governmental organization such as UNDP, UNIDO, the World Bank, GTZ, DFID have implemented various SME support programmes covering training, standards, studies, awareness, institutional strengthening, etc. Despite all these support measures the promotion, expansion and development of SMEs in Nigeria have remained stagnated. It has been reported that the real organized SME sector did not benefit from many of the support programmes (FMI/UNDP, 1997). Even, many of the assistance programmes were diverted and continued to be directed towards micro and informal activities or enterprise. While some of these efforts were not sustainable, the financing of the SME sector through formal banking system appeared to be almost impossible. The extension service providers particularly IDCs failed completely to render the desired support services due to fund constraint and bureaucratic bottleneck.

Generally, the following factors were identified to have hindered the various efforts and incentives given by the public sector:

- inconsistency and ad-hoc nature of policies and measures introduced;
- instability and bureaucracy in governance;
- insecurity and unsuitable investment climate;
- extraordinary interventions by the government to promote the sector without a long term plan and a clear vision and target beneficiaries;
- very limited role of the private sector at the policy formulation and implementation of programme levels;
- confusion and misinterpretations of the concept of SMEs and programmes to be accomplished;
- absence of coordination efforts and too widely spread and isolated efforts by a multitude of institutions to promote SMEs;
- lack of awareness of what is available by SMEs;
- non-transparency in the implementation of support measures, and
- inadequate reference in the national policies and awareness on global changes and policies related to the SME sector.

These constraints informed a re-think in the approach to SME support. The inadequacy and inefficiency of the public sector led support informed the call for the private sector approach to support measures.

1.2 STATEMENTS OF THE RESEARCH PROBLEM

The study in broad terms attempted to address the numerous questions surrounding SME development while specifically tried to address the following key issues:

1. The business environment for the operation of SMEs is not enabling in Nigeria.
2. The legal framework for SMEs development in the country is highly inefficient
3. Business regulations are too complex for effective functioning of SMEs in Nigeria.
4. The tax structure is unclear and tax refunds are seldom fulfilled.
5. SMEs development policy is inconsistent and the mandates of different agencies promoting SMEs are overlapping.
6. The business culture is very limited with low entrepreneurial capacity of micro enterprises.
7. The existing macroeconomic policy is not favourable to the development of SMEs in the country.
8. Poor infrastructures, especially electricity and water supply are limited factors to the operations of SMEs
9. The nature of financing SMEs is not very supportive to their growth and development
10. SMEs do not participate in the stock market which limits their equity capital formation.
11. SMEs in Nigeria are known to lack the prospects of benefiting from leasing facilities in the country.

12. Financial supports to SMEs in terms of long-term loan as well as lending rate are quite limited.
13. Incentives and support to SMEs in terms of business development support services, export, credit facilities and capacity building are very limited and often inaccessible.
14. There is very poor industrial technology extension services to SMEs in Nigeria
15. Research activities hardly target SMEs and as such they do not benefit from local R&D efforts.
16. SMEs attitude towards the activities of Research Institutions in Nigeria is not encouraging which hinder the desired linkage.
17. Research Institutions lack the capacity and skill required to provide technology extension services to SMEs.
18. What support systems should R&D institutions provide to SMEs?.
19. Is there existing linkage between Research Institutes and SMEs that encourages patronage of R&D activities?.
20. Do Research Institutions have the requisite personnel for providing effective industrial technology extension services to SMEs?.

1.3 RESEARCH OBJECTIVES

In the past years, governments of Nigeria have made concerted efforts to promote Small and Medium Enterprises (SMEs) development in the country through various support programmes.

These support programmes are diverse in nature and uncoordinated in implementation. Various institutions have emerged pursuing similar mandates aimed at promoting SME development.

Since the 1980, especially during the Structural Adjustment Programme (SAP) period when the need to establish a virile SME sector was reinforced, not much has been done to assess the institutional supports to SMEs in order to determine their nature, impact and possible constraints limiting the beneficiaries of such support programmes.

It is believed that without the knowledge base such studies would provide, it will be extremely difficult to formulate appropriate policies with regard to institutional support to SMEs. It is therefore the desire to provide this knowledge base that informed this study.

The immediate objectives include the following:

- to review the existing institutional support programmes that targets SMEs in Nigeria,
- to determine current state of support services such as business development, financial and technology extension services to SMEs.
- to examine the institutional arrangements that could best meet the needs of SMEs in Nigeria.
- to determine the type of industrial enterprises in which proprietors of SMEs engage.

- to identify the government and non-governmental agencies that provide support services to SMEs in Nigeria.
- to document and examine the nature of support services provided by both government and NGOs to SMEs in Nigeria.
- to identify and analyze strategies used in providing support services and its implementation to the benefit of SMEs.
- to determine the adequacy or not of such support services to the growth and development of SMEs.
- to draw lessons for policy formulation in respect of institutional support to SMEs in Nigeria.

The future objectives are as follows:

- to provide a valid body of knowledge that will form background information for future activities on SMEs including policy formulation, planning and implementation in Nigeria.
- to provide conceptual framework for identifying institutional support service providers and activities for SMEs.
- to identify issues for future consideration in strengthening the SME sector of the economy through provision of support services and incentives.

1.4. JUSTIFICATION OF THE STUDY

It has been reported that about 50% of all small businesses in Nigeria fold up before the end of one financial year and that 20% of survivors fold up before the end of the fifth year of operation (Kolawole, 1992). Some of the factors associated with the early demise of small businesses include; inadequate management ability, inadequate financing including unfair taxation, poor competitive position, among others. The lack of managerial capability among SMEs informed why majority of them failed to survive. Also, there is limited local support for them in the area of business management.

Furthermore, some institutions that could support SMEs in this area are not well equipped to render business services. Despite these limitations, SMEs are still recognized as the driving force for economic development. However, their contribution to the economic development of the country over the years is yet to be determined or adequately evaluated. Although some studies have been initiated and adequately carried out on the SMEs operational activities, identifying the major problems and constraints affecting them, not much have been done in respect of institutional support measures to SMEs. Perhaps, the nature of support measures as well as their effectiveness might have hindered the growth and development of SMEs and their effective contribution to national development.

Therefore, the need to study the institutional support measures to SMEs in Nigeria became imperative in order to identify the nature of such measures and the possible limitations to their effective implementation to the benefit of the SME sector. There is no doubt that the study is expected to reveal the current trend in the evolution of support measures to SMEs in terms of technology support, business support and financial support measures.

It is therefore expected that the outcome of the study will further strengthen the importance of SMEs and inform the public on the significant role of SMEs as the engine of economic growth and industrial development of the country. This will no doubt, elicit considerable interest in improving support measures to SMEs and also change their perception as soon as these measures improve and become readily accessible to them.

Furthermore, the study will identify key issues relating to technology extension services, business and financial support services and the areas that need to be improved on in order to promote the growth of SMEs. The findings and recommendations will be useful to institutions, both government and non-governmental as well as SMEs in promoting the growth of the sector.

1.5 STATEMENT OF HYPOTHESIS

Being mindful of the errors associated with probability sampling techniques, efforts were made to validate the findings through hypothesis testing. Consequently, quantitative analysis was carried out using statistical methods. The essence of the hypothesis is to give direction to the study and eliminate trial and error research.

Furthermore, it will help to rule out intervening and confounding variables and allows for quantification of variables (Iornem, 2005, Wimmer and Dominick, 2000).

The following hypotheses were formulated for statistical testing.

HYPOTHESIS ONE

Null (H_0): Business regulation and fee structure as they affect SMEs in Nigeria are not too complex.

Alternative (H_1): Business regulation and fee structure as they affect SMEs in Nigeria are too complex.

HYPOTHESIS TWO

Null (H_0): Tax structure is unclear and tax refund seldomly fulfilled.

Alternative (H_1): Tax structure is clear and tax refund always fulfilled.

HYPOTHESIS THREE

Null (H_0): Research and development activities and type of services offered by Research Institute does not target SMEs.

Alternative (H₁): Research and development activities and type of services offered by Research Institutes target SMEs.

HYPOTHESIS FOUR

Null (H₀): SMEs hardly seek advisory and financial services from support institutions.

Alternative (H₁): SMEs often seek advisory and financial services from support institutions

These hypotheses were tested using chi-square (χ^2) statistical test.

1.6 SCOPE OF THE STUDY

Small and medium enterprises in the context of this study include both micro, small and medium enterprises. The existing institutional frameworks for support to SMEs have been found to be inadequate to deliver appropriate mechanism to promote and develop a sustainable SME sector (FMI/UNDP, 1997). The previous studies on SME sector in Nigeria include among others, the following:

- Financing of SMEs in Nigeria
- Past SME Policies
- Challenges for SMEs
- Urban Informal Sector
- Apex Organizations to Promote SMEs
- Assessment of Industrial Estate, Incubators, etc
- SME/Extension Agents
- Access to Institutional Credit
- Industrial Development Centres

- R&D Results and its Commercialization
- Incentives and Guarantees
- Raw Materials for SMEs
- SME Development Project Documents

Some of these studies have been found to include repetitions, confusing concepts and lacks clear mechanisms for promotion of institutional support for SME development.

The scope of the study therefore attempts to cover four core areas related to the SME sector, such as:

- a. Concepts, definitions and objectives of SMEs
- b. Extension services to SMEs especially technology support
- c. Business development support services and
- d. Financial support services.

The study could not assess the activities of all identified institutions supportive to SMEs development as well as the SMEs themselves. Nevertheless, attempt was made to limit the study to selected research institutes, financial institutions, business development service providers and SMEs. It is hoped that the findings from the study will provide inputs to the formulation of a national SME policy framework as well as serve as a useful source of recommendations to improve the technical, advisory or business support services and financial assistance delivery capacity to promote SME development in Nigeria.

REFERENCES

FMI/UNDP (1997). A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja P 75-106.

Iornem, D (2005). Developing and Testing Hypothesis: An Unpublished Paper, Kaduna, Nigeria, P1-10.

Kolawole, A.F (1992). Small and Medium Scale Industries in Nigeria: An In depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies Kuru, Nigeria Pg 1-5.

Mansour, A (2001). Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Wokshop on “What makes your Firm Internationally competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rf Meeting of Mediterranean Development Forum, Cairo, Egypt, 5th -8th March, Pg.1-10.

Wimmer, R.D and Dominick, J.R.(2000). *Mass Media Research-An Introduction*,6th Edition, Belmont Ca: Wadsworth Brooks/Cole.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The private sector has become the central focus for the economic development of African countries in recent years. Within the context of private sector is the recognition of Small and Medium Enterprises (SMEs) which also include micro-enterprises. SMEs are known to form the backbone of the private sector at all levels of development and a significant contributor to economic development in general and in industrial development in particular (UNIDO, 1999).

Furthermore, SMEs constitute 90 per cent of enterprises in the world and account for 50 to 60 per cent of employment. SMEs need a wide range of support services from representation before government to consulting and technical services, including financing. Because SMEs make-up the bulk of the private sector and also, considering their size and isolation, there is a need to provide access to the resources they need to prosper.

UNIDO (1999) observed that government or donor–provided support services for businesses have not been very effective in the past. They therefore called for new approaches that rely on the market or on the efforts of SMEs themselves to identify and obtain services.

Private sector firms and institutions are usually believed to be in a better position to provide support services than government institutions.

2.1.1 Characterization of SMEs

There is no doubt that the Nigerian economy is dominated by SMEs in terms of number of enterprises. It is estimated that the number of SMEs in Nigeria at an average growth rate of 3.5% was 160,000 in 1991 (Kolawole, 1992). Going by this rate and baring increasing number of SME turnover, it is estimated that by the end of the year 2005, the number will be about 560,000. Of this number, it is also estimated that less than 10% (i.e 56,000) are medium scale, while over 50% (280,000) are cottage or micro-enterprises which constitute the “informal sector” and the rest are small scale enterprises.

SMEs are described as “frontline troops in the battle for even development in Nigeria”. Kolawole (1992) observed that development of the economy cannot proceed rapidly if priority attention is not given to the SMEs. Sectorally, they are found in the consumer goods industry especially textile and clothing, wood products and furniture and metal products. The metal product and engineering services groups are dominated by traditional crafts, metal works and low--end technology, automobile, electrical/electronic services.

It has been reported by the International Labour Organization (ILO) that the informal sector accounts for about 60% of the urban labour force in most African countries (ILO, 1996). SMEs in Nigeria are noted for their high labour force employment capacity, employing about 50% of the labour force.

In terms of value added manufacturing, SMEs are known to contribute substantially, accounting for more than 70% of manufacturing value-added. The sectoral contribution of SMEs to national gross domestic product (GDP) is estimated at about a third of total GDP. SMEs are equally known to contribute to technological development and absorption. Nigerian economy is characterized by modern industries such as automobile, plastic manufacture and assembly plant including oil prospecting services. These industries lack inter-industry linkages that should create a platform for the emergence of a strong SME sector offering ancillary services

Furthermore, because these industries are import dependent in terms of manufacturing inputs including spare parts, it has become extremely difficult for SMEs to develop around the existing large scale industries.

However, SMEs are known to have the potential to utilize local raw materials as well as indigenous technologies compared to large enterprises. It is believed that the ability of SMEs to rely on local raw materials is a pre-requisite for a country's technological development capacity. This implies therefore, the need for government to put in place appropriate policies that will make SMEs really the engine of growth of the economy through increased use of local raw materials as input to manufacturing production.

The structure of management of SMEs which is characterized by their informality affects their performance and contribution to the overall economic growth and development. Kolawole (1992) noted that the preponderance of sole proprietorship in Nigeria's SMEs sub-sector and the poor educational background of proprietors adversely affect the quality of their management. He attributed this factor to be responsible for inability of entrepreneurs to perceive and utilize opportunities that exist for improving their businesses.

This implies that, given the poor level of literacy of the entrepreneurs, it will be extremely difficult for them to perceive and appreciate technological innovation and adoption of innovation in areas such as product design, marketing and management, considered as sources of opportunities for enterprise growth.

Also, ownership structure affects the dynamism of SMEs in Nigeria. It has been reported that more than 90% of the SMEs in the country are owned by individuals, 4.0% by partnerships and less than 2.0% each, by families and limited liability companies (Kolawole, 1992).

This pattern of ownership structure has been found to have wider implications for the financial strength and health of SMEs as well as their management efficiency, attraction of finance and support services, government promotional policies and continuity of existence. The limitations posed by the ownership structure affected the funding prospects of SMEs.

The sources of fund for SMEs in Nigeria include among others the following; personal loans from family and private sources, credit finance companies and institutional sources. It has been reported that family sources account for 80% of initial investment capital (Osoba, 1987, Sonaike, 1975). Also, borrowing from private lenders often account for 10% of initial investment capital.

Currently, loanable fund facilities exist in the country, however, it has been observed that only insignificant proportion (about 1.0%) of SMEs have succeeded in obtaining loans from banks (Kolawole, 1992). Stakeholders in the SME sector have complained at various fora that they have not benefited from the lending schemes of banks established to support the sector.

Bank officials while agreeing with this view, observed that lack of adequate counterpart funding by promoters, infrastructural deficiencies, fear of risks, poor business plan and unstable macroeconomic environment are factors responsible for the low funding of SMEs. From the above issues reviewed, it is obvious that the importance of SMEs to the economic development and growth of the country is recognized. Also, that no country desirous for rapid industrial development can afford to relegate the SME sector to the background.

Consequently, the sector needs a considerable institutional support for it to contribute meaningfully to the overall economic development of Nigeria. According to Kolawole (1992), a virile SME sub-sector by contributing immensely towards the realization of a wide range of government objectives such as the following, plays an important role in the restructuring of the country's industrial base:

- creation of employment opportunities;
- mobilization of domestic savings and investments;
- development of local entrepreneurship;
- encouragement of the use of local raw materials,
- promotion of regional balance in the distribution of industries;
- encouragement of rural development and the
- encouragement of production that provide basic consumer needs.

The institutional and policy interventions need to be designed to harness the potentials of the SMEs sector for improved economic performance. This explains why governments committed itself to the promotion of SMEs and have launched specific support programmes in this regard.

However, government has been accused of policy bias against SMEs especially in relation to its trade monetary, regulatory and labour/policies because of its favourable inclination to the large scale sector.

Based on this, the current emphasis is in the adoption of direct SME support schemes and programmes that will remove the prevailing policy biases with the objective of creating a level playing field for SMEs. It must be appreciated that designating clear responsibility for SME policy within government structures is important to avoid a situation in which different ministries create their own SME development agendas. It is against this background that the Small and Medium Enterprise Development Agency of Nigeria was established to play an advocacy role for SMEs and to ensure synergy among the various SME-related activities of different government departments and ministries.

2.21 CLASSIFICATION OF SMES.

Classification of SMEs varies among countries or economies. However, certain criteria are unanimously used to classify SMEs which include; number of persons employed, value of investment, annual turnover, etc. Oboh (2004) noted that variation in the classification of SMEs is attributable to such factors as movement in the general price level and technological advancement. In a developed economy a small scale enterprise could be equivalent to a medium to large scale enterprise in less developed economy. The IFC of the World Bank Group classified in 2003, micro and SMEs based on the following criteria:

- a. Micro-enterprise
Employees: 10 or less
Total Assets: U\$100,000 or less
Total Annual Sales: U\$100,000 or less
- b. Small Enterprise
Employees: between 10 and 50
Total Assets: U\$100,000 to \$3m
Total Annual Sales: U\$100,000 to \$3.0m
- c. Medium Enterprise
Employees: 50 to 300
Total Assets \$3.0m to \$15.0m
Total Annual Sales: U\$3 million to \$15 million.

Within the Nigerian context, the National Council on Industry (NCI) in 2001 classified SMEs as follows:

- a. Micro/cottage Industry: An industry with total capital employed of not more than N1.50 million, including working capital but excluding cost of land and or a labour size of not more than 10 workers.

- b. Small-Scale Industry: An industry with total capital employed of over N1.5 million but not more than N50 million including working capital but excluding cost of land and or labour size of 11-100 workers.
- c. Medium-Scale Industry: An industry with total capital employed of over N50 million but not more than N200 million, including working capital but excluding cost of land and or a labour size of over 300 workers.
- d. Large-Scale Industry: An industry with total capital employed of over N200 million including working capital excluding cost of land and or labour size of over 300 workers.

2.2 INSTITUTIONS TO SMES

Virtually all countries at whatever stage of economic development recognized the importance of SMEs and the need to support their development (Levitsky, 1997). SMEs were seen as engine of economic growth and industrial development in Nigeria. It was against this background that considerable amount of incentives and privileges were given to SMEs to empower them so as to contribute positively to the overall economic development of the country. Despite these incentives, SMEs unfortunately failed to achieve the very objectives for which they were supported.

Even some measures taken to support them, invariably contributed in the end to the maintenance of weak and uncompetitive SMEs sector. Firms within the sector were inevitably inefficient and hardly create the desired employment opportunities for which they are noted for and supported to achieve.

In the late 1980s it was realized that government interventionists policies to help SMEs through subsidies, protection from imports, cheap premises on industrial estates and special preference for SMEs in government procurement were failing to produce a strong competitive SME sector (Levitsky, 1997). This realization informed why some development economists argued that if policies are set to allow a free market and competition to flourish, good entrepreneurs who manage their small businesses efficiently will be competitive and need special help or support programme. Also, it was observed that most of these interventionists assistance measures involved constraining bureaucratic regulatory framework.

Furthermore, global trend in economic development resulting in a shift towards structural adjustment and policy reform based on liberalization, deregulation and removal of constraints to trade and technology flows brought increased expeditions that new entrepreneurial initiatives would be released and SME would grow and flourish.

Unfortunately, this was not realized in most less developed countries as SMEs were unable to exploit the increased market opportunities because of low productivity, incapacity to compete with imports and exports, combined with limited access to finance to introduce innovation and improve on productivity. Invariably, the comparative advantages SMEs enjoy in terms of employment creation at low levels of capital is scarce and labour is relatively abundant was lost.

It must be appreciated that under favourable policy environment and a less restrictive regulatory framework, SMEs may be helped in the long run to compete in the market and even have access to finance. However, the working of free markets remains imperfect which put SMEs at a distinct disadvantage.

These issues compounded the problems of SMEs and compelled government to seek for avenues to solve their problems. The recognition of SMEs difficulties and weaknesses has led in most countries to the creation and continuous expansion of special institutions targeted at providing assistance to Small enterprises in order to improve the situation (Levitsley, 1997).

Another pertinent issue that has affected the sector is the objectives that informed the support measures put in place to assist SMEs. Social motives as well as encouraging private sector development were among the critical objectives for which support measures were put in place.

Even, both multi-lateral and bilateral donor support projects were predicated on these objectives and were really aiming at promoting indigenous entrepreneurship to enable the local population contribute to and have greater share in the benefits resulting from economic developments. Donors often looked to SMEs as a way of dispersing economic development and of raising the standard of living of the rural sectors.

In most cases, despite the disparity in the support objectives most programmes were justified by the argument that small enterprises generated more employment for a given investment of scarce capital. In Nigeria, the support to SMEs started shortly after independence and was conceptualized after the Indian model “which concentrated on the creation of special public institutions and directed programmes for assisting the small enterprise sector. The reason why the Indian model was adopted has been attributed to lack of any prototype model that could be to developing countries.

Levitsky (1997) argued that donors and government followed the Indian mode in proposing support programmes for SMEs because no suitable other institutional arrangement or programme prototype existed in developed countries which could be copied. He observed that developed countries have often tried to avoid the creation of large comprehensive national public institutions and most government assistance groups, business associations, consultants, university or research institutions. The role of government was more of a “facilitator or provider of resources rather than implementing and offering services directly.

However, in the Indian model, government offered assistance in all fields and directly implemented the programmes including the identification of opportunities for small enterprise development, provision of factory space on industrial estates direct financing and obtaining government procurement orders as well as providing advice and training to small enterprises. The Federal Government of Nigeria initiated in late 1980s entrepreneurship development programme (EDP) as part of its support to SMEs development (Ekpo and Umoh, 2003).

Following the Indian model, many countries such as Egypt, Sri-Lanka, Singapore, Thailand and Nigeria established institutions including workshops, testing centres ostensibly help small scale industries in areas such as food industries, textiles and leather, ceramic, foundry, metalworking and wood-working. These common service facilities were amply equipped but poorly maintained. Also, the institutions suffered significant set backs due to the problems of finding and retaining the right staff and by failure of government to adequately fund them in the face of budgetary constraints.

In keeping with the Indian model, Nigeria promoted industrial estates, industrial extension centres, raw materials research council and technology business incubation centres.

- A. Industrial Estate
- B. Industrial Extension Centres
- C. Raw Materials Research and Development Council
- D. Technology Incubation Centres

A. Industrial Estate

The government at federal and state levels has embarked on the establishment of industrial estates as part of the national strategy for industrial development. The industrial estates are limited by lack of infrastructures such as water, electricity, access roads with only a few exceptions

(Agbara, Matori, Ogba etc, all in Lagos). All of the estates are publicly owned and its administration has resulted in considerable conflict between the various arms of state ministries.

B. Industrial Extension

i. Industrial Development Centres (IDCs):

IDCs were established in the 1960/70 (Owerri, 1962, Osogbo and Zaria, 1970s). They were established with the objectives of accelerating industrial development in Nigeria by focusing technical assistance services to SMEs and to assist in dispersal of SMEs to rural areas. They were to provide assistance to SMEs including entrepreneurship training preparation of feasibility studies, finance, sourcing and extension services.

The IDCs are virtually non-functional due to poor funding, poor project implementation and low staff morale which have affected their support services to SMEs.

ii. Centre for Industrial Research and Development, Obafemi Awoloso University (O.A.U), Ife.

The centre was established in 1968 for the purpose of extension services to assist the survival of SMEs. The centre was managed by the University, the Federal Government and UNIDO.

C. The RMRDC

The Raw Materials Research and Development Council (RMRDC) was established in 1988 to promote raw materials acquisition and exploitation to ensure rapid and integrated industrialization based on available local resources. The Council since inception has embarked on a number of projects that are supportive to SME development especially in the area of local sourcing of raw materials.

The Council offers both advisory and consultancy services, promote investments in resource-based industries, technology development and market-driven R&D. Also, it offers relevant and up-to-date information on the resource potentials of the country through its raw materials information system (RMIS) which is a database system domiciled in the Council.

D. Technology Incubation Centres

Technology business incubators (TBIC) were established in the mid 1980s as a support programme to incubate small businesses in the nursery before transfer to industrial estates. They are provided with common facilities including energy at a fee. The first generation of TBIC is in Lagos, Aba and Kano which were established between 1989 and 1993. Currently, the number has increased and there are virtually TBICs in every state of the Federation.

However, all of them are performing below expectation due to inadequate funding, poor conception of the role of TBIC, poor project implementation and bad management.

2.3 TECHNOLOGY DEVELOPMENT FOR SMEs

It has been observed that small businesses do not perform well partly, because they are unable to improve the technologies in use (FMI,/UNDP,1997). However, the choice of technology among SMEs plays a critical role in determining their productivity and competitiveness as well as the level of income of workers. Studies have revealed that the absence of the following have hindered the growth of SMEs in the country.

- a. Production of intermediate goods which is expected to stimulate the development of technology is virtually absent. The intermediate goods are products of light engineering such as metal fabrication, machine tool shops, and foundries. Also, the development of agro-allied sector, petro-chemicals and chemical industry contributed to the slow growth of SMEs.
- b. Low capacity in fabrication and design. It has been reported that the level of design capacity is low in the country and there are no manufacturing design centres.

The African Regional Centre for Engineering Design and manufacturing (ARCEDEM) in Ibadan is poorly funded and has not been able to assist to build capacity locally in engineering design and manufacturing.

- c. Adaptation of technology. The country has not been able to lay the desired foundation for technology adaptation through subcontracting between large enterprises and SMEs. The various joint ventures projects involving Nigerians and foreign investors, as well as purchase of licenses and patenting have not created the platforms for adaptation of technology.
- d. R&D Centres. The existing research institutions in the country have not created the desired linkages with industries. Consequently, the desired institutional support in terms of R&D innovation in product and process development has not been realized.

2.3.1 Institutional Support to Technology Acquisition by SMEs

The following support institutions were set up with mandates relevant to acquisition of technology by SMEs.

- National Office for Technology Acquisition and Promotion (NOTAP).

- Federal Institution of Industrial Research, Oshodi (FIIRO).
- Project Development Agency (PRODA).
- Raw Materials Research and Development Council (RMRDC).
- National Centre for Technology Management (NACETEM).
- Technology Business Incubation Centres (TBICs).
- National Agency for Science and Engineering Infrastructure (NASENI).

2.3.2 Technical Services and Assistance for SME Development

It has been recognized that technical assistance is a factor that is often overlooked, misunderstood, or neglected which is as important as financial assistance to SMEs. Research studies including those carried out by the Federal Ministry of Industry (FMI), Nigeria revealed that entrepreneurs are not aware of the value and significance of this assistance (FMI, 1997).

The study noted that technical assistance is often packaged along with international loans and the lack of understanding of its relevance and usage have made banks to even ignore the technical component of loans. Industrial extension services to SMEs are critical components of technical assistance.

Industrial extension is a form of technical assistance concerned with basic in-plant management consultancy in the development of enterprises (FMI, 1997). The principal objective of industrial extension is to transmit knowledge through communication which is the principal feature of its focus on in-plant and on- the-job problem solving for the industrialist.

2.3.3 Industrial Extension Services

Successive governments of Nigeria have over the years focused considerably on agricultural extension services which have proved to be of primary importance to farmers. For the SMEs, the converse is the case as this facility is quite limited. Industrial extension programmes are known to have the same beneficial effects to SME as agricultural extension is to farmers. In fact, it was reported that industrial extension had enabled SMEs to survive from initial establishment through growth periods. Entrepreneurs believe that all they need is working capital and often, businesses are not aware of their needs for technical assistance and the benefits derivable from such assistance. Extension services include the following:

- assistance in all aspects of management, in-work organization and product design. Development and adaptation; particular emphasis is also placed on price calculations, book-keeping and financial planning;

- domestic and export marketing assistance, including subcontracting and inventory control;
- assistance in materials procurements;
- assistance in the choice of technology and in the solution of technical problems, including skill, space, public utility and equipment requirements and procurement methods;
- advice on potential sources of finance and help in gaining access to finance, for example by preparing loan requests.
- Identification of training requirements for workers and owners/managers and identification of potential training sources;
- Assistance in explaining government regulations including taxes and legal questions such as incorporation of enterprises, registration, licensing, grants, etc
- Quality control and standardization, particularly where subcontracting and export promotion are important.

2.3.4 Plant Level Assistance

Support services extended to SMEs at plant level include promotion of entrepreneurship, technical counseling, improvement of design, quality and standards management assistance, marketing, industrial research and facilitation of subcontracting. These services are aimed at assisting SMEs raise their productivity, improve the quality of their product reduce their costs and promote the optimum utilization of their machinery (UNIDO,1969).

In developed economy, these services are provided by a variety of specialized institutions such as industrial extension centres or parks, testing and quality control laboratories, management development institutes productivity centres, production and training centres, design centres, etc. In countries where several specialized agencies are set up offering similar services to SMEs, possibilities exists for overlapping functions which demand the establishment of an umbrella organization to ensure coordination of support services and avoid overlapping or duplication of activities.

For SMEs to grow, requests for financial assistance should be linked to technical assistance. Technical assistance to SMEs or entrepreneurs will create the necessary platform for judicious use of funds or credit facilities made available. It is desirable therefore to establish extension services within a financial institution or by working out complementary arrangement with a service provider and a credit institution. Technical services equally cover advisory services and guidance on the choice of materials, machinery and tools as well as on their most efficient utilization in product development. Furthermore, it includes advice on the installation of machinery and equipment, plant layout, techniques of production, maintenance and repair, testing, on-the-job training of workers, etc.

This activity has been found to be one of the most critical input to the growth of SMEs and also, the most difficult to carry out in developing countries. To render this support services requires highly skilled personnel knowledgeable in this area. It is therefore a problem that should not be ignored in view of the scarcity of skilled, competent and experienced trained extension officers. Technical assistance facilities or business support services must be set up in location where SMEs are concentrated. These services should be all embracing including economic, technical, managerial as well as legal.

2.3.5 Management Development

Management development is a very crucial aspect of support services to SMEs. This covers advisory services, guidance and training in all aspects of management of an enterprise including, planning and control and marketing of products. It also include advice on financing, taxes, bookkeeping and cost accounting and selling. Specialized institutions or firms can provide such services.

Industrial research is very important to the innovativeness of SMEs as it guarantee new process and new product development. This implies that a strong linkage should be established between SMEs and research institutions in order to solve some of their technological problems.

Technology extension services must be provided by experienced firms to SMEs as well as provide orientation to the research institution on the type of research needed by SMEs. Quality control and standard certification is very desirable for SMEs to produce competitive products in terms of quality. This type of service can be provided by testing laboratories and may usefully be complemented by quality certification schemes. Improvements in industrial design can enhance performance, quality and appearance.

2.3.6 Incentives

A number of incentives has been provided by government as it relates to industrial growth and development. These incentives have been in the area of tax relief, tariff measures, interest rate, etc. These incentives are often targeted at large scale firms which unfortunately have not benefited SMEs. Of these incentives it is important to mention the tax free dividends/profit on R&D which is the most relevant to this study. This stipulates that all expenses on research and development (R&D) in industries whether on process and product development as well as local sourcing of raw materials are tax deductible up to the value of 10% of the total annual profit of the company. Also, companies are to enjoy 20% investment tax relief if they carry out R&D for commercialization (FMI, 1997).

2.4 SMES FINANCING

Financing SMEs has been a critical factor to the development of the sector. Udechukwu (2003) recognized finance as the most formidable obstacle to the development of SMEs in Nigeria. Characteristic of SMEs financing indicates that most micro, small and medium-sized enterprises will not be able to raise their required funding from either private or corporate investors (Tarka, 2004). This situation is more compounded for technology-based SMEs as their characteristics raise different or additional financing problems. This is due to inability in most cases of financing institutions to assess the technology or uncertainties and risks associated with costs of R&D and in estimating prospective demand for new product.

Tarka (2004) noted that the information asymmetries which characterize SMEs are very peculiar to technology-based SMEs at the start-up stage. He attributed such asymmetries to capital market imperfections which affect adversely debt and equity finance. Lack of collateral and market presence generally makes equity finance more appropriate than debt for small firms, particularly small high-tech start-ups (Tarka, 2004).

2.4.1 Financing Requirements

Four main stages of financing of SMEs in their life cycle have been identified to include seed, start-up, early growth and sustained expansion (Tarka, 2004). Most SMEs relies on personal source of funds at the seed stage. For technology-based firms, the seed and early-stage costs are likely to be higher than other SMEs because of the more complex product development process.

The financing requirement at the start-up and early growth stages is mainly for equity risk capital. The rate at which SMEs progress will depend not only on its access to appropriate finance but also, such inter-related factors as the type of product and market as well as the firm's growth objectives and the capacity of the firms management (Tarka, 2004).

Entrepreneurs fail to start up business due to lack of working capital. Odaman (1996) reported that in Turkey, SMEs are allocated credits through different Banks in order to satisfy their financial needs in terms of investment and working capital. The credits provided by the banks are often with favourable conditions in terms of low interest rate and long pay back period.

In Nigeria, government initiated development support schemes such as NDE failed to produce the intended benefits as most of the applicants are not able to raise the required personal contribution even when their business proposals have been approved to receive grant (Moyo, 2004). Furthermore, lack of business credit history or total absence of collateral have made it difficult for them to access credit facilities from commercial financial sectors.

Also, the cost of funds was identified as a major factor which impacts significantly on the competitiveness and survival of SMEs (Udechukwu 2003). Long gestation in an unstable environment coupled with unsound financial packaging tends to subject SMEs to a high failure rate which in turn makes the sector to be relatively risky and unattractive to the banking system's (Udechukwu 2003).

2.4.2 Finance Support Measures to SMEs

The Nigerian financial system is a very large one consisting of a diverse array of banking and non-banking financial institutions including the following:

- commercial and merchant banks,
- rural-oriented community banks;
- development finance institutions
- licensed financed companies (most have collapsed)

- primary mortgage institutions
- insurance companies
- discount houses;
- pension schemes and
- Exchange bureaus

Also, money and capital markets exist. Despite this diversified financial system, the commercial banks overwhelmingly dominate the financial sector accounting for 93 per cent of non-central bank assets. In the absence of few products and services, traditional bank deposits represent the major forms of financial savings (World Bank, 2003). It is pertinent to note that generally, access to term finance by the real sector is very limited. The main thrust of commercial bank lending is for working capital which often goes to well-entrenched blue-chip enterprises that have enough bargaining power to negotiate better borrowing terms.

Udechukwu (2003) argued that there are strong indications that commercial banks cannot constitute a major source of finance to SMEs in the foreseeable future judging by their antecedents. Moreover, the core competence of commercial banks is not in long-term lending and risk aversion is very high. Also, the commercial banks are

unskilled in project appraisal and monitoring, and therefore lack the capability for loan recovery. The stock market is yet to be a factor to reckon with the financing of SMEs and the bond market is currently too weak to be a major source of finance for the real sector. The problem of credit facilitation to the real sectors of the economy informed why the Federal Government established Development Finance Institutions (DFIs).

Ukpabio (2004) reported that by Central Bank of Nigeria (CBN) Decree No. 24 of 1991, all development banks are under the supervisory authority of the CBN. Also, the FGN established considerable number of funding programmes in order to facilitate credit granting services of the financial institutions to assist SME development. These programmes include the following:

- Small scale Industriesw Credit Scheme (SSICS) set up in 1971 by the Federal Ministry of Industry.
- National Economic Reconstruction Fund (NERFUND)
- World Bank SME II Loan Scheme (Facilitated and Guaranteed External financing by FGN).
- Agricultural Credit Guarantee Scheme Fund (ACGSF) operated by CBN.
- The Trust Fund Model by CBN.
- The Interest Draw Back Programme by CBN.

- Small and Medium Industries Equity Investment Scheme (SMIEIS) an initiative of the Bankers Committee, etc.

The following financial institutions operating in granting credit services to SMEs in Nigeria have been identified:

- Deposit Money Banks (DMBs) or commercial banks. Many government policies that affects SMEs such as monetary and fiscal are implemented through DMBs operations.
- Community Banks are self sustaining financial institutions owned and managed by local communities.
- Development Financial Institutions (DFIs) are specialized financial institutions established to contribute to the development of specific sectors of the economy.
- Urban Development Bank established to create capital for dealing with urban development.
- Federal mortgage Bank established to provide fund for housing development.
- Nigerian Export-Import Bank (NEXIM) established to provide finance, risk mitigating facilities and trade information and advisory services to export community.

The development finance institutions that have the capacity to provide long-term debt capital for the real sector have suffered in the past decade a decline in financial status. The poor performance of the development finance institutions discouraged the more efficient commercial banks from entering the long-term finance of the real sector

The World Bank in one of its recent publications reported that the combined annual loss of the development finance institutions in Nigeria amounted to about 2.1 billion Naira or 8.6% of average total assets (World Bank, 2003).

Also, SMEs medium to long-term finance requirements through leasing remains under developed and accounted for only one per cent of total domestic investment in 1997 (World Bank, 2003). The growth of leasing industry according to World Bank has been affected by the following:

- the lack of a coherent legal framework governing leasing transactions
- problems with contract enforcement and difficulties in repossessing leased equipment from defaulting lessees.
- lack of domestic long-term funds to finance leasing
- rising costs of equipment and
- lack of awareness and the poor skill-base in the industry.

Furthermore, the micro-finance sector has not fared well too. The institutions created by government experienced significant losses in the recent past. The average loan repayment rates have been reported to be quite low. Generally, these institutions are known to be operationally and financially weak, driven by social justice goals rather than financial and operational sustainability (World Bank, 2003).

In fact, they lack a national presence and outreach. Also, credit unions and cooperatives exist estimated at approximately 15,000 credit unions in Nigeria. It is pertinent to note that neither the formal and informal financial sectors have been able to effectively support a strong expansion of the real sector and maximize their contribution to economic growth and development.

For considerable period of time, government has recognized the importance of ensuring access to financial services to SMEs in order to maximize their contribution to national development and economic growth. Recently, the Central Bank of Nigeria in concert with the Bankers' Committee, comprising all banks as members agreed to set aside 10% of pre-tax profits for SMEs under the Small and Medium Industries Equity Investment Scheme (SMIEIS). This fund is to be used for equity investment in SMEs. Since 2001 to 2003 about N14.6 billion has been generated with N4.3 billion or 29.4 per cent invested in SMEs. The real sector enjoyed well over 50 per cent of investment from SMIEIS fund.

Most, if not all SMEs in Nigeria are not quoted in the stock market. Findings from studies revealed that the substantial fixed costs, such as underwriting and advisory fees, make it uneconomical for most SMEs to raise small amounts of public equity capital (Tarka, 2004). For many of the SMEs, their lack of size and trading record excludes them from meeting the listing criteria of public stock exchanges.

2.5 BUSINESS DEVELOPMENT SERVICES (BDS)

Amobi (2004) identified business development services as non-financial services provided to SMEs which include the following:

- marketing assistance –market information, demand for products quality control, packaging , etc.
- networking-information sharing, knowledge, business expansion and or specialization and support.
- Support services- technology supply advisory, accountancy, legal, regulatory (tax)
- Training and education-business approach and planning, product development and finishing, marketing, book keeping, etc.

The World Bank in a recent study on SMEs in Nigeria observed that business development services are not available in the quantity, quality and price ranges required by SMEs (World Bank, 2003). The reasons given for this include;

- local business service providers have limited capacity and few products that are appropriately tailored for SMEs;
- business service providers prefer working for larger firms and government or donors where contracts are larger.
- SMEs on their own part make little use of business development services, possibly due to their inability to afford such services and attimes due to lack of information about them and their possible benefits.

- business development service providers include specialized consulting firms, formal education institutions, business membership organizations, NGOs and firms within the supply chain.

Business development services are desirable for sustainable development of an SME sector. It is recommended that an industry focused program be initiated aimed at providing assistance to BDS providers to develop training and consulting services that can assist SMEs within specific industries to increase their value addition and growth.

Also, there is need to establish a BDS fund for building capacity of providers of value-adding services to reach larger number of SMEs with higher quality services using sustainable business model. It has been observed that SMEs often fail or do not realize their full potentials because they lack proper organizational capacity, skills, systems and procedures, information as well as technology. Therefore, improvement in these areas through training and use of consulting advice can often translate into cost savings and efficiency gains (World Bank, 2003) SMEs productivity in Nigeria is constrained by lack of access to critical know-how, including:

- a. appropriate technology, market information and linkage
- b. product development and marketing;
- c. human resource management

- d. quality management and efficient production systems and
- e. accounting and financial management.

International Business Facilitators

International Business facilitators are primarily concerned with capacity building industrialization, private sector development joint venture, consultancy, franchising, licensing, marketing management of agreement with local entrepreneurs (Egbuogu, 2003). In Nigeria international agencies such as The World Bank and its affiliates such as International Finance Corporation (IFC), African Project Development Facility (APDF), UNIDO and UNDP provide support assistance to SMEs.

Also, bilateral institutions such as Centre for Development of Industry (CDI) of ACP-EEC, the Industrialization Fund for Developing Countries of Denmark offers support assistance to SMEs. Egbuogu (2003) observed that small business entrepreneurs expect the international business facilitators to provide the following assistances:

- a. Skill development to include:
 - assistance with improvement of small business management skill;
 - assisting business organizations in improving service to small business and;

- improving skill of local small business consultants in small business appraisals and credit rating.
- b. Business Advisory such as:
- assistance with business plan development;
 - assistance with business valuations;
 - assistance with financial structure, restructuring and fund syndication;
 - assistance with working capital;
- c. Support Services which include assistance with:
- improving productivity and quality;
 - improving inventory and purchasing systems;
 - developing and installing management information system;
 - strategic planning;
 - developing and implementing marketing and sales systems;
 - developing organizational structures and human resources policies;
 - installing and improving financial planning and accounting standards.

These services are desired for the growth and development of an SME sector of the economy.

PROBLEMS FACING SMES

Several problems have been identified to have hindered SMEs from developing its full potentials. These problems are highlighted as follows:

Biased Economic Policies:-

Economic policies are often designed based on activities of large enterprises which are disadvantageous to SMEs. These policies create market distortions and limited access to inputs to SMEs. SMEs find the regulatory and institutional support frameworks lacking transparency, inconsistent and inefficient, thus inhibiting further development rather than acting as a mechanism for sustained growth. Monetary, financial, trade and fiscal policies discriminate against new and existing small firms through the imposition of considerable entry barriers (Mansour, 2001). Investment laws are quite discriminatory as they provide various incentives and exemptions from income tax and customs duties to projects with high level of capital investment.

The tax system is also, another limiting factor to SME development. It has been observed that small scale entrepreneurs generally do not keep accounting records, so government authorities impose taxes arbitrarily and often unfairly. SMEs tend to feel that taxes are not proportioned to their profit and that tax administration officials apply inconsistent criteria (Mansour, 2001). By not keeping accounting records, entrepreneurs also lose the ability to accurately estimate their costs and profits. Necessary details such as depreciation of machinery or other indirect costs may be excluded from margin calculations.

- **Market Distortions**

Unlike large enterprises, SMEs face problems associated with accessing inputs, credit information and technology market as providers of such services find it much easier and cheaper to deal with a few large customers than with a large number of dispersed small enterprises (Mansour, 2001). Furthermore, access to credit and banking facilities is often hindered by unreasonable high collateral requirements. Other factors limiting SMEs access to financial resources include, high administrative fees charged by banks, high interest rates and unaffordable loan conditions. SMEs are also isolated in respect to information about competitors, suppliers, new technology and export markets. Also, they lack the resources to access new technologies and skills and attitudes, are not aware of existence of such technologies.

Complexity of Administrative Procedures

Prior to now, administrative bottlenecks have been limiting factors to SME development in Nigeria. Often, entrepreneurs complain of registration and or licensing of businesses as being cumbersome and highly bureaucratic. This has resulted to high cost of doing business and had driven many businesses to operate informally.

Limited Access to Business Development Services

Business development services offered by support institutions include; training, advisory and counseling services, information and marketing services. There are several agencies involved in providing training for start-ups and existing businesses. These institutions include NGOs, government agencies, chambers of commerce, manufacturers associations, business associations, credit agencies, training institutions, etc. In some developing countries training for SMEs is barely in existence. The few institutions that offer relevant training programmes are mainly private consultancy firms and their fees are often not affordable by SMEs. Even those institutions carrying out training, their programmes are often prepared without serious identification of problems faced by entrepreneurs. Need assessment as a prerequisite for organizing training is lacking.

In a study on SMEs in Arab States, it was found that entrepreneurs are more interested in technical training related to production (Mansour, 2001). It was also observed that they are unaware of the importance of management in the success of an entrepreneurial venture. The importance of training to most SMEs is linked to how it responds to their real needs. The study concluded that entrepreneurs consider learning by doing as the most important training and more useful than formal education and learning in classrooms.

Also, the learning process of an entrepreneur is based on daily work and experience, the reality and the environment, lessons from success and failure, contacts with relatives, friends and peers, the market and feedback from customers, relations with competitors and suppliers, lessons from problem solving and difficulties faced, particularly during times of stress.

Advisory and Counseling Services

Advisory services are also known as extension services which comprised technical assistance as well as management advisory services. Mansour (2001) observed that in most countries of the Arab region, there are very few specialized agencies devoted to the provision of advisory services.

Furthermore, in countries where business advisory services are not readily available, entrepreneurs are not usually aware of their existence because support institutions do not sufficiently advertise their services and the services offered tend to address the needs of large enterprises. Consequently, entrepreneurs rely more on advice from their suppliers and from other service providers in the private sector.

Business Information Services

Information is very vital to business development. Various sources of information are available in the country, however, they are scattered, often inconsistent and difficult to access. Availability of business information to SMEs is a limiting factor as most of them are not ready to pay fees for information. In addition, market related information is not easily available. Often, SMEs managers are not aware of available information and how to access it as existing information providers hardly advertises their services.

Business support services also include information and data on companies and market potentials both locally and internationally. These support services are expected to be provided by manufacturing association or chambers of commerce or other non-governmental organizations. Information services are however, more available to large firms than SMEs (Mansour, 2001). With the advent of internet, ample opportunities exist to improve on communication and business information flow. The internet offers great opportunity to make information relevant to SMEs quite easily accessible.

Market Assistance

SMEs are often most concerned with effective marketing, a problem considered next to finance. In Nigeria, despite the large domestic market size, SMEs complained of competition from imported products and government policy

with regards to protection of local industries as major marketing constraints. However, the real problems can be attributed to the inability of enterprises to expand the market base beyond the local community as well the poor standards and quality of their products which fail to satisfy the tastes and needs of customers (Mansour, 2001).

Furthermore, due to insufficient experience, entrepreneurs find difficulties in formulating an adequate marketing strategy. Trade fairs and exhibitions are important forums for exchange of information and marketing of products, but setting up a stand at the fairs is considered too expensive by most SMEs. Marketing assistance to SMEs in less developed countries is relatively scarce as existing marketing services available are for large firms.

Entrepreneurs need support programmes as it relates not only to assisting them in displaying their products in fairs and exhibitions but, to train them on management, especially in relation to marketing issues such as methods of costing and pricing and techniques of promotion and sales. Marketing support required include among others the following:

- market information and research,
- trade statistics,
- product promotion,
- product design and development

- information procedures and regulations for export and
- information on international exhibitions and fairs.

Often, existing institutions offering the above support assistances limits their activities to large firms and to an extent, medium-sized ones. This is attributed to the fact that most small firms have no exportable products and as such, no serious efforts are being made to assist them to adapt their production to customer needs.

The support provided by manufacturers associations and chambers of commerce and industry is confined to informing members who are mainly large firms on fairs organized in the country or outside and to create awareness on marketing and international regulations and procedures with regard to export. It has been established that the growth of the size of export market for a specific product encourages small firms to cooperate together to meet the needs of the market and also promotes specialization (Mansour, 2001).

Networking and Cluster formation

International experience in both developed and developing countries has proved that the geographic or sectoral clustering of firms contributes to enhance their competitiveness and provides the appropriate vehicle for intervention of support institutions (Mansour, 2001).

Concentration of firms on a sectoral basis has been found to encourage suppliers, marketing agents and other service providers to establish themselves in the cluster.

Furthermore, it will enhance interaction between small firms and lead to some degree of division of labour as well as increase specialization and innovations. There is no doubt therefore, that the existence of clusters will provide increased opportunities for SMEs to work together and cooperate in various areas. Clusters will give impetus to development agencies to provide support services to small firms in specific specialized areas such as export promotion, quality upgrading, information on international market trends and technological developments including subcontracting opportunities, technical and managerial training.

Networks between small firms have been identified as a veritable strategy for providing mutual benefits to all through active cooperation and joint action. Networking would contribute to improving the competitiveness of SMEs and prepare them to deal with globalization, through the development and marketing of new products and cooperation in the establishment of agents and distributors in new market. One of the aims of the network is to facilitate the delivery of support services by various support institutions especially NGOs which prefer to deal with groups rather than with small individual firms.

Also, the network attempts to promote inter-firms cooperation through the development of better relations between the participating firms in the network. Such cooperation has been found to enable SMEs to raise their competitiveness and focus on areas of product design and standardization, process innovation and human resource management (Masour, 2001).

Inter-firm collaboration which is an effective means for fostering SMEs development and growth is affected by factors such as geographical dispersal of firms, lack of cooperation, competition between firms and limited trust among entrepreneurs. Mansour (2001) noted two significant reasons for the relative absence of networks of entrepreneurs as the distrust that exist between owner-managers and the absence of programmes promoting inter-firm collaboration.

Current efforts at institutional support, concentrates more on improving the performance of individual firms through advisory services, provision of credit and training for upgrading technical and managerial skills. Also, efforts are geared towards recommending policies that are likely to improve the macroeconomic environment for SMEs through liberalization measures and facilitation or reduction of bureaucratic and administrative procedures.

However, very few programmes emphasized inter-firm cooperation and interaction, or self-help groups as a means to improve competitiveness of small firms and assist them in facing the challenges of globalization.

The promotions of subcontracting arrangements with large firms will also assist small firms achieve competitiveness. In modern market economies large firms play a pivotal role as SMEs cluster around these companies to act as subcontractors. Unfortunately, however, in several countries the markets lack the required linkages between small businesses and large corporations.

REFERENCES

Amobi, I (2004), Nigeria: Emerging Opportunities in business Development Services. Paper Presented at an Industrial Policy Forum on “Can Nigerian Industry Compete?”, Organized by United Nations Industrial Development Organization (UNIDO), Abuja, Nigeria 29th April, Pg 5-6.

Egbuogu, L. O. D (2003). What Small Business Entrepreneurs Expect from Local Credit Agencies and International Business Facilitators. Paper Presented at “Business America” A forum organized by the US Commercial Consulate, Lagos, Nigeria, 3rd March, Pg1-10.

Ekpo, A. H and Umoh, O. J (2003). The Informal Sector November, 2004 accessible at <http://www.onlinenigeria.com/links/adv.asp?blurb=495>

FMI/UNDP (1997). A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja, Nigeria, Pg 2-40

Kolawole, A.F (1992). Small and Medium Scale Industries in Nigeria: An In-depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies, Kuru, Nigeria Pg 1-81.

Levitsky, J(1996).Support Systems for SMEs in Developing Countries: A Review. Paper Commissioned by the Small and Medium Industries Branch, UNIDO Vienna Pg 3-39.

Mansour, A(2001).Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Workshop on “What Makes your Firm Internationally Competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rd Meeting of Mediterranean Development Forum, Cairo, Egypt, 5th–8th March, pg 1-20.

Moyo,R(2004).Technology Transfer and SME Promotion through Village Skills Training Programme in Botswana. June, 2003 accessible at <http://www.fes.de/fulltext/wana/00554003.htm>.

Oboh, G.A.T(2004). Contemporary Approaches for Financing Micro, Small and Medium Enterprises. Conference on SME held at the International Conference Centre, Abuja, Nigeria,19-22 July Pg 2-15.

Odaman, A(1996).SMEs Role and Importance in Turkish Economy. Small and Medium Industry Development Organization (SMIDO), Turkey. Pg1-16.

Osoba, A.B(1987). Small Scale Enterprises in the Development Process. In, Towards the Development of Small Scale Industries in Nigeria, Osoba, A.M (Ed) Nigeria Institute of Social and Economic. Research, Ibadan, Nigeria, Rosprint Industrial Press.

Sonaïke, P. O(1975). Small Scale Industries in Nigeria: Techniques of Probability Sampling and Analysis. Doctoral Thesis for Oxford University, London Pg 50-52.

Tarka, D(2004).Contemporary Issues for Financing Micro, Small and Medium-sized Enterprises. Paper Presented at the 15th International Conference on SMEs, Abuja, Nigeria, 19th-22nd July, Pg 1-12.

Udechukwu, F.N(2003).Survey of Small and Medium Scale Industries and their Potentials in Nigeria. Unpublished Paper, Pg1-8.

Ukpabio, G.E(2004).Financing Investment Projects through SMEs: The contributions of financial Institutions. A paper presented at the Investment Day of the 7th Raw Materials Research and Development Council (RMRDC) Techno-Exposition 2004, Abuja, Nigeria, 14th October, Pg1-11.

UNIDO(1969).*Small-Scale Industry in Latin America.* United Nations, New York Pg 16-20.

UNIDO(1999): Capacity Building for Private Sector Development in Africa. Private Sector Development Branch, PSD Technical Working Paper Series No.3 UNIDO, Vienna, Pg 1-23.

World Bank(2003). Project Appraisal Document on a Proposed Credit to the Republic of Nigeria for Micro, SME Project. The World Bank, Pg 37-50.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

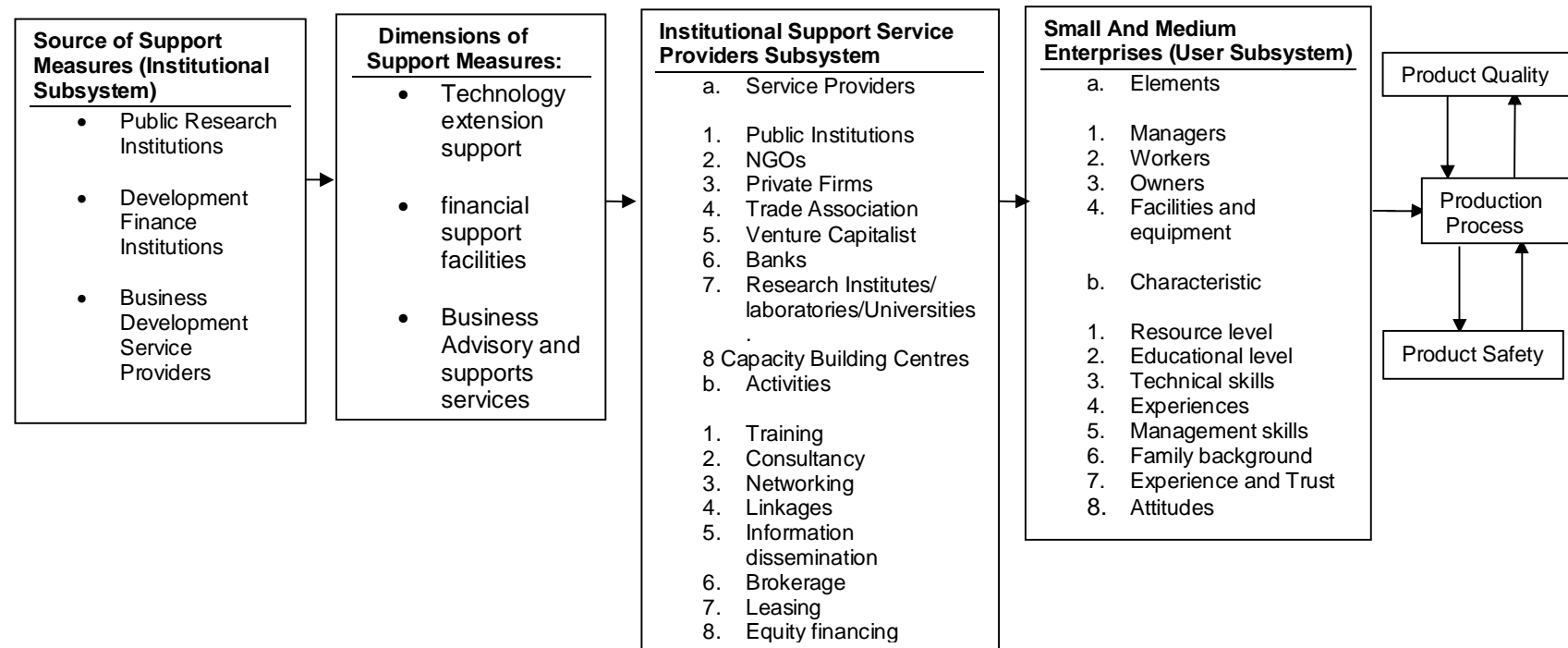
The literature review has established that considerable institutional support measures have been put in place by government for SMEs development. However, the dynamics of these institutional support measures in terms of service delivery and beneficial utilization by SMEs still remains a subject for clarification.

To clarify this issue, pertinent questions need to be answered which include the following:

- What are the support measures put in place to assist SMEs development?
- Are the support measures effectively delivered to SMEs?
- What institutional frameworks are responsible to deliver these support measure?
- Could the support measures be delivered in such a way as to make the desired impact on SME development?

A conceptual model was developed following the findings from the literature review.

Figure 3.1 Conceptual Framework of Relationship between Support Measures and SMEs



Source: Adapted from Ngesa *et al* (2003)

The theoretical model provided the platform for identifying the sources of support measures, nature of support, support providers and activities and characteristics of SMEs being investigated. The model elaborates the relationship among the various subsystems that constitute the framework for the study. The subsystems include technology providers (Research Institutes), finance institutions and business development service providers and SMEs. The first subsystem includes the industrial technology extension subsystem comprising public research institutes, universities and polytechnics. A number of these public institutions develop technologies that could be of benefit to SME.

Their primary mandate partly facilitates effective dissemination of R&D findings from the subsystem to SMEs. Consequently, these institutions are expected to undertake a number of activities to promote the use of technologies by the user subsystem which is the SME (Ngesa *et al*, 2003). In the model, the users of the technologies are supposed to be the small and medium size manufacturing firms. The dynamics of support measures to be provided by the first subsystem (Research Institutes) to the user subsystem are to be studied.

For the finance institutions, there are bodies within this subsystem that are supposed to provide support services to the user subsystem (SMEs). Their effectiveness in delivering the support services is to be evaluated within the

scope of this study. The same issue is applicable to the business development service providers.

The user subsystem on the other hand consists of individual enterprise owners, managers and workers who uses the technologies generated by the industry to produce goods and services. Their capacity to adopt technologies is greatly influenced by their levels of education, experiences technical skills and attitudes (Ngesa *et al*, 2003). The subsystems are expected to interact in an efficient and continuous basis. This model provided the foundations for the research methods and procedures adopted for the study which focused on the dynamics of the institutional support to SMEs. Specifically, the study documented and analyzed the following pertinent issues:

- The level of industrial extension support services to SMEs by the Research Institute and Universities;
- The financial support services provided to SMEs in Nigeria,
- The business development support services needed by SMEs and provided by support institutions
- The awareness or not of these support measures by SMEs as well as the level of utilization of such services.

The research method adopted tried to address the goals and objectives of the study as well as the pertinent research questions. Also, the various methods adopted in obtaining information and data from the target respondent were elucidated. For effective interpretation of findings, the

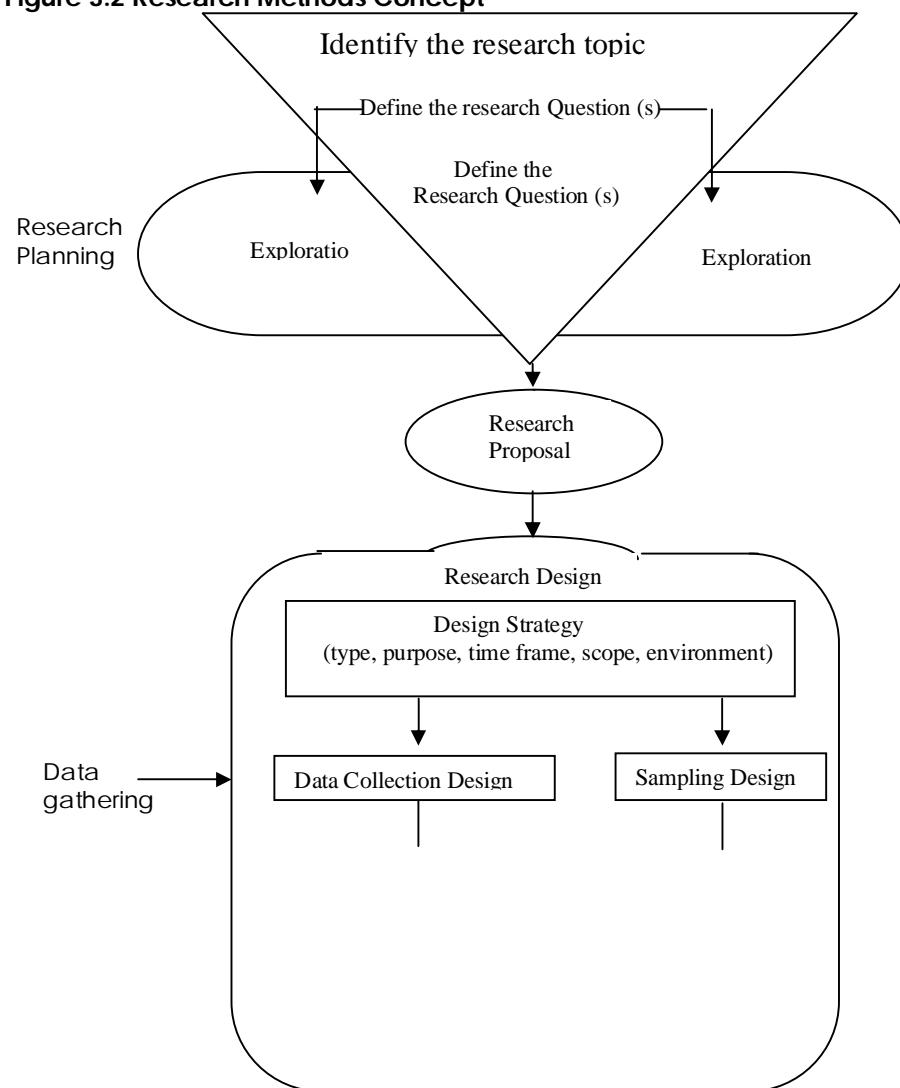
data and information generated were subjected to statistical and qualitative analysis.

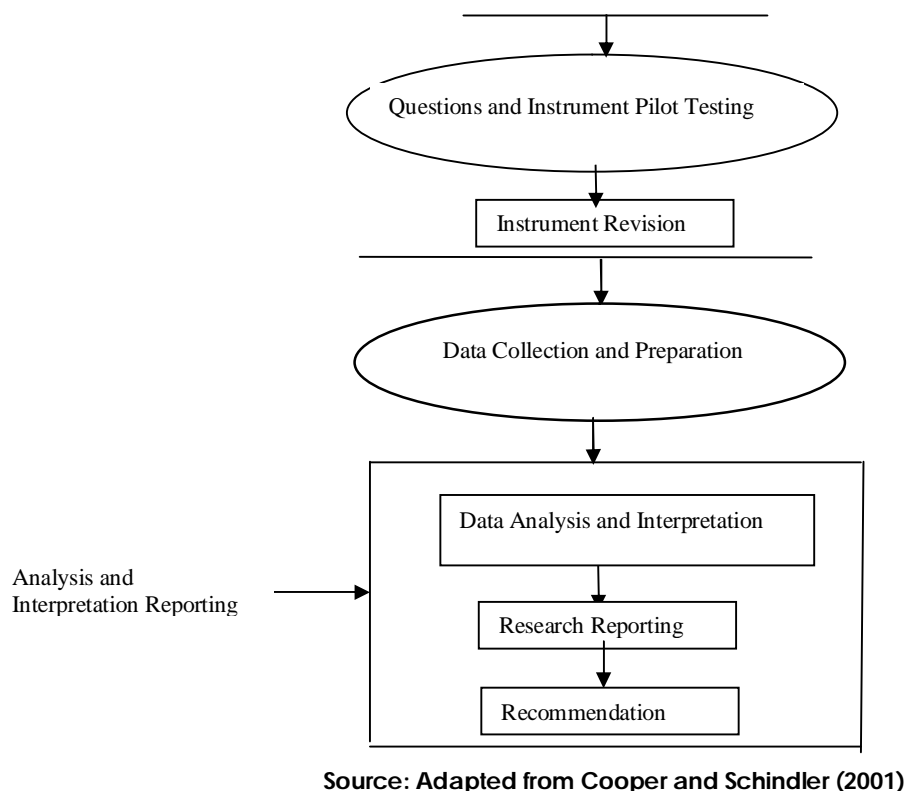
In addition, citation analysis was carried out to clearly elaborate on previous works done in the area of research study. These were captured at the end of each chapter.

3.2 RESEARCH DESIGN

In planning for the research study, the researcher was mindful of the need to have a well articulated research design. The concept of research method adopted is illustrated in figure 3.2.

Figure 3.2 Research Methods Concept





Such a research design is desirable for the objective of data collection that will be useful in addressing the research questions as well as test the stated hypotheses. It is therefore, a veritable guide for data generation, especially primary data. The research strategy adopted in this study is the survey technique. This strategy was chosen because of the nature of the research topic which demands the collection of significant amount of data from a meaningful population size in an efficient manner. Because this method is well understood and perceived as authoritative by people in general, it was most appropriate for its adoption.

The research study was both exploratory and formal. The study was exploratory because it has the objective of

discovering future research tasks. It was equally formal because it further extends the exploratory work by testing the hypotheses designed and also answers the research questions asked.

The research study tried to find out what support measures were given to SMEs and by whom, which made it a descriptive study in one hand. On the other hand, the study was causal in the sense that attempt was made to find out the causal relationships among variables such as the support measures and the end-users, in this case, the SMEs. The research environment was the field conditions which were the operating environment of the various subsystems identified in the conceptual model.

Two survey methods including questionnaires and interviews were used because the respondents have diverse background.

Interviews were used to obtain information from SME managers, government institutions, non-governmental organizations, business development service providers and international organizations that provide support to SMEs.

Questionnaires were used to obtain information from commercial banks, development finance institutions, research institutions as well as owners of SMEs. The limited number of business support institutions to SMEs

informed the use of interviews to collect information from their key personnel including Chief Executives. Interviews were conducted using semi-structured interview schedule and in some cases, specialized interview schedules were used to extract as much information as possible.

The goal of a formal research design is to test the hypothesis or answer the research question posed (Cooper and Schindler, 2001). The research design therefore, expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem (Deming, 1960).

Structure of Questionnaire

The questionnaire is recognized as an important method of quantitative data collection and therefore, attempt was made to design it in a way as to capture accurate data and high response rate. In designing the questionnaire, it was assumed that the respondents who are major stakeholders in providing supports to SMEs as well as the beneficiaries (ie SMEs themselves) were sufficiently informed on the subject matter.

The questionnaire was therefore designed in such a way as to elicit responses from scientists and researchers in public R&D institutions, senior personnel in the banking industry and managers and owners of SMEs.

In constructing the questionnaire in terms of wording and layout, consideration was given to its usefulness as a guide

for decision or opinion making. The funneling approach was adopted in designing the overall structure of the questionnaire. This approach involved asking general questions first before gradually restructuring the focus through more specific questions, thereby leaving the most direct question until the last (Stokes, 1998). This technique is used to reduce elements of bias which could come from asking specific questions up front.

Efforts were made to eschew biased wording in the framing of the questionnaire. Cooper and Schindler (2001) observed that strong adjectives can be particularly distorting in the formation of questions. Also attempts were made not to personalize questions. Open-ended and closed questions were asked bearing in mind the different background of the respondents such as:

- Respondent motivation: Closed questions have been found to require less motivation and answering them is less threatening to respondents (Cooper and Schindler, 2001). Closed questions are preferable in large survey as they reduce the variability of response, make fewer demands on interviewer skills and much easier to analyze (Cooper & Schindler,

2001). Dohrenwend (1965) observed that experimental studies suggest that closed questions are equal or superior to open-ended questions in many more applications than is commonly believed

- **Communication Skill:** Open-ended questions require a stronger grasp of vocabulary and a greater ability to frame responses than do closed questions. Often respondents find it difficult to answer open-ended questions. In order to extract the best from respondents, the following response strategies were adopted in designing the questionnaire.
- **Question Sequence:** Arrangement of questions play a significant role in achieving the desired response. Consequently, stimulating questions were asked first before more sensitive ones. The design of the questionnaire was therefore structured in a manner to extract the best from the respondents based on the following strategies:
 - Free response (or open-ended questions)
 - Dichotomous response (e. g Yes or No.)
 - Multiple choice response providing more than two alternatives

- Checklist response
- Rating and ranking responses

In order to improve on the value of the survey results, the questionnaire and interview schedules were pre-tested. The researcher was mindful of the importance of pre-testing as it relates to the following:

- Respondent Interest--It is important to discover the respondent reactions to the questions.
- Meaning – Are the wordings of the questions meaningful and readily understood by respondents?.
- Continuity and Flow--Questions should read effortlessly and flow from one to another and from section to section.

3.3 THE STUDY POPULATION

The study population consists of Research Institutions (RIs), Finance Institutions (FIs), Business Development Service Providers(BDSP) and Manufacturing SMEs. The manufacturing SMEs studied include the following:

- agro-based manufacturing
- small-scale mining
- textile and garment production
- leather and leather products manufacturing
- food processing
- wood and wood products processing
- equipment fabricators and
- cosmetics and chemical production

The choice of population for the study was informed by the need to extract relevant information that will guarantee reliable findings and assist to make appropriate recommendations. Measurement scales were used to get the respondents express their opinion on the subject matter of research. Consequently, measurement scale such as ordinal scale and interval scale were appropriately used to measure the variables. Also, using the scaling technique, attitudes, perceptions, opinions, appreciation and understanding of issues raised in the questionnaire were assessed. This technique made it possible to translate verbal expressions of feelings, opinions and attitudes into numerals for ease of analysis (Abdullahi, 2004).

Nature of Sampling

Sampling process was chosen considering the nature and characteristics of the population element being studied. It is believed that by selecting some of the elements in a population, conclusions about the entire population can be drawn.

A population element is the unit of study as well as the subject on which the measurement is being taken. The population element in this studies therefore include the scientists in research institutions, managers in financial institutions, managers of business development service providers and owners and managers of Small and Medium Enterprises (SMEs).

The study population therefore, is the collection of all elements about which the researcher wish to make some inferences.

In sampling, consideration was given to how well it represents the characteristics of the study population. Consequently, emphasis was placed on validity which is a function of accuracy and precision. The whole essence of careful sampling is to eliminate as much as possible systemic bias.

Identifying a Suitable Sampling Frame

In designing the research study, the researcher took into consideration the need to make inferences from sample of the population in order to answer the research questions and also meet the research objectives. In this regard, consideration was given to the following processes:

- Need to identify a suitable sampling frame based on the research question (s).
- Need to decide on a suitable sample size.
- Select appropriate sampling technique and sample, and
- Ensure that sample is a representative of the population.

Sampling Technique

The sampling frame for this study includes the following:

- List of Research Institutes in Nigeria;
- List of SME Support Banks;

- List of Business Development Service Providers; and
- List of SMEs.

The sample was therefore selected from these lists. Due to lack of suitable list, directories of finance institutions and business development service providers as well as that of SMEs were consulted in order to select samples.

The choice of sample size was influenced by the following:

- the confidence needed to have on the data in respect of the total population;
- the margin of error that can be tolerated;
- the type of statistical analyses to be undertaken.

Given these competing influences, the Economist (1993) advised that a minimum number of 30 for statistical analyses provides a useful rule of the thumb for each of the categories of the sample. The researcher realized the need to work at a level of certainty and calculated the minimum sample size required at 95 per cent level of certainty. This is further elaborated in chapter four of the study. Of the 35 core Research Institutes, 30 were sampled in order to determine the level of support assistance rendered to SMEs by the institutes in terms of technology extension and technical support services. The population characteristics of this subsystem therefore include scientists and researchers in the RIs. Stratified sampling was applied by grouping the population under study into definite strata.

The staff of RIs studied were only scientists and researchers involved in technology extension. These include Directors, Deputy Directors and Chief Scientific Officers or Investment Officers. The choice was based on the expectation that these categories of staff must be involved with technology development and dissemination of research findings to entrepreneurs. A total of 30 questionnaires were distributed to the 30 RIs.

Similarly, 30 questionnaires were distributed to finance support institutions while 40 questionnaires were distributed to SMEs. The 35 RIs surveyed are geographically dispersed all over the country as well as the finance support institutions and SMEs. It is in recognition of this that the samples were collected from the six geopolitical zones of the country comprising, North-west, North central, North-east, South-west, South-south and South-east. It is believed that this approach will afford the researcher opportunity to have a fair distribution of the questionnaires and responses from the study target groups.

On the whole, a total of 100 questionnaires were distributed to the target population elements comprising the following:

a. Scientists in Research Institutes	30
b. Managers of Finance Institutes	30
c. Owners/Managers of SMEs	<u>40</u>
	<u>100</u>

Summated rating scale of the **Likert type** which include the four--point or five -point scale was used. This type of scale enabled the measurement of the intensity or degree of agreement or disagreement to statements made on support to SMEs by respondents. The summated rating scale therefore provided the platform to compare responses among the respondents using simple statistical representation such as pie-chart, bar-chart and chi-square (χ^2) analyses.

Improving Questionnaire Return Rates

The following steps were taken to improve on return rates for distributed questionnaires:

- questionnaire length was made very limited to elicit ease of response.
- cover letters were used to dispatch the questionnaires. It is considered a logical vehicle for persuading individuals to respond.

- repeated visits and phone calls to the respondents though costly, assisted to ensure good response.

Invariably, the Total Design Method (TDM) as reported by Dillman (2000) and Cooper and Schindler (2001) was applied. The TDM procedures suggest minimizing the burden on the respondent with questionnaires that meet the following objectives:

- Design surveys that are easy to read
- Offer clear response directions;
- Provide information about the survey in a cover letter of advance notification;
- Personalize all communication with the respondent, and
- Follow-up contacts through phone to encourage response

Response Rate

The likelihood of having non-responses was taken into consideration in the research design. Saunders *et al* (1997) noted that non-response could be due to three interrelated problems such as refusal to respond, ineligibility to respond and non-contact. De Vaus (1991) suggested a strategy of excluding ineligible respondents by calculating the response rate as stated below.

$$\text{Response rate} = \frac{\text{Total number of responses}}{\text{Total number in sample} - (\text{ineligible} + \text{unreachable})} \times 100$$

From the estimate of the response rate, actual sample size required can be calculated thus:

$$\frac{n \times 100}{re \%}$$

where n^a = the actual sample size required

n = the minimum sample size

$re \%$ = estimated response rate.

Estimating the likely response rate from a sample to which a researcher will be sending a questionnaire or interview schedule has been found to be very difficult (Saunders *et al*, 1997). Response rate of approximately 30% has been reported to be reasonable for postal surveys (Owen and Jones, 1990).

For interviews, a response rate of approximately 50% has been reported (Kervin, 1992, Saunders *et al* 1997). Dillman (1978) recorded response rates of between 50% and 92% for questionnaire surveys and of between 73 and 99% for telephone interviews.

3.4 DATA COLLECTION

Data were collected from both primary and secondary sources. Primary data was collected using semi-structured and indepth interviews. Interviews were formalized and structured using standardized questions for the respondents as recommended by Abdullahi (2004). Semi-structured interviews were undertaken by taking note of

responses to a list of questions on the subject matter. The following key questions formed part of the questions asked during semi-structured interviews:

- Who are the public and private sector support institutions involved with SME development in Nigeria?
- Are the support institutions well equipped to deliver the services required by SMEs?
- What are the roles of institutions engaged in the “supply side” of public sector business support?
- Has the existing support measures been able to address effectively the needs of SMEs.
- Are the SMEs properly positioned to receive the desired services from the public support institutions
- What are the limitations to the inability of SMEs to benefit from various support measures put in place by government?
- What are the expectations of SMEs from public as well as private support institutions to improve on their performance?
- What key building blocks of an effective system that can be put in place to improve the performance of SMEs?.

Primary data were captured through the use of questionnaires structured as follows:

- a. Section A (Business Environment)
- b. Section B (Research Institutions)
- c. Section C (Finance Institutions)

Generally, three separate questionnaires were designed to obtain information from respondents in the R&D sector, finance sector and the private sector. For the business environment, the questionnaire sought to obtain information on institutional profiles, staff strength and nature of enterprise. The second part examined the legal framework, business regulations and taxation issues. The third part sought for information on SME strategy, business culture, macroeconomic policy and infrastructure.

The role of research institutions as public support institutions was examined in the second segment of the overall questionnaire used for the study. The first part of this section examined also the profiles of the institutions in terms of their identity, staff strength, both technical and non-technical. The second part examined the nature of their R&D activities and support for SMEs development.

The third part addressed the issue of limitations to R&D support to SMEs. The support from the finance institutions was assessed using questionnaires that examined the profiles of the finance institutions and the nature of their activities. The financial support facilities to SME were considered as the second part of the questionnaires while the factors affecting financial support were examined in the third part.

The questionnaires were pre-tested before embarking on full scale field work in order to finalize the design structure and ensure that the instrument can provide the desired

data. The responses from the research institutions, SME and finance institutions within Abuja were the questionnaires were pre-tested assisted significantly in modifying it before the field administration. The researcher made use of the liaison offices of the Raw Materials Research and Development Council in the six-geo-political zones of the country in distributing and retrieving the questionnaires. Competent staff who are experienced and knowledgeable in the area of survey were engaged for the field work. They were well briefed on the subject matter of the study. Also, personal interviews by the researcher assisted in generating data and information used for the study.

The importance of consulting secondary sources of data and information was recognized in this study. Hakim (1982) noted the need for researchers to consider the possibility of re-analyzing an existing data in order to answer their research questions and meet their research objectives.

Saunders *et al* (1997) recognized the importance of secondary data, especially where comparisons are made in order to answer research questions and address the research objectives. It is therefore imperative to address the research questions using a combination of secondary and primary data. The secondary data consulted include both quantitative and qualitative data. The sources of secondary data were ascertained through literature review informal discussions with experts, colleagues, seminars and conferences as well as published guides.

Data on the Internet were located using search tools. The World Wide Web was searched for information. The convenience of the Web and the extraordinary amount of information to be found on it are compelling reasons for using it as an information source (Cooper and Schindler, 2001). Search engines such as Yahoo ® (<http://www.yahoo.com>), Google ® (<http://www.google.com>) and MSN ® (<http://www.msn.com>) were used to access vast information on SMEs that assisted in the study. Other sources of information used include personal or informal discussions with associates and friends in the Key sub-sectors relevant to the study as well as personal documents provided by them. Abdullahi (2005) noted the need to meet the following criteria in using personal documents in a study of this nature.

- a. that the document must be a written one
- b. that the document must have been produced on the authors initiative or if not, in such a way that their introspective content has been determined entirely by the author, and
- c. that the document focused on the authors personal experiences.

The researcher was mindful of these criteria which exclude interview materials used in the study.

All sources of data, both primary and secondary sources were evaluated to ensure that they are relevant to the research objectives as well as assist the researcher to answer the research questions.

3.5 QUALITY OF RESEARCH DATA

The issue of the credibility of research findings was seriously considered in the research design. Reducing the possibility of doubting the credibility of research findings informed why attention was paid to the issue of reliability and validity. Two critical questions the researcher tried to address in the cause of carrying out this study as noted by Easterby-Smith *et al*, (1991) were;

- will the methods adopted yield the same result on different occasions?
- Will similar observations be made by different researchers on different occasions?

Robson (1993) identified four threats to reliability of research results to include subject error, subject bias, observer error and observer bias. The researcher was aware of the potential problems extraneous influences will have on respondents in offering valid and candid answers to questions asked during the field study.

Consequently, elaborate steps were taken to ensure confidentiality and anonymity of respondents to questionnaires. Also, care was taken to ensure that the data derived from the study are valid and relevant to the research objectives.

Specifically, steps were taken to ensure that proper things were done as it relates to the following:

- **Identification of the research population:** Efforts were made to ensure that the choice of the population was logical to guarantee generalizations to be made across the whole population.

- **Data collection:** Concerted efforts were also made to ensure that the processes adopted to collect data yielded valid data.
- **Data interpretation:** Appropriate theoretical frameworks were chosen in data interpretation. Induction and deduction processes were employed to arrive at the conclusion on each of the hypotheses. This implies that conclusions were drawn from both existing facts and valid reasons given by respondents to questions asked.
- **Development of conclusions:** The researcher was conscious of the need to ensure that conclusions made should stand up to the closest scrutiny.

Asika (2001) observed that research design may be said to be valid if it enable the researcher elicit the correct responses from the sample subjects. In this study, the research design was considered valid based on the fact that the desired responses were gotten from sample population. Furthermore, the content validity was determined by ensuring that all the questions asked in the questionnaire fully addressed the research objectives and hypotheses.

3.6 PROCESSING OF DATA

The data resulting from the study could be both quantitative and qualitative and as such, need processing and analysis. The essence is to put the data in contextual form to enable the researcher answer the research questions as well as address the research objectives. Consequently,

quantitative analysis using simple tables, pie-charts, bar charts, percentage distributions and statistical analysis were carried out in order to establish the relationships between the various variables. Abdullahi (2004) noted the need to ensure that in all cases where diagrams and tables were used that the following steps were taken:

- that the tables and diagrams have brief and clear descriptive title,
- that the units of measurement are clearly stated;
- that the sources of data used are clearly stated;
- that notes to explain abbreviations and legends are clearly stated;
- the size of the sample on which the values in the table are based is stated;
- that diagrams have clear axis labels, and
- that tables had clear column and row leadings;

The analysis carried out enabled the researcher establish the relationships between variables and trends in patterns of associations.

3.7 LIMITATIONS OF THE METHODOLOGY

The researcher recognized that the sampling from the target population might not be totally free from errors and as such, efforts were made to minimize such as earlier stated.

Finally, it is pertinent to reiterate the limitations to the study which is beyond the control of the researcher in the area of questionnaire administration and retrieval. Concerted efforts were made to ensure better response and retrieval of questionnaires from the respondents.

REFERENCES

Abdullahi, A(2004).An Impact Assessment of Science and Technology Policy on National Development of Nigeria. A thesis submitted to St. Clements University in partial fulfillment of the requirements for the award of Ph.D in Management Pg 185-186.

Asika,N(2001). *Research Methodology in the Behavioural Sciences*, Longman, Nigeria Plc, Pg 21-100.

Cooper, D.C.and Schindler,P.S(2001).*Business Research Methods*. McGraw-Hill, International Edition, Pg. 25.

Deming, W.E(1960).*Sample Design in Business Research*. New York, Wiley Pg26.

de Vaus, D.A(1991). *Surveys in Social Research* (3rd Edn). UCL Press and Allen and Uwin London. Pg 12-13

Dillman, D.A(1978).*Mail and Telephone Surveys: The Total Design Method*, New York, Wiley Pg 50-56. Accessible at <http://survey.sesyc.wsu.edu/tdm.htm>

Easterby-Smith, M., Thorpe, R and Lowe, A (1991) *Management Research: An Introduction*, London, Sage Pg 41.

Dillman, D.A (2000). *Total Design Method*

Economist,(1993).*The Economist Numbers Guide*,₁

London,

Hamish Hamilton Pg 10.

Hakim, C(1982). *Secondary Analysis in Social Research*,₁

London, Allen and Unwin Pg 10-12.

Kervin, J. B(1992), *Methods for Business Research*, New York, Harper Collins. Pg 20-25.

Ngesa, F.U., Ombati, J.M and Mutuku, M(2003).

Extension

Services and Enterprise Development. Study of Technology Extension to Small and Medium Size Firms in Nairobi, Kenya, ATPS Working Paper Series, No.38 Pg 10-15.

Owen, F and Jones, R (1990). *Statistics* (3rd Edn),

London, Pitman Publishing Pg 56-70.

Robson,C(1993).*Real World Research*. Oxford Blackwell, Pg 120-5.

Saunders, M.P. Lewis and Thornhill,A(1997). *Research Methods for Business Students*. Financial Times Management, Pg 170-175.

Stokes, D(1998). *Small Business Management: A Case Study Approach*, Continuum, London, New York Pg 100-111.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

The chapter attempts to analyze data generated from the study which include quantitative and qualitative information collected from three groups of respondents. The three groups of respondents were owners and managers of SMEs as well as business support organizations, researchers from research institutions and personnel from banks and finance development institutions. The instrument used for generation of the data analyzed which is the questionnaire was structured in a way as to elicit as much responses as possible on the three core study areas of business environment, research and development and finance. The questionnaires were distributed and retrieved from these groups of respondents for analysis.

General questions which tried to identify the nature and activities of institutions or firms responding preceded the more informed questions targeting support measures to SMEs. In all the categories of subject areas studied,

efforts were made to identify critical factors affecting support to SMEs in addition to an assessment of attitude of SMEs to those support institutions. With particular reference to the business environment, consideration was given to issues such as business culture, impact of macroeconomic policy and infrastructure on SMEs development.

The issue of SMEs development policy as well as public institutional framework established to support SMEs were studied and analyzed under SMEs strategy.

The analysis as presented in this chapter is structured as follows:

- Responses to questionnaires
- Business environment
- Research and development support
- Finance support services

Basic statistical analyses were carried out, while the hypothesis earlier stated was tested in chapter five under discussion of the results.

4.2. RESPONSES TO QUESTIONNAIRE.

The study recognized the importance of determining the response rate in order to validate and justify the findings hence the response rate was calculated as stated hereunder. Hence, the margin of error in the sampling process was thus determined.

Response Rate = $\frac{\text{Total no. of Responses}}{\text{Total no. of Responses}} \times 100$

Total No. of Sample--(No Response+
Invalid Response)

Given the No. of Sample Elements	=	100*
No. of Elements that Responded	=	57
No. of Elements that did not respond	=	35
No. of Invalid Response	=	5

* Three questionnaires were not delivered to sample elements.

$$\begin{aligned} \text{Response Rate (re\%)} &= \frac{57 \times 100}{100 - (35 + 5)} \\ &= 95\% \end{aligned}$$

$$\begin{aligned} \text{Margin of Error} &= 100 - \text{re\%} \\ &\pm 100 - 95\% \\ &\pm 5\% \end{aligned}$$

$$\text{Assumed sample size (n)} = 100$$

$$\text{Response Rate} = 95\%$$

$$\begin{aligned} \text{Actual sample size (N)} &= \frac{\text{Assumed sample size} \times 100}{\text{Response Rate (re\%)}} \\ &= \frac{100 \times 100}{95} \end{aligned}$$

$$\text{Actual sample size} = 105$$

The retrieval rate for the questionnaires tendered in the survey was equally determined by simple calculations and the following deduction was made:

Total no. of questionnaires retrieved	=	57
Total no. of questionnaires distributed	=	100

$$\begin{aligned}
 \text{Retrieval Rate} &= \frac{\text{Total no.}}{\text{retrieved} \times 100} \\
 &= \frac{57 \times 100}{100} \\
 &= 57\%
 \end{aligned}$$

The retrieval rate of 57% was considered to be very reasonable considering the difficulties in getting people to respond to questionnaires on study of this nature in Nigeria.

In this study, for responses involving the Guthman scale and other similar ratings, the Coefficient of Reproducibility was determined as follows:

$$\text{Coefficient of Reproducibility} = 1 - \frac{\text{Total Errors}}{\text{Total Responses}}$$

It is pertinent to note that Coefficient of Reproducibility of between 90% and 100% is considered as a standard (Asika, 2001). The characteristic of the survey responses is further elucidated in the subsequent sections.

4.2.1 Distribution Pattern of Survey Responses

Three critical sectors to the objective of the study were surveyed which include SMEs, Research Institutions and Finance Support Institutions. Within the SMEs are business support institutions who equally responded to the questionnaires. The general distribution pattern of the questionnaires is presented in table 4.1 while the sectoral analysis of sector coverage of the responses is illustrated in figure 4.1a, b, c.

Table 4.1 Distribution of Survey Responses

S/No	POP Element	Survey Sent	Survey Retrieved	Percentage(%) Response
1	SMEs	50	27	54
2	Research Inst	25	15	60
3	Finance Inst.	25	15	60
	Total	100	57	57

Source: Researcher's fieldwork, 2005

The distribution of survey responses shows well above 50% response rate for all sectors of the population element studied. There were more responses from SMEs (27). This is understandable considering the number of questionnaires sent compared with the number for Research Institutes and finance institutions.

Further analysis of the distribution pattern of the responses within each sector of the population element shows the composition of the respondents (figure 4.1 a, b and c)

Figure 4.1a: Distribution of Responses Based on Sector Coverage

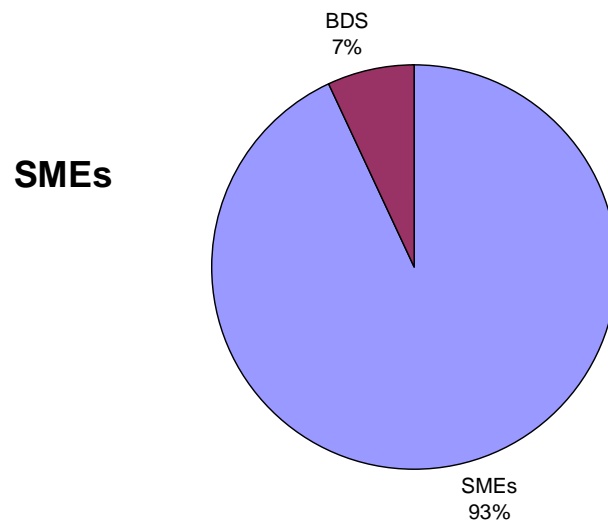


Figure 4.1b: Distribution of Responses Based on Sector Coverage

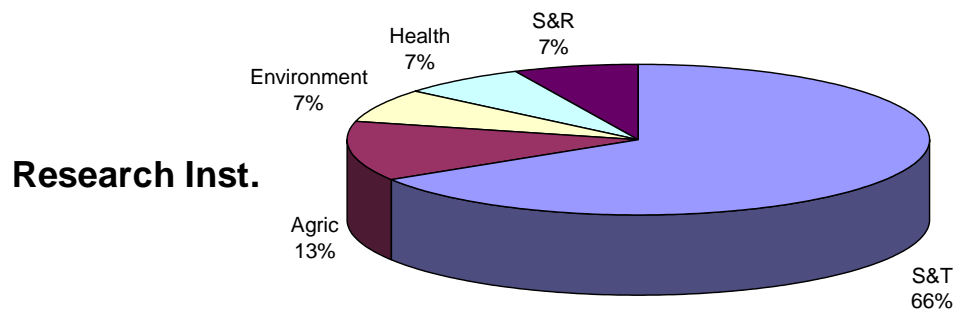
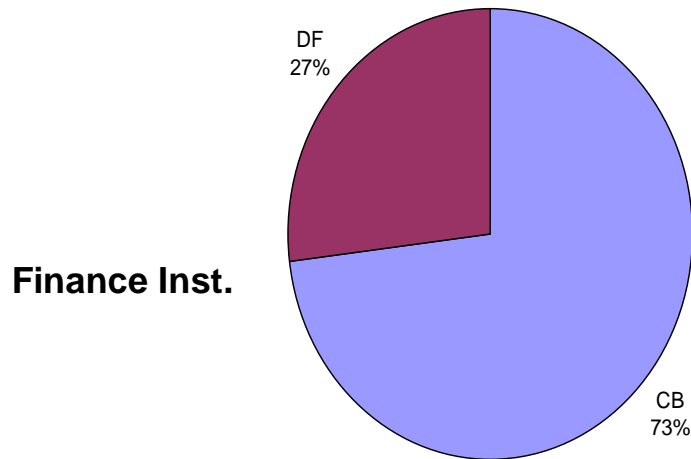


Figure 4.1c: Distribution of Responses Based on Sector Coverage



For the questionnaires sent to SME and Business Development Support (BDS) institutions more responses were received from SMEs (93%) than BDS (7%). In the case of Research Institutions, more responses were received from Science and Technology (S&T) research institutions (66%) than Agric (13%), Environment (7%), Health (7%) and Social Research (7%). This is attributed to the relevance of these institution's activities to the objectives of this study. More S&T research institutions have mandates relevant to SMEs development than others. The finance institutions presented a peculiar response pattern as the commercial bank had 73% response rate compared to development finance bank (27%). The nature of SMEs financing perhaps, might account for this pattern of responses as it is difficult to pin-point finance institutions

that specifically targets SMEs, even though they consider SME financing as part of their services to customers.

4.3 BUSINESS ENVIRONMENT

The environment in which SMEs operate is very critical for their growth and development as well as their contribution to the over all economic development of the country. Institutions and businesses interact daily at different levels. These range from direct contacts such as issuance of business licenses to much more indirect channels of government actions including effect of fiscal and monetary policies. The challenge of this study was to determine the perception of SMEs of their operating environment and come up with strategies that will support SME to grow and improve on their performance within their domain of operations.

The study therefore attempts to evaluate the legal framework, business regulation, taxation, macroeconomic policy, business culture and infrastructure as they affect SMEs. Also, SME development strategy from the perspective of SMEs themselves was examined. It is believed that SMEs are in a better position to give an informed opinion about their business environment and its impact on their operations.

4.3.1. Nature of Enterprise

The nature of enterprises that responded to the questionnaires include small, medium and large scale

enterprises as well as micro enterprises. The distribution of the responses based on their classifications of the enterprises in terms of sizes and number of employees are presented in table 4.2 and 4.3. respectively.

Table 4.2 Classification of SME based on Sizes

S/No	Size Categories	Response	Response (%) Rate
1	Small	20	74.1
2	Medium	2	7.4
3	Large	3	11.1
4	BDS	2	7.4
	Total	27	100

Source: Researcher's fieldwork, 2005

BDS: Business Development Service Providers

The categories of small scale enterprises recorded the highest response rate (74.1%) compared to medium (7.4%) and large (11.1%). Also, 7.4% of respondents were business development service providers.

Further analysis based on number of employees provided much clearer groupings (table 4.3).

Table 4.3 Classification of SMEs by Employees

S/No	Classes by number of Employees	Response	Percentage (%) Response	Class of Enterprise
1	>5<10	7	26.0	Micro
2	>10<50	13	48.1	Small
3	>50<100	2	7.4	Medium
4	>100	3	11.1	Large
5	BDS	2	7.4	Service Provider

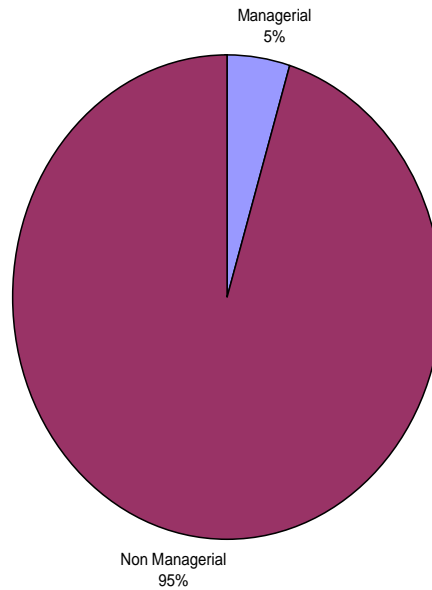
	Total	27	100	
--	-------	----	-----	--

Source: Researcher's fieldwork, 2005

According to table 4.3, about 26.0% of the firms sampled were micro enterprises while 48.1% were small and 7.4% medium enterprises. About 11.1% of large firms employing more than 100 staff responded. The micro enterprises employed less than ten (10) staff compared to the small scale enterprises that employed between ten and forty-nine (49) staff. The medium scale employed more than fifty (50) but less than hundred (100) staff. The large scales are those employing over 100 staff. The percentage of firms that render services to SMEs that responded were 7.4% and are mainly non-governmental organizations (NGOs) or organized private sector (OPS) groups that oversee the activities of SMEs.

Furthermore, in figure 4.2 the distribution of staff strength of the firms that responded apart from those in the class of large enterprises and BDS shows more of non-managerial (95.3%) than managerial staff (4.2%) among SMEs.

Figure 4.2: Distribution of Staff Strength of SMEs



This distribution is based on total staff strength of 360 made up of 17 managerial and 343 non-managerial.

4.3.2. Classes of Small and Medium Sizes Firms Based on Activities

The enterprise in which a firm engages determines the nature of its support services especially technology extension services. In order to determine the nature of SME firms studied, they were classified as manufacturing, non-manufacturing (commerce) and engineering. The findings are summarized in table 4.4.

Table 4.4 Classes of SMEs Based on Activities

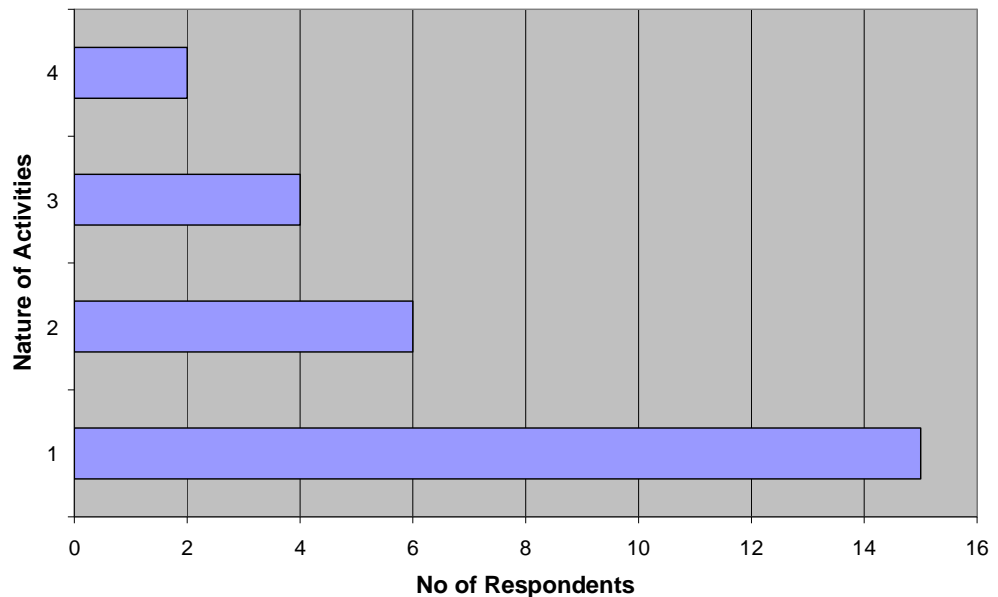
S/No	Class of Enterprise	No. of Respondent	Percentage (%) Respondents
1	Manufacturing	15	55.6

2	Non-manufacturing	6	22.2
3	Engineering	4	14.8
4	BDS	2	7.4
	Total	27	100

Source: Researcher's fieldwork, 2005

The distribution pattern shows that more of the SMEs surveyed were into manufacturing than commerce and engineering (figure 4.3).

Figure 4.3 Distribution Pattern of SMEs Based on Activities



**Mfr= Manufacturing, N-Mfr=Non-manufacturing
Engr=Engineering, BD=Business Development Service
Providers**

The major categories of manufacturing in which the firms engage are listed as follows:

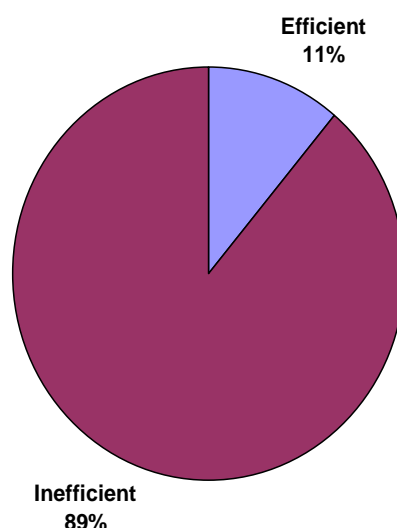
- Textile
- Leather
- Metal works
- Plastic recycling
- Food processing

Those into non-manufacturing activities were mainly in food vendoring.

4.3.3 Legal Framework

The importance of a good legal framework in the conduct of businesses cannot be overemphasized. In order to determine the perception of entrepreneurs of the nature of existing legal framework for conduct of businesses, the respondents were asked to comment on whether the existing legal framework is efficient or not. The responses are illustrated in figure 4.4.

Figure 4.4: Assessment of the Legal Framework



The majority of SMEs surveyed (88.9%) were of the view that the existing legal framework was inefficient compared to those who believed that it is efficient (11.1%).

Furthermore, it has been observed that the judicial system suffers from long delays in processing claims and is very discretionary in this regard. The study therefore attempted to validate this observation by asking the SMEs surveyed to agree or disagree with the statement. Their views are presented in table 4.5.

Table 4.5 Efficient Judicial System

S/No	Response	No. of Respondent	Percentage (%) Respondents
1	Agree	21	77.8
2	Disagree	2	7.4
3	No. Idea	4	14.8
	Total	27	100

Source: Researcher's fieldwork, 2005

Considerable number of respondents (77.8%) were of the view that the judicial process is not efficient as the judicial system suffers undue delays in processing claims. While 14.8% of the respondents could not make any categorical opinion on the statement, 7.4% of them disagreed completely. Also, the respondents were asked of their view as it relates to knowledge of commercial law and settlement of commercial disputes within the operations of the court system.

The judicial process for contractual disputes is very critical in building investors confidence in any economy. For SMEs, it is desirable to establish the confidence they have that the judicial process will be fair in settling disputes arising from conduct of business. Table 4.6 presents the responses in respect of the opinions of respondents on knowledge of commercial law and the speedy settlement of disputes from the court system.

Table 4.6 Knowledge of Commercial Law in Dispute Settlement

S/No	Response	No. of Respondent	Percentage Respondents (%)
1	Agree	23	85.2
2	Disagree	2	7.4
3	No. of Response	2	7.4
	Total	27	100

Source: Researcher's fieldwork, 2005

Most of the respondents (85.2%) were of the view that the knowledge of commercial law is very poor and that the judicial system suffers from lengthy process in settlement

of commercial disputes especially at lower and intermediate levels of the judicial system. Those that holds contrary opinion or actually ignorant of what is happening within the court system were 7.4% respectively. Based on the views expressed above on the existing legal framework, respondents made the following suggestions on improvement of the legal framework for conduct of businesses especially as it affects SMEs (Table 47).

**Table 4.7: Suggestions on Improvement of Legal Framework
for**

SMEs Development in Nigeria

S/No	Suggestions
1	Reduce the bureaucracy in conduct of business in government/public institutions.
2	Judiciary should be restructured to guarantee speedy legal process especially in settlement of commercial disputes
3	Facilitate easy documentation and ensure urgent decision making process in the court system.
4	Reduce existing bottlenecks and create the desired awareness of the legal procedures for doing business.
5	Improve on legal requirement for granting of loan especially that associated with collaterals.
6	Setting up of a committee comprising knowledgeable and experienced legal practitioner to develop a proper legal framework for SMEs.
7	Designate special courts to handle SMEs matters.
8	Provide modern facilities and infrastructures for legal administration in order to enhance proceedings and judicial process in general.
9	Overall improvement of the national legal system
10	Restructure and reorganize the Corporate Affairs Commission of Nigeria

Source: Researcher's fieldwork, 2005

4.3.3 Business Regulation

It is a common knowledge that entrepreneurs are governing conduct of businesses as well as the predictability of their implementation and frequency of changes. For new businesses, the regulations for setting up an enterprise or new operations are important. It has been reported severally that business regulations in Nigeria are complex, unpredictable and that low paid officials lead to corrupt practices.

To evaluate the business regulations as it affects SMEs, respondents were asked to indicate whether the business regulations are complex or not. Also, the structure of fees imposed on them at local level as well as its nature in terms of multiplicity was evaluated. In addition, respondents were asked of their opinion on the issue of poor salary of officials leading to corrupt practices in the conduct of their duties. The responses are presented in Table 4.8

Table 4.8 Business Regulations as they Affects SMEs

S/No	Issues	No. of Respondents	Percentage (%) Respondents
A	Business Regulations		
	i. Not Complex	3	11.1
	ii. Fairly Complex	11	40.7
	iii. Too Complex	12	44.5
	iv. No Response	1	3.7
	Total	27	100.0
B	Fee Structure		
	i. Not Complex	3	11.1

	ii. Fairly Complex	9	33.3
	iii. Too Complex	14	51.9
	iv. No Response	--	--
	Total	27	100.0
C	Fees Charged Locally		
	i. Multiple	19	70.4
	ii. Not multiple	1	3.7
	iii. Unpredictable	6	22.2
	iv. No Response	1	3.7
	Total	27	100.0
D	Poor Salary Leading to Corruption		
	i. Agree	18	66.7
	ii. Disagree	8	29.6
	iii. No. Idea	--	0.0
	iv. No. Response	1	3.7
	Total	27	100.0

Source: Researcher's Fieldwork, 2005

- **Coefficient of Reproducibility =96.3%**
- **(No Response = 1**

The percentage of respondents who believed that business regulations are too complex was 44.5% compared to those with contrary opinion (11.1%). However, 40.7% feels that it is fairly complex. Also, respondents were of the view that the fee structure is either fairly complex (33.3%) or too complex (51.9%) depending on the locality. The fees charged by local administration are multiple (70.4%) and unpredictable (22.2%) as a result of revenue generation activities of the three-tiers of government (federal, state and local governments). More than half of the respondents (66.7%) agreed with the view that low-paid officials lead to corruption, while 29.6% disagreed.

4.3.4 Taxation

Fiscal policies affect businesses generally both in terms of revenue and expenditure. Tax regulations as well as high taxes are among the factors SMEs have complained over the years as obstacles to doing business in Nigeria. In order to determine and distinguish the nature of taxation as it affects SMEs, the study fielded questions on high taxes, tax bureaucracies including tedious tax regulations, unclear tax laws and also, custom duties laws. The responses are presented in table 4.9.

Table 4.9 SMEs Perception of Effects of Taxation

S/No	Issues	No. of Respondents	Percentage (%) Respondents
A	Corporate Tax Level		
	i. Unfair	13	48.2
	ii. Fairly Good	7	25.9
	iii. Good	6	22.2
	iv. No Response	1	3.7
	Total	27	100.0
B	Capacity to Administer Collection		
	i. Very low	15	55.6
	ii. low	10	37.0
	iii. High	1	3.7
	iv. Very high	0	0.0
	* v. No. Response	1	3.7
	Total	27	100.0
C	Tax Structure Unclear		
	i. True	24	88.9
	ii. False	2	7.4
	* iii. No. response	1	3.7
	Total	27	100.0
D	Tax Refund Hardly Fulfilled		
	i. True	21	77.8
	ii. False	5	18.5
	* iii. No. response	1	3.7
	Total	27	100.0
E	Custom Duty Laws		

	i. Unclear	15	55.6
	ii. Clear	10	37.0
	iii. Very clear	1	3.7
	* iv. No. response	1	3.7
	Total	27	100.0
F	Taxable base/Duty draw backs hardly fulfilled		
	i. Agree	13	48.2
	ii. Disagree	2	7.4
	iii. No Idea	10	37.0
	* iv. No Response	2	7.4
	Total	27	100.0

Source: Researcher's Fieldwork, 2005

*Coefficient of Reproducibility = 96.3%

**Coefficient of Reproducibility = 92.6%

The summary of respondents' perception of effect of taxation on SMEs development is stated as follows:

- Corporate tax level is unfair – 48.2%
- Capacity to administer collection of tax is very low -- 55.6%
- Tax structure is unclear -- 88.9%
- Tax refund is hardly fulfilled -- 77.8%
- Custom duty laws is unclear -- 55.6%
- Taxable base/duty draw backs are hardly fulfilled -- 48.2%

It is pertinent to note that on the issue of taxable base and duty draw backs, the high response of 37% by the respondents who had no idea of the subject matter was a result of lack of knowledge on the issue of taxable base and duty draw backs.

There is an element of bias, however, the coefficient of reproducibility is 63.0% based on the failure of ten

respondents to give a valid response to the questions fielded. Based on the, none response rate, the coefficient of reproducibility is 92.6% which is considered within acceptable limit.

The following suggestions were made by respondents on how to improve on the taxation system (table 4.10).

Table 4.10 Initiatives on Improvement of Taxation System

S/No.	Initiatives/Activities
1	Tax structure should be clear and not duplicated at all levels of governance.
2	Collection system should be centralized and computerized to avoid multiple taxation.
3	Touts should be excluded from collection process to avoid corruption and ensure accountability.
4	Transparency and accountability should be the watchward of tax assessors/collectors.
5	Tax laws need to be reviewed to conform with the current economic development of the country.
6	SMEs should be granted lower taxes as incentives
7	Tax holidays for SMEs should be increased.
8	The tax rates should be generally lowered for the manufacturing industry.
9	There should be proper training of tax officials.
10	There should elaborate public enlightenment on taxation especially as it affects pioneer industries for them to enjoy tax holiday and capital allowance.
11	Proper assessment of income and profit of SMEs is necessary before taxing them to ensure equity and fairness.
12	Good administration of tax system and full utilization of revenues from tax to improve the tax payers' welfare.

Source: Researcher's fieldwork, 2005

4.3.5 SME Development Strategy

In a perfect market economy there would be no government support for business. However, the market for business advisory services is imperfect. Since many small businesses cannot see the benefits of seeking the services

of experts or private support institutions, government intervention becomes imperative.

Government therefore, addresses this market failure by providing subsidized business advisory services. Also, government supports business in order to promote enterprise development, improve regional disparities and social inclusion.

In order to identify the institutional support framework for SMEs development in Nigeria, respondents were presented with a list of perceived government institutions involved with promotion of SMEs development for rating. The respondents were to rate the institutions as most relevant and supportive to SMEs development. The responses are presented in table 4.11 and distribution of the responses is illustrated in figure 4.5.

Figure 4.5 Distribution of Mean Responses of Public Institutions Supportive to SMEs

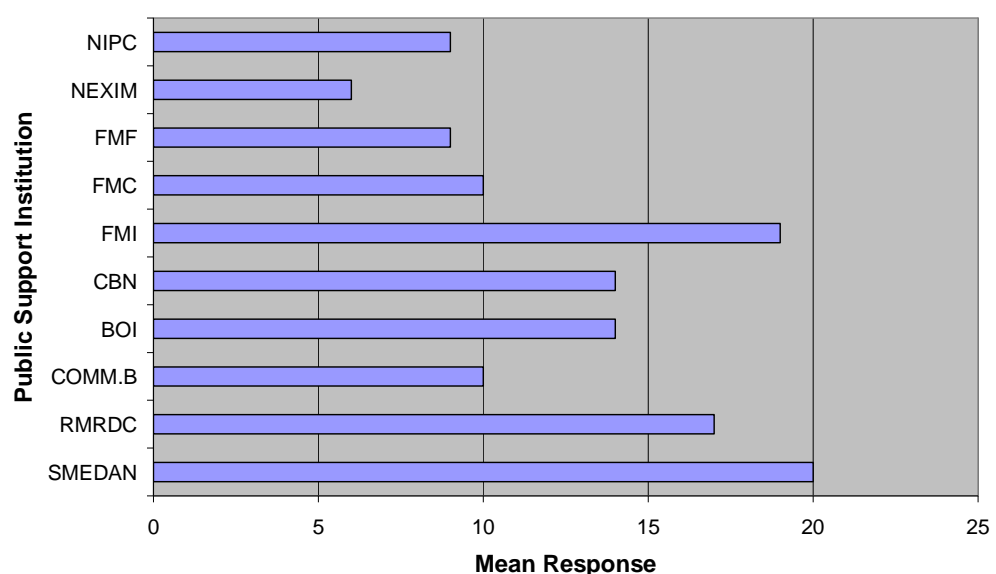


Table 4.11 Institutional Support Framework for SMEs Development

S/No	Institutions	Responses	Mean Responses
1	Federal Ministry of Finance (FMF)	9	0.9
2	Fed. Ministry of Commerce (FMC)	10	1.0
3	Fed. Ministry of Industry (FMI)	19	1.9
4	SMEDAN	20	2.0
5	CBN	14	1.4
6	Bank of Industry (BOI)	14	1.4
7	NEXIM	6	0.6
8	Commercial Banks	10	1.0
9	RMRDC	17	1.7
10	NIPC	9	0.9
11	Total	128	12.8

Source: Researcher's fieldwork, 2005

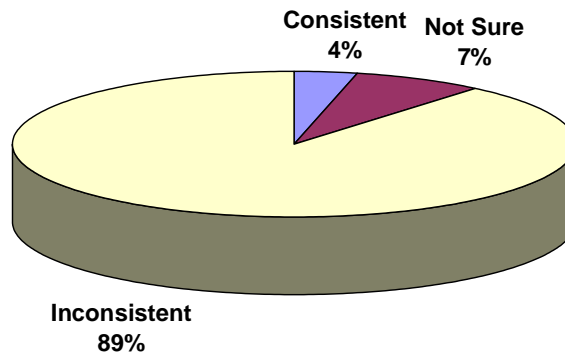
The distribution of the mean responses shows that SMEDAN is the major institutional framework for SMEs development in Nigeria (figure 4.5). Other institutions considered to play significant role towards SMEs development are Federal Ministry of Industry, Raw Materials Research and Development Council,

Central Bank of Nigeria and Bank of Industry. In all, ten institutions were identified to contribute in providing institutional supports to SMEs from the public sector. Apart from commercial banks, no other institutions were identified from the private sector. However, mention was made of umbrella associations such as NASSI and NASME, as other support institutions from the organized private sector.

The issue of SMEs development policy was studied by asking respondents to comment on whether such policy is

consistent or not. Their responses are presented in figure 4.6

Figure 4.6 Nature of SMEs Development Policy

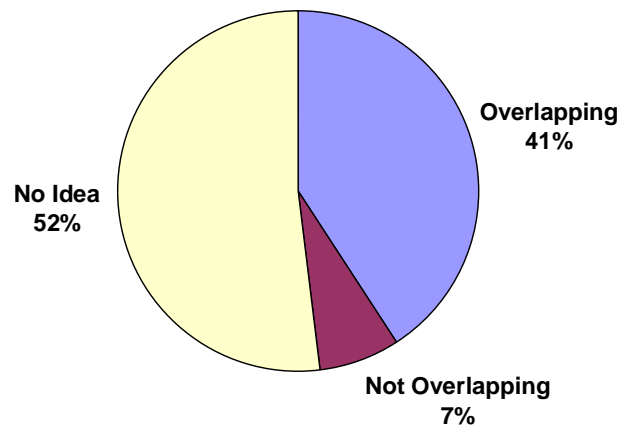


It was found that majority of respondents (88.9%) were of the view that SMEs development policy is inconsistent (figure 4.6) as there are different institutions promoting SMEs development without a distributive guideline or national policy. The promotion of SMEs is embedded in their mandates.

Furthermore, the respondents were asked if the mandates of different public institutions that are supportive to SMEs are overlapping or not. The respondents were unable to meet with the requirements of the research questions as more than half of them had no idea (51.9%). However, significant percentage of them (40.7%) believed that the mandates of public support institutions to SMEs are

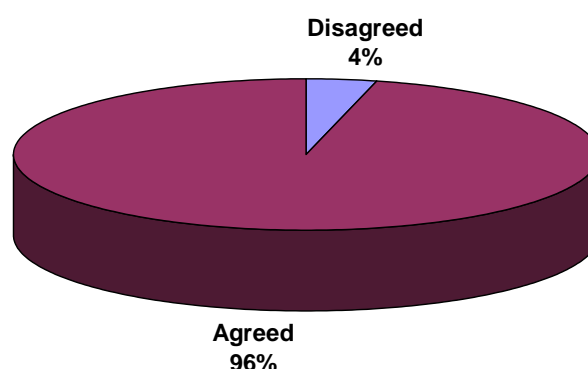
overlapping while 7.4% were of a contrary opinion (Figure 4.7).

Figure 4.7 Mandates of SMEs Support Institutions



Considering the diverse nature of institutional support to SMEs, the respondent's view on whether the different institutions promoting SMEs development should be harmonized or not was sought. Understandably, virtually all the respondents (96.3%) agreed with the view, while 3.7% felt otherwise (figure 4.8)

Figure 4.8: Harmonization of Activities of SMEs Support Institution



The respondents were further requested to support their views on the issue of harmonization by giving valid reasons for or against it. Their responses are presented in Table 4.12.

Table 4.12: Reasons For or Against Harmonization of SMEs Promotional

Activities			
S/No	Agreed		Disagreed
1	There is need to concentrate energy and resources on one-step agency for SME development	1	Different areas of SME development demands diverse capacities and capabilities that no single organization can handle alone.
2	Current operations of the agencies appeared uncoordinated for effective monitoring and evaluation.	2	Synergy is required in the discharge of the different functions of support institutions to the benefit of SMEs.
3	It is absolutely necessary to harmonize the activities of support institutions in order to keep track of various support assistances to SMEs.	3	Institutional linkages should be established while an agency should have the national mandate for SMEs development.
4	Duplication of functions leads to conflicts among these agencies which affects SMEs adversely	4	Various support measures should be channeled in concert with

			the one-stop agency.
5	Harmonization is necessary in order to reduce cost of administration		
6	Harmonization will help to give direction in the formulation and implementation of SMEs policies.		
7	Lack of institutional linkages among support agencies affects SMEs development and therefore requires harmonization		

Source: Researcher's fieldwork 2005

The respondents further suggested the following activities and initiatives that could be embarked on so as to improve SME development strategy.

Initiatives to Improve on SME Development Strategy

1. Banks should be established solely for SMEs and stringent conditionalities removed.
2. Need Assessment Study of SMEs in the country should be embarked on.
3. Government should encourage SMEs development through policies that promotes increased patronage of goods produced locally by SMEs.
4. Institutions, especially the regulatory ones such as NAFDAC and SON should be partners in progress rather than policing SMEs.
5. Awareness of government support facilities and measures should be promoted, encouraged and sustained through seminars and workshops.
6. Simplify and reduce the cost of registration of limited liability companies which is a prerequisite for assistance from public and private support institutions.

7. Simplify the process of obtaining finance from banks.
8. Build industrial parks all over the federation including the state and local government areas.
9. State Ministry of Commerce and Industry should come up with programmes that are supportive to SMEs development in their states.
10. Provision of micro credits and single digit interest rate by banks.
11. Financial institutions should create a special department for SMEs.

4.3.6 Business Culture

There has been a prevalent negative public perception of SMEs as high risk ventures with high failure rate. Also, SMEs are believed to operate in the dark, lacks trust in government and hardly comply with the laws. In order to substantiate these statements, questions were fielded to respondents on the issue of business culture and their responses were presented in table 4.13.

Table 4.13: Perception of Business Culture among SMNEs

S/No	Issues	Respondents	Percentage (%) Respondents
A	High Entrepreneurial Capacity		
	i. Agree	22	81.5
	ii. Disagree	4	14.8
	iii. No Response	1	3.7
	Total	27	100.0
B			
	i. Agree	20	74.1
	ii. Disagree	6	22.2
	iii. No Response	1	3.7
	Total	27	100.0
C	Low Trust in Government		
	i. Agree	27	100
	ii. Disagree	0	0
	iii. No Response	0	0
	Total	27	100.0

D	Compliance with the law is low		
	i. Agree	23	85.2
	ii. Disagree	4	14.8
	iii. No Response	0	0
	Total	27	100.0

Source: Researcher's fieldwork, 2005

The summary of the respondent's views on business culture is presented thus;

- there is high entrepreneurial capacity among micro-entrepreneurs - 81.5%
- micro entrepreneurs operate in the dark -74.1%
- there is low trust of micro-entrepreneurs in government - 100%
- compliance with the law is low - 85.2%

The analysis indicates that even though there is high entrepreneurial capacity among micro-entrepreneurs, however, they operate in obscure manner and hardly trust government or comply with the law. These attributes to an extent, explains why it is difficult to deal with them. It also account for why they are regarded as high risk group.

Respondents were further asked to make suggestions on how business culture can be improved upon and they made the under listed suggestions.

Strategy to Improve on Business Culture:

- Appropriate policies should be formulated to improve on business culture.

- There is need for increased enlightenment of the business community on government policies on entrepreneurship where such policies exist.
- Legislation on business standards should be made and appropriate penalties instituted against defaulters.
- Government should monitor sharp practices within the corporate environment and administer punishment without fear or favour.
- There is need to promote transparency which is required for building a strong corporate entity.
- Activities of SMEs should be monitored to ensure compliance with good governance and business ethics in conduct of businesses.
- Government and the private sector should encourage the development of entrepreneurial skills through education and capacity building.
- There is need for constant seminars and workshops to be organized for SMEs to improve on the business culture.

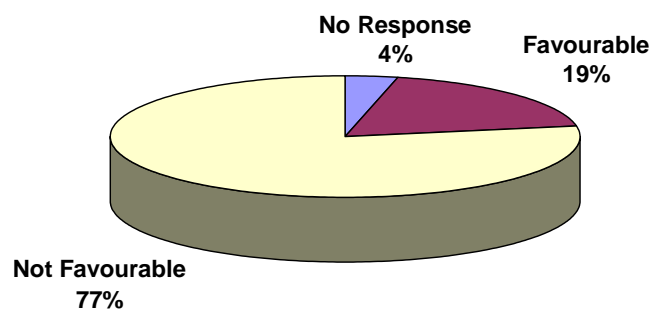
4.3.7 Macroeconomic Policy

Uncertainty in the stability of government policies has been identified as a factor that makes planning difficult in most businesses, including manufacturing. Frequent changes in the tariff regime as well as other fiscal policies are often cited as limitations to development of businesses. Many entrepreneurs stressed that uncertainty about rules was often more troublesome than inefficiency of rules. It is against this background that questions were fielded that

attempted to examine how macroeconomic policy affects SMEs operations.

The respondents were asked if the existing macroeconomic policy is favourable or not to the development of SMEs. Their responses are presented in figure 4.9.

Figure 4.9 Favourable Macroeconomic Policy



The analysis shows that while 18.5% of the respondents agreed that the existing macroeconomic policy is favourable to SMEs development, majority (77.8%) disagreed. For those that disagreed, they were asked to suggest measures that can be adopted to ensure favourable macroeconomic policy formulation. The following suggestions were put forward by the respondents:

- Policy meant for SMEs should reflect their views and aspirations.
- There should be participatory approach by SMEs in the formulation of policies that affects them.

- Macroeconomic policies supporting SMEs should be effectively and faithfully implemented especially the support by the financial sector of the economy.
- Interest rate to SME financing should be reduced to single digit of 5%.
- Government should effectively tackle the issue of dumping of inferior goods.
- Tariffs should be reviewed to favour SMEs especially as it affects raw materials supply and equipment procurement.

The issue of stability of macroeconomic policy informed why question on stability of such policy in the past 5 years was asked. Also, question on predictability of monetary supply was asked and the responses to these two questions are analyzed in table 4.14.

Table 4.14 Stability of Macroeconomic Policy and Monetary Supply

S/No	Issue	Responses	Percentage (%) Responses
A	Stability of macroeconomic policy		
	i. Yes	2	7.4
	ii. No	19	70.4
	iii. No Response	6	22.2
	Total	27	100.0
B	Unpredictable Monetary Supply		
	i. Agree	15	55.6
	ii. Disagree	8	29.6
	iii. No Idea	3	11.1
	iv. No Response	1	3.7
	Total	27	100.0

Source: Researcher's Fieldwork 2005
Coefficient of Reproducibility = 77.8%

Respondents (70.4%) were of the view that in the past 5 years the macroeconomic policy of government has not

been stable. In this same light the monetary supply which was considered unpredictable (55.6%) could be responsible for the conservative stance of banks in lending to SMEs.

It is pertinent to note that the high no response rate of 22.2% in respect of the response to question on stability of macroeconomic policy might be as a result of the inability of some respondents to understand the subject matter. The coefficient of reproducibility based on this response rate is low (77.8%) compared to the acceptable level of between 90 and 100%.

4.3.8 Infrastructure

Inadequate supply of infrastructure has been adjudged to be one of the militating factors to SMEs development and overall industrial growth of the country. In fact, very poor infrastructure is seen to constitute a barrier to business entry and international competitiveness of local enterprises. Transportation, telecommunication, water supply and electricity supply have been identified as the core problems for SMEs which cannot afford independent or alternative supply sources.

To determine the degree to which the infrastructure supply affects the development of SMEs, respondents were asked to respond to four variables by indicating on a four-point scales ranging from 4 (strongest) to (weakest). Table 4.15 presents the analysis of the responses.

Table 4.15 Critical Infrastructural Constraint to SMEs Development

S/No	Infrastructures	Mean Responses	S> D	COV (%)
1	Transport	2.765	0.876	31.7
2	Telecom	1.208	1.099	53.5
3	Water Supply	2.059	0.872	42.4
4	Electricity	3.708	0.8406	22.7

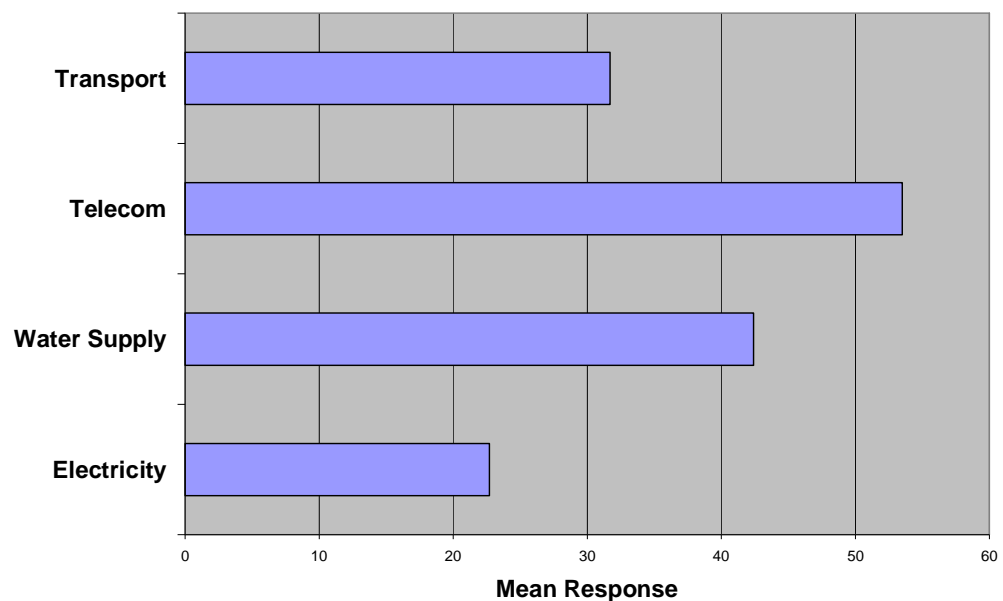
Source: Researchers fieldwork, 2005

S.D =Standard Deviation

COV=. Coefficient of Variance

The mean and standard deviation of the infrastructural requirements considered most critical to SMEs development. All the infrastructures were rated above 1.00 out of a possible maximum of 4.00. Three of the infrastructures were rated above 2.0 (i.e. transport, water supply and electric power supply) Further analysis shows that transport (mean=2.765) and electricity (mean=3.708) were rated higher than others. Electric power supply was rated the most critical constraint to development of SMEs in Nigeria (Figure 4.10), while telecommunication is the least constraint.

Figure 4.10 Mean Response to Critical Infrastructural Constraint



Respondents were further asked to identify among the critical infrastructures the one that federal government of Nigeria has addressed adequately well. Their responses are presented in table 4.16.

Table 4.16 Infrastructures Adequately Addressed by Government

S/No.	Infrastructure	Response	Percentage (%) Responses
1	Transport	0	0
2	Telecommunication	19	70.4
3	Water Supply	1	3.7
4	Electric Power Supply	1	3.7
5	No Response	6	22.2
	Total	27	100

Source: Researcher's fieldwork 2005
Coefficient of Reproducibility =77.8%

Telecommunication was considered to be the only infrastructure that the government has fairly addressed (70.4%) compared to transport (0%) water supply (3.7%) and electricity power supply (3.7%). The high no response (22.2%) could be associated with bias of “angry entrepreneurs” who felt that government has not addressed any infrastructure adequately well. This also, explains why

the coefficient of reproducibility is low (77.8%) compared to 90-100% considered as standard.

The respondents however, provided useful suggestions such as enumerated below on infrastructure improvement:

- Private sector should take the lead in infrastructure development with the support of government at all levels.
- Privatization of power supply and other infrastructure should be sustained.
- Reduction in cost of energy especially diesel should be given a national priority.
- There is need to establish industrial parks and clusters for SMEs with adequate infrastructures run by private enterprises.

4.4 RESEARCH AND DEVELOPMENT SUPPORT

Public research and development (R&D) institutions are known to be sources of support services to SMEs development. These institutions are expected to offer technology extension support and advisory services to SMEs. Small and medium enterprises have been identified to lack the capacity and capability to embark on industrial research to improve on their competitiveness and therefore rely on public research institutions for support services in this area. To render these support services requires highly skilled personnel knowledgeable in technology extension as well as equipment and efficient research facilities.

It is against this background that the study fielded questions to respondents from research institutes in relation to their staff strength (both technical and non-technical) nature of research activities and type of support offered to SMEs. Also, effort was made to identify factors that affect R&D support to SMEs the perception of SMEs attitude to activities of Research Institutions (RIs) and the level of communication between RIs and SMEs. The responses to the questions are analyzed in subsequent sections of the study report.

4.4.1 Characterization of R&D Organizations

The research institutions (RIs) studied include those under the following federal ministries as well as other institutions that offer similar services:

- Agriculture
- Science and Technology
- Environment
- Health
- Others (social research)

The distribution of responses from the research institutes under these agencies presented in table 4.17

Table 4.17: Distribution of Responses from Public Institutions

S/No	Public Institutions	Responses	Percentage (%) Responses
1	Agriculture	2	13.3

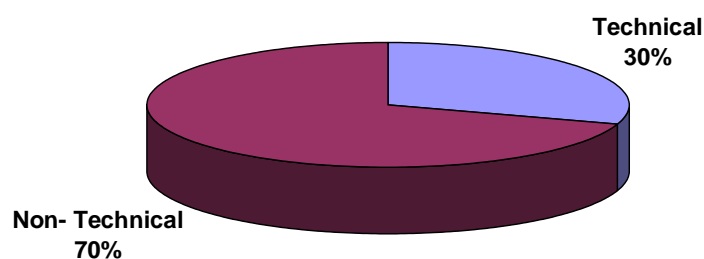
2	Science and Technology	10	66.6
3	Environment	1	6.7
4	Health	1	6.7
5	Others (Social Research)	1	6.7
	Total	15	100

Source: Researcher's fieldwork, 2005

The analysis shows that more research institutes (66.6%) from the federal ministry of science and technology (FMST) responded compared to agriculture (13.3%) and others (6.7% each). This is understandable judging by the fact that most research institutes under FMST have linkages with SMEs based on their mandates.

The capacity of RIs to deliver technology extension services to SMEs depends on the technical staff strength. In view of this, the staff strength of the RIs was determined based on their technical strength. Of the fifteen RIs that responded a total staff strength of 4,267 was recorded comprising 1,296 technical staff and 2,971 non-technical staff. The percentage distribution of the staff strength is illustrated in figure 4.11

Figure 4.11 Staff Strength Distribution of Research Institutes Studied



The analysis shows that non-technical staff institute the greater percentage of staff strength (69.6%) of the research institutes while the technical staff are less than half (30.4%) of the non-technical staff.

4.4.2 Nature of Research and Development Activities

The respondents were asked to state the nature of R&D activities their RIs are involved in and their responses are presented in table 4.18.

Table 4.18 Nature of R&D Activities of Research Institutions

	R&D Activities	Responses	Percentage (%) Responses
1	Mission oriented research	9	60

2	Scientific research	6	40
3	Academic research	0	0
	Total	15	100

Source: Researcher's fieldwork, 2005

Most of the respondents indicated that they are more mission oriented research institutes (60%), while 40% of the respondents are involved in scientific institutional research, which implies that their mandates are defined in scientific terms. None of the respondents indicated that they are involved with academic research. To distinguish further the type of R&D services they offer, the respondents were asked to indicate if they are more involved in basic than applied research or both.

Their response shows that 53.3% of them are involved in both basic and applied research (Table 4.19). However, 33.3% of the respondents indicated that their RIs is purely concerned with applied research, while 6.7% are concerned with basic research only.

Table 4.19 Type of R&D Service Offered by Research Institutes

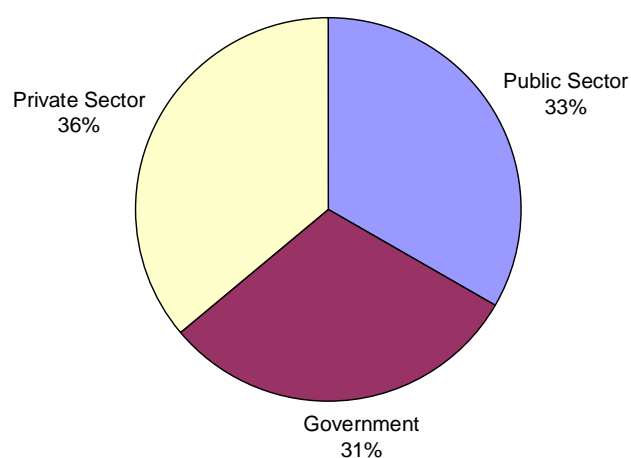
S/No	Type of R&D service	Responses	Percentage (%) Responses
1	Applied	5	33.3
2	Basic	1	6.7
3	Both	8	53.3
	No. Response	1	6.7

	Total	15	100
--	-------	----	-----

Source: Researcher's fieldwork, 2005

In order to narrow down the type of clients that patronize the RIs, respondents were asked to identify their major clientele among the public, government and the private sector. Interestingly virtually all of them indicated that they have the public, government and private sectors as their clientele (Figure 4.12). However, 36.1% felt they deal more with the private sector than government (30.5%) and public (33.3%).

Figure 4.12 Major Clients of Research Institutions

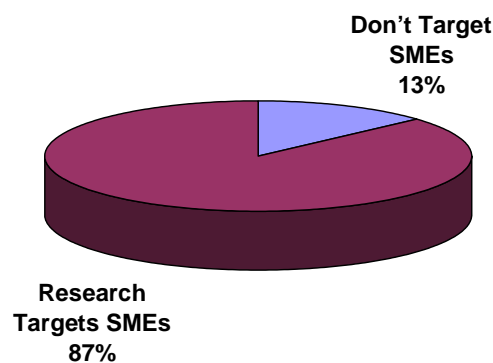


Relating the activities of RIs to SMEs, the respondents were asked if their research activities actually target SMEs. The analysis revealed that 86.7% of the respondents affirmed that their R&D programmes targets SMEs, while

13.3% holds a contrary view (Figure 4.13). Those with a contrary view supported their position by emphasizing that research is institution specific and they are expected to operate within their mandate.

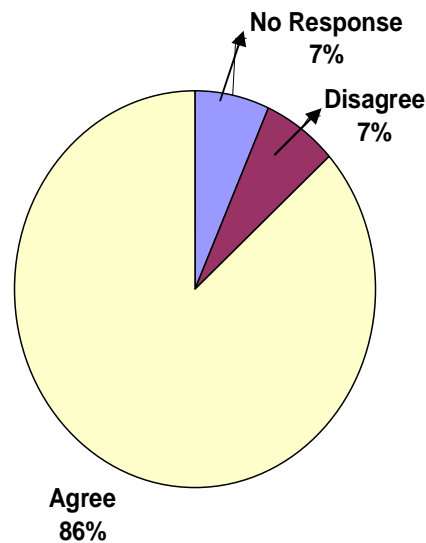
Respondents from agric research institutes hardly deal with SMEs and perhaps, that informed why they hold a contrary view.

Figure 4.13 Research Activities in Relation to SMEs



The argument often put forward by the scientific community in respect of their relationship with SMEs has been that efforts to increase R&D activities among SMEs are difficult as SMEs do not appreciate the importance of R&D. Respondents were therefore asked to express their opinion on this issue by agreeing or disagreeing with the view. Those that agreed were further asked to justify their view with valid reasons. The responses are presented in figure 4.14.

Figure 4.14 Difficulty in Engaging SMEs in R&D



The respondents were almost unanimous (86.%) in their view that it is difficult to get SMEs to engage in R&D. The majority that expressed difficulty in engaging SMEs in R&D attributed it to lack of financial and human resources on the part of SMEs to engage in R&D. Also, the level of education of SMEs manager was cited as a constraint. The informal nature of SMEs equally hindered them from getting involved in R&D. On the part of RIs, some respondents felt that the desired linkages with SMEs is very weak and that these institutions have shown little interest in the SME sector despite their claim to be supportive to SMEs. However, they stated that there are prospects if both RIs and SMEs can show commitment to partner in R&D activities.

Furthermore, questions were fielded to determine whether SMEs do influence the direction of research and also, if RIs do inform SMEs of their services, innovations and research results. The responses are presented in table 4.20

Table 4.20: Relationship Between SMEs and RIs Based on Services and

Information Availability			
S/No	Issue	Responses	Percentage Responses (%)
A	Influence on Research Direction		
	i. Yes	6	40
	ii. No	8	53.3
	iii. No response	1	6.7
	Total	15	100
B	Information Availability		
	i. Yes	12	80
	ii. No	2	13.3
	iii. No Response	1	6.7
	Total	15	100

Source: Researcher's Fieldwork, 2005

The analysis revealed that 53.3% of the respondents from the RIs are of the view that SMEs do not determine the type of services they offer and as such, do not influence the direction of research. However, 40.0% of them feels that SMEs do influence their research focus. The major reasons given to support the view that SMEs do not influence the services offered by RIs are:

- Need assessment of SMEs R&D requirements by RIs before embarking on any research is lacking.
- The mandate of RIs gives direction to their R&D activities which might not specifically target SMEs.

On the issue of informing SMEs what RIs are doing, 80.0% of the respondents affirmed positively that SMEs are informed of their capabilities, services, innovations and research results. In support of their view on the subject matter of information dissemination to SMEs, they mentioned the following as means for informing SMEs:

- through extension agents
- trade fairs, exhibition, exposition, etc
- meeting with umbrella associations such as National Association of Small and Medium Enterprises (NASME), National Association of Small Scale Industries (NASSI) and Manufacturers Association of Nigeria (MAN) sub-groups.
- through linkage programmes and awareness creation.
- through seminars and workshos
- personal or one-to-one discussions with managers and owners of SMEs.
- through publications such as bulletins, journal, annual reports, project profiles industrial profiles and news letters.

Since one of the objectives of this study is to come up with strategies that can enable RIs render effective support services to SMEs, respondents were asked to mention processes by which the needs of individual entrepreneurs or SMEs is identified in order to decide on which service to offer. Their responses are presented in table 4.21.

Table 4.21: Identification of SMEs needs for Service Delivery

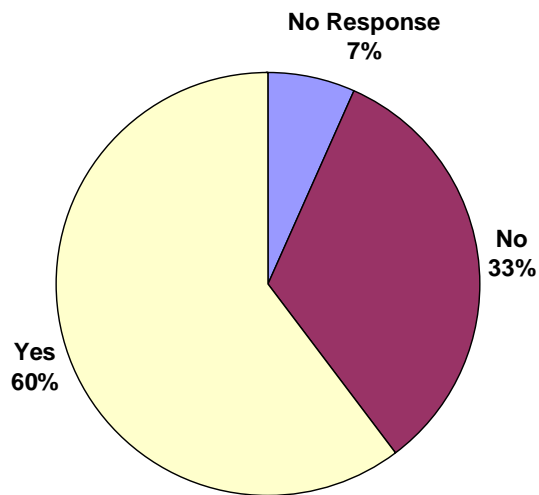
S/No	Processes	Response	Percentage (%) Responses
1	Visit to SMEs	5	33.3
2	Seminars/workshops	7	46.7
3	Surveys	2	13.3
4	None of the Above	0	0.
5	No response	* 2	6.7
	Total		100

Source: Researcher's fieldwork 2005

*** Coefficient of reproducibility = 93.3%**

The respondents identified three processes which include visits to SMEs, seminars/workshops and surveys. However, 46.7% of respondents identified seminars/workshops as the most veritable means by which RIs inform SMEs for their services followed by visits to SMEs(33.3%). When further asked if they have dedicated units or department that handles support services to SMEs, 60% of them responded positively while 33% said that they do not have (Figure 4.15).

Figure 4.15 Dedicated Unit of SMEs Support Services



In order to confirm that the RIs actually have units dedicated to offer support services to SMEs, the respondents were asked to mention the name of such units. The following units were mentioned as responsible for SMEs in different research institutions:

- Industrial development unit.
- Consultancy, monitoring and extension services unit
- Technical information and planning department
- Advisory unit
- Technology marketing units

It appears that the units are not really dedicated to SMEs but are functional units with activities that covers SME sector.

4.4.4 Factors Affecting R&D Support to SMEs

Research and development services are particularly of importance to small and medium size enterprises if they are to achieve competitiveness. For SMEs, to be innovative and enjoy strong domestic market niche, they need to apply improved technology to their production process. They need both the knowledge of the technology and its beneficial application. However, a lot of factors have been identified both on the part of RIs and SMEs that hinder the provision of desired research support services. It was against this background that respondents were asked to list the major factors they consider to hinder research institutes from providing the R&D support services required by SMEs.

The following factors were listed to be the major constraints:

- lack of fund to carry out need-driven research;
- inability of SMEs to pick-up the viable research results of RIs for commercialization;
- lack of strong linkage between R&D institutions and SMEs;
- dearth of reliable information on research findings;
- lack of infrastructure
- lack of functional equipment;
- non-recognition of the importance of R&D by SMEs.;

- lack of well trained personnel to offer extension service support to SMEs.;
- limited awareness on both sides as SMEs do not know what RIs are doing neither do RIs know what SMEs requires;
- narrow mandates of RIs which does not target SMEs, and
- preferences for imported technologies than locally developed ones by SMEs.

Based on a list of possible factors that have been identified in the past studies to be responsible for inability of SMEs to benefit from research activities of RIs, the respondents were asked to rank them as either highly insignificant or highly significant. The responses are presented in table 4.22.

Table 4.22: Factors Limiting SMEs Access to R&D of RIs

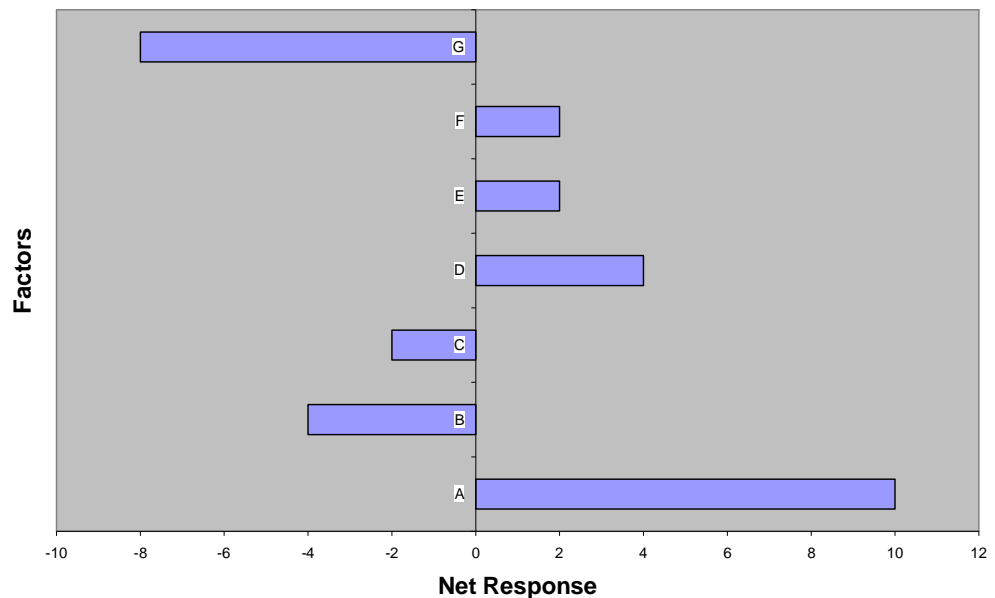
S/No	Factors	Highly Insignificant	Insignificant	Significant	Highly Significant	Net Resp.	Ranking
A	Lack of information R&D activities N.R=1	--1	-1	+6	+6	10	1 st
B	Lack of viable R&D results N.R = 1	--7	--2	+5	0	--4	6 th
C	Inability to access R&D institutions N.R = 1	--4	--4	+3	+3	--2	5 th
D	Lack of intervention by RIs on SMEs activities N.R =1	--1	--3	+5	+5	4	2 nd
E	Access to skilled personnel of RIs by SMEs is limited N.R=1	--3	--3	+4	+4	2	3 rd
F	R&D market is very personal * N.R =1	--2	--4	+6	+2	2	4 th
G	R&D market is not rational	--6	--5	+3	0	--8	7 th

Source: Researcher's fieldwork 2005

*** coefficient of reproducibility = 93.3% (N.R = No Response)**

The distribution of the responses is further illustrated in figure 4.16.

Figure 4.16 Factors Limiting SMEs access to R&D



Lack of information on R&D activities of research institutions was considered as highly significant factor limiting SMEs from RIs (figure 4.16). This factor was ranked the prime factor (table 4.22) among other factors. The respondents who are researchers of RIs believed that limited intervention of their institutions in the activities of SMEs is a very significant factor affecting SMEs from accessing R&D activities of RIs. This factor was ranked

second among others (Table 4.22). Also, lack of access of SMEs to skilled personnel of RIs was rated third among the significant factors (table 4.22).

The distribution of the responses as illustrated in figure 4.16 shows that the researchers consider R&D market quite personal as a significant factor. The respondents considered as highly insignificant the statement that R&D market is irrational. Also, lack of viable R&D results and inability to access R&D institutions were considered as insignificant factors limiting SMEs access to R&D of RIs (figure 4.16).

The relationship between RIs and SMEs is a critical factor to the appreciation and utilization of R&D results. In order to establish how the researchers perceive SMEs attitude towards the activities of RIs, question was fielded in which they are expected to respond as either very negative or very positive. Their responses are presented in table 4.23.

Table 4.23: Attitude of SMEs to activities of RIs

S/No	Attitude	Response	Percentage (%) Response	Net Response
1	Very Negative	2	13.3	--2
2	Negative	7	46.7	--7
3	Positive	4	26.6	+4
4	Very Positive	1	6.7	+1
5	No Response	1	6.7	0
	Total	15	100	--4

Source: Researcher's fieldwork 2005

The analysis shows that 46.7% of the respondents believed that SMEs attitude to RIs is negative while 26.6% believed that is positive. However, the net responses show an overall negative attitude (table 4.23).

The type of services provided by RIs is also instrumental to the demand for such services by SMEs. Four categories of services were identified and respondents were asked to identify the service mostly demanded. Their responses are presented in table 4.24.

Table 4.24: Type of services required by SMEs

S/No	Type of Service	Responses	Percentage (%) Response
1	Consultancy		
	i. Yes	10	66.7
	ii. No	4	26.7
	iii. No response	1	6.6
	Total	15	100
2	Quality Control		
	i. Yes	3	20
	ii. No	3	20
	iii. No response	* 9	60
	Total	15	100
3	Process Technology		
	i. Yes	8	53.3
	ii. No	3	20.0
	iii. No response	* 4	26.7
	Total	15	100
4	New Product Development		
	i. Yes	5	33.3
	ii. No	3	20.0
	iii. No response	* 7	46.7
	Total	15	100

Source: Researchers fieldwork 2005

- High No response, Coefficient of reproducibility <93.3%

The respondents indicated that the services mostly demanded by SMEs are consultancy (66.7%), process technology sourcing (53.3%) and new product development (33.3%). Very few SMEs approach RIs for quality control services (20%). The high no response recorded reflected lack of knowledge of that service like quality control, new product development and process technology are offered by research institutions.

The importance of information dissemination is recognized in this study and as such, respondents were asked of their view on how often they communicate with SMEs on their R&D activities; communication with SMEs will help to promote commercialization of R&D results. The responses are presented in table 4.25.

Table 4.25: Communication with SMEs on R&D activities

S/No	Response	CEOs	Employees	Potential Entrepreneurs
1	Never	1 (6.7%)	1 (6.7%)	1 (6.7%)
2	Rarely	5 (33.3%)	6 (40%)	5 (33.3%)
3	Annually	4 (26.7%)	4 (26.7%)	3 (20%)
4	Monthly	2 (13.3%)	0 (0%)	1 (6.7%)
5	More Often	1 (6.7%)	2 (13.3%)	3 (20%)
6	No response	2 (13.3%)	2 (13.3%)	2 (13.3%)

Source: Researcher's fieldwork, 2005

No response = 2, COV = 86.7% (COV = Covariance)

The analysis shows that for all categories of SMEs personnel including potential entrepreneurs the respondents are of the view that their institutions rarely

communicate with them. However, 26.7% reported that they communicate with Chief Executives (CEOs) of SMEs annually, while 13.3% communicates with them on monthly bases. For scientists in the employment of SMEs, they communicate with them annually (26.7%) possibly during professional association annual general meetings. The percentage of respondent who reported that they meet often with potential entrepreneurs was merely 20%.

4.5 FINANCE SUPPORT SERVICES

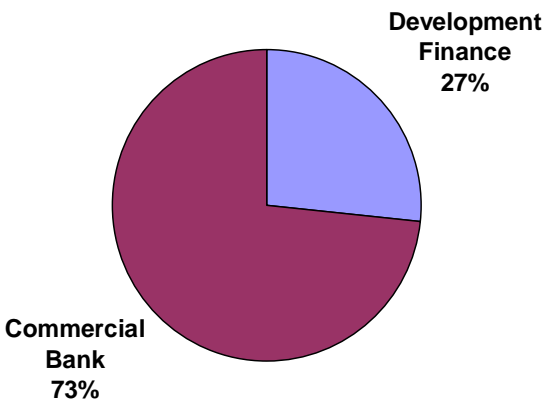
Financing SMEs development has presented a considerable number of problems both for SMEs themselves and the finance institutions. Government of Nigeria over the years, recognized the need to render financial support to SMEs however, the impact of the various initiatives and support services is yet to be ascertained and appreciated by all stakeholders.

The nation's financial system consists of a diverse array of banking and non-banking financial institutions. Despite this, access to term finance by the real sector is very limited and development finance institutions have suffered over the past decades, a decline in financial status. The study therefore attempted to examine the nature of financing activities that are supportive to SME development as well as factors affecting financial support to SMEs. The

respondents in this study are top personnel of financial institutions in the country.

In examining the nature of financing activities, questions were fielded to ascertain the categories of financing system that is available to SMEs as well as the type of services offered. The respondents distinguished two major categories of financial institutions as commercial banking and development financing (Figure 4.16)

Figure 4.16 Nature of Finance Institutions



Commercial banking commands a significant portion of the financing system (73.3%) relative to development finance (26.7%). For the type of capital currently supplied to SMEs, three type of loans were identified and respondents were asked which of these that actually target financial needs of SMEs. Their responses are presented in table 4.26.

Table 4.26: Financial Services that Target SMEs Needs

S/No	Financial Service	Responses	Percentage (%) Response
1	Short term loan	9	60.0
2	Long term loan	1	6.7
3	Microfinance	0	0.0
4	All of the above	5	33.3
	Total	15	100

Source: Researcher's fieldwork 2005

The analysis revealed that short term loan (60%) is much more available to SMEs than long term loan (6.7%) and microfinance (0%). However 33.3% of the respondents felt that all the categories of loan facilities are available for SMEs. Furthermore, the lending rate of capital supplied to SMEs was studied and respondents gave varying rates depending on their banking policy. The rate varied from a lower limit of 8% to an upper limit of 22.5% (table 4.27).

Table 4.27: Lending rate to SMEs

S/No	Lending Rate	Responses	Percentage (%) Response
1	8.0%	2	13.3
2	19%	6	40.0
3	22.5%	7	46.7
	Total	15	100

Source: Researcher's fieldwork 2005

The lending rate was found to lie between 19% and 22.5% (table 4.27). Those offering a lower rate that is less than 10% are very minimal (13.3%). In order to determine if this lending rate is supportive or not to SMEs the opinion of the respondents were sought. Surprisingly, majority of them

(60%) affirmed positively that the rate is supportive while 26.7% held a contrary opinion (Table 4.28).

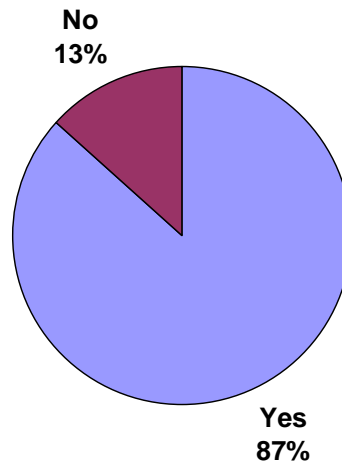
Table 4.28: Lending Rate Supportive to SMEs

S/No	Response	No of Respondents	Percentage (%) Response
1	Yes	9	60
2	No	4	26.7
3	No response	2	13.3
	Total	15	100

Source: Researcher's field 2005

The clientele to the finance institutions were classified into big firms, medium firms and small firms. The respondents were asked to identify among these, the major clientele. Virtually all the respondents claimed to support these clientele. When further asked if their banking activities target the SMEs, 87% of them responded positively while 13% reported that their activities do not target SMEs (Figure 4.17).

Figure 4.17 Banking Activities Supportive to SMEs



Those who holds a contrary opinion stated that the current SMEs financial support scheme is not fully operational and as such, they do not target SMEs. In fact, they consider bigger firms to be much easier to deal with as they attract less administrative cost than SMEs.

4.5.2: Support Measures to SMEs.

It has been observed that over time, the existing financial institutions designated to support SMEs have not been able to efficiently and effectively channel resources available to SMEs. The study tried to examine support measures to SMEs in the context of being quoted in the stock market, guaranteeing equity finance, leasing

opportunities and information dissemination on banking services and products.

Also, efforts were made to identify the means by which SMEs needs are recognized by financial institutions as well as the existence of a designated unit that handles SMEs matters. Respondents were asked if they share the same opinion that “SMEs do not participate in the stock market”. Also, they were asked if their banks guarantee SMEs equity in domestic and foreign capital markets as well as offering SMEs leasing opportunities. Their responses to these questions are presented in table 4.29.

Table 4.29: Specific Support with Respect to Stock Market Equity Guarantee and Leasing Opportunities

S/No	Support Measures	Responses	Percentage (%) Responses
A	Participation in Stock Market		
		10	66.7
	i. Agree	4	26.7
	ii. Disagree	1	6.6
	iv. No Response		
	Total	15	100
B	SMEs Equity Guarantee in Domestic Market		
	i. yes	8	53.3
	ii. No	4	26.7
	iii. No response	3	20.0
	Total	15	100
C	SME Hardly Benefit from Leasing		
	ii. Agree	9	60
	ii. Disagree	5	33.3
	v. No Response	1	6.7
	Total	15	100

Source: Researcher's fieldwork, 2005

The analysis shows that 66.7% agreed with the view that SMEs do not participate in the stock market while 26.7% disagreed. The respondents observed that SMEs do not have capacity to meet the stock exchange guidelines and requirements. Also, by virtue of the small size, most SMEs can not be able to raise the required funds in the capital market. More than half of the respondents (53.%) agreed that their banks do guarantee SMEs equity in the domestic markets and none in the foreign capital market. Those that do not guarantee SMEs equity at all market levels were 26.7%. These respondents believe that SMEs lack security for equity guarantee and therefore seen as a high risk group.

As regards to leasing opportunities, 60% of the respondent agreed completely that SMEs do not benefit from leasing opportunities. This situation was attributed to low level of awareness of leasing facilities. However, 33.3% disagreed pointing out that some SMEs do benefit from leasing facilities especially equipment leasing. When asked if they do inform SMEs about their services, innovations and products respondents (93.3%) affirmed positively and that they achieve this through direct contact, organized fora and workshops.

Furthermore, three possible means of knowing the needs of SMEs or individual entrepreneurs for service delivery were identified to include visits

seminars/workshops/conferences and surveys (Table 4.30). Respondents were asked to identify among these processes, the most effective means and 66.7% of them considered direct visits to SMEs as the most effective, followed by seminars/workshops (33.3%).

Table 4.30: Processes of Identifying SMEs Needs

S/No	Processes	Responses	Percentage (%) Response
1	Visiting	10	66.7
2	Seminars/workshops	5	33.3
3	Survey	0	0
4	None of the above	0	0
	Total	15	100

Source: Researcher's fieldwork, 2005

More than half of the respondents (53.3%) further said that they have specialized unit that is dedicated to SMEs, while 46.7% said that they do not have.

4.5.3 Factors Affecting Financial Support to SMEs

Financing SMEs have been considered a major problem from the view point of banks. Several reasons have been advanced for why banks find it extremely difficult to finance SMEs. In the course of this study, attempt was made to identify the major factors considered by the bankers to hinder SME financing by banks. The following were mentioned as factors affecting SMEs financing:

- difficulty on the part of SMEs in meeting with banks minimum deposit for financial support;

- inadequate record keeping by SMEs;
- poor loan repayment records;
- high operational costs;
- lack of requisite managerial capacity;
- high mortality rate of SMEs;
- low earning capacity;
- low absorptive market capacity;
- poor project management;
- lack of good feasibility study;
- lack of security for loans in terms of collateral; and
- difficulty on the part of banks in supervising each individual project of SMEs;

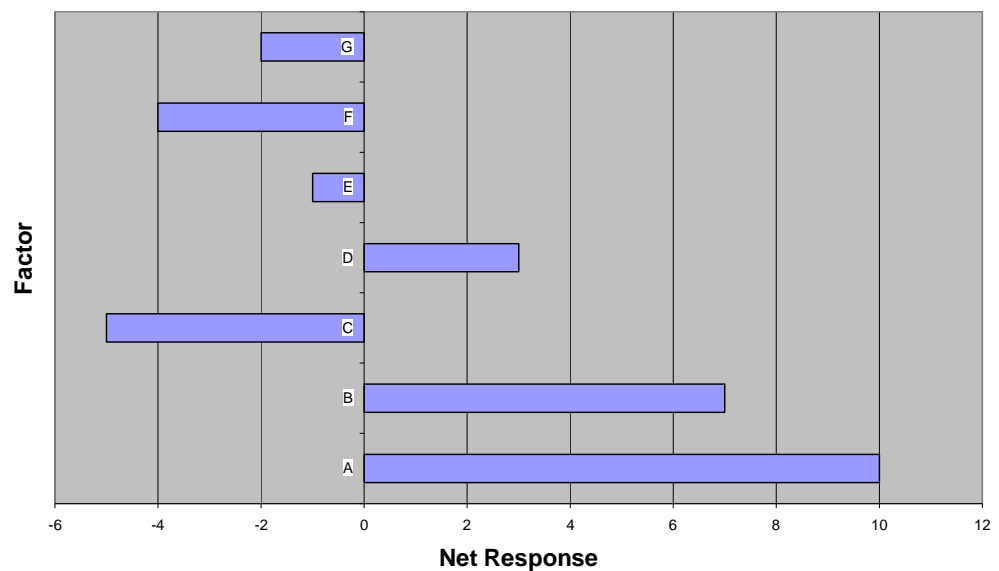
Apart from the factors identified by respondents as affecting SMEs financing, specific factors were listed and respondents were asked to rate them on a four point scale as either highly insignificant or highly significant. Their responses are presented in table 4.31 and further illustrated in figure 4.18.

Table 4.31: Factors Limiting SMEs from Accessing Financial Support Services

S/N	Factors	H. Insigni- ficant	Insignifi- cant	Signifi- cant	Highly signifi- cant	Net Response	Ranking
A	Lack of Information No Resp=1	0	--2	+6	+6	10	1 st
B	Lack of viable project from SMEs	--3	--1	+4	+7	7	2 nd
C	Inability to access banks	--3	--7	+4	+1	--5	7 th
D	Lack of intervention by banks	--1	--5	+4	+5	3	3 rd
E	Lack of access to skilled bank personnel No response = 2	--2	--5	+6	0	--1	4 th
F	Financing SMEs project is personnel No response =1	--7	--2	+3	+2	--4	6 th
G	SMEs financing market is irrational No response= 1	--4	--4	+3	+3	--2	5 th

Source: Researcher's fieldwork, 2005

Figure 4.18 Illustration of the Ranking of Factors Limiting SMEs from Accessing Financial Support Services



The analysis indicates that lack of information on financing activities of banks was considered as the most significant constraint (Figure 4.18). Other significant constraints include lack of viable projects from SMEs and interventions by banks on SMEs activities. The least ranked factor is the inability of SMEs to access banking institutions and was considered highly insignificant. Also, the statement that SMEs financing market is irrational as well as financing SMEs project being personal were considered as insignificant factors. The respondents were further asked to rate how they perceive SMEs attitude towards the banking sector as either very negative or positive. Their responses are presented in table 4.32.

Table 4.32 SMEs Attitude towards Banking Institutions

S/N	Attitude	Responses	Percentage (%) Responses
1	V. Negative	2	13.3
2	Negative	8	53.3
3	Positive	3	20.0
4	V. Positive	1	6.7
5	No. Response	1	6.7
	Total	15	100

Source: Researchers' fieldwork, 2005

The net response shows that 66.6% of the respondents believe that SMEs attitude towards banking institutions is negative while 26.7% holds a contrary view. The type of services often sought for by SMEs is very necessary in order to direct support services. Consequently, respondents were asked to choose among advisory services and financial management, the most desired services by SMEs. Their responses are presented in table 4.33.

Table 4.33: Type of Services Desired by SMEs

S/N	Type of service	Responses	Percentage (%) responses
A	Advisory		
	i. yes	6	40
	ii. No	9	60
	iii. No Response	0	0
	Total	15	100
B	Financial Management		
	i. yes	7	46.7
	ii. No	7	46.7
	iii. No response	1	6.6
	Total	15	100

Source: Researcher's fieldwork, 2005

The analysis shows that less advisory services (40%) and more financial management support (46.7%) are demanded from banks by SMEs. The issue of communication has been emphasized over time to be very critical in creating the necessary linkages between SMEs and support institutions such as the banks. To this end, the study tried to determine how often or not do banks communicate with SMEs. The respondents were asked to rate on a five-point scale from never to more often. Their responses are presented in table 4.34.

Table 4.34 Communication of Finance Institutions with SMEs.

S/N	Categories of SMEs Personnel	Never	Rarely	Annually	Monthly	More Often
1	SMEs Chief Executives	0 (0%)	9 (60.0%)	3 (20%)	2 (13.3%)	1 (6.7%)
2	Finance Persons in SMEs Employment	1 (6.7%)	10 (66.7%)	0 (0%)	3 (20%)	1 (6.6%)
3	Potential Entrepreneurs	0 (0%)	6 (40.0%)	2 (13.3%)	4 (26.7%)	3 (20.0%)

Source: Researcher's fieldwork, 2005

The analysis shows a weak line of communication between financial institutions and SMEs as they rarely communicate with the CEO, (60.0%) finance persons in SME employment (66.7%) and potential entrepreneurs (40%).

CHAPTER FIVE

DISCUSSION OF THE RESULTS

5.1 INTRODUCTION

This chapter presents in a comprehensive manner the discussions on the analysis of the data generated from the survey as presented in the preceding chapter. The objective of discussing the findings from the data analysis is to establish if the findings are supportive to existing knowledge on the subject matter of the research study or provided a new knowledge as well as strategies that could help improve on support measures to SMEs. The discussion examined the three core areas of the study which include the following:

- Business environment, comprising the nature of enterprise, legal framework, business regulation, taxation, SMEs development strategies, business culture, macroeconomic policy and infrastructure.
- Research and development support which includes characterization of R&D organizations, nature of R&D activities, institutional support to SMEs and factors affecting R&D support.
- Finance support services such as nature of finance Activities, support measures, as well as factors that affects financial support to SMEs.

The discussion equally examined the distribution pattern of survey responses and also tested the hypothesis stated in the introductory chapter.

Responses to Questionnaire

The retrieval rate of 57% achieved in this study was considered reasonable and within the acceptable level by researchers. Some researchers have reported retrieval rates of between 50% and 92% for questionnaire surveys (Duman, 1978, Ngesa et al, 2003 and Saunders et al 1997). When the responses were further analyzed based on the various components that constitute the sample size, a response rate of 95% was determined with a margin of error of $\pm 5\%$. This level of confidence ($95\% \pm 5$) was considered quite pertinent to the validity and reliability of the data generated from the study and therefore the inferences made.

Furthermore, it was also considered to be within the confidence level accepted by other researchers to be valid (Ngesa et al 2003 and Saunders et al 1997). This confidence level implies that there is every certainty that at least 95% of the samples studied would represent the population characteristics. The sample size of 100 was found not to be significantly different from the determined actual sample size of 105.

5.2 BUSINESS ENVIRONMENT

Government of Nigeria over the years has stated as part of its industrial development strategy, its mission to build an enterprise society in which all small businesses thrive and achieve their potential. Consequently, government aims at helping through its institutional frameworks by promoting business support services that will enhance the performance of small businesses with growth potential. This implies that government recognizes the importance of SMEs to the Nigerian economy in terms of growth, employment creation and wealth generation. The critical focus of government support was mainly on administrative and business environment, financing and non-financing measures. To overcome the problems encountered by SMEs, government through public institutions promoted programmes and support measures that will facilitate SMEs development.

5.2.1 Nature of Enterprise

The study reviewed the business environment and identified primarily the nature of enterprises that constitute small and mediums enterprises within the Nigerian economy (Table 5.1).

Table 5.1 STRUCTURE OF MANUFACTURING ACTIVITIES IN NIGERIA

Type of Units	Sectors/Subsectors	Present Status	Stakeholder
A. Organized Sector			
1) Large Scale	<300 Units	Employment > 300	
<ul style="list-style-type: none"> Public/enterprises Dynamic Private Sector <5% of total organized 	<ul style="list-style-type: none"> Wide range of products Textiles Chemicals Cement Sugar 	<ul style="list-style-type: none"> Non performing parastatals Private Dynamic sector 	<ul style="list-style-type: none"> M.A.N NACCIMA Bilateral Foreign Partners Multi-

<ul style="list-style-type: none"> sector import intensive Urban based 50%based in Lagos 	<ul style="list-style-type: none"> Rubber Food Beverages Pharmaceutical Printing, etc 	<ul style="list-style-type: none"> <30% capacity used credible Private enterprises No special assistance Exports 	<ul style="list-style-type: none"> Nationals State and Chambers WTCA
2) Medium Scale <400 Units Employment 100 to 300			
<ul style="list-style-type: none"> Private/dynamic Entrepreneurs Urban based >50% in Lagos <10% of the organized sector 	<ul style="list-style-type: none"> Wide range of products Food Textiles Chemicals Food wear Leather Saw Milling Plastics Poultry, etc 	<ul style="list-style-type: none"> Non assisted sector <30% capacity used Exports Obsolete Technologies 	<ul style="list-style-type: none"> M.A.N NASME NACCIMA Bilateral Chambers State Chambers Nigeria/Foreign Partners UNDP/UNIDO
3) Small Scale <5000 Units Employment 10 to 100			
<ul style="list-style-type: none"> Organized Nigerians Dispersed in all states 30% urban based 87% of organized 	<ul style="list-style-type: none"> Very limited range of products largely Bakeries Wearing apparels Furniture Building materials Metal works Services 	<ul style="list-style-type: none"> Sector in difficulty Poor quality Non assisted sector Financial limits Need to modernize Obsolete technology 	<ul style="list-style-type: none"> M.A.N State Chambers NASSI NASME Private Nigerians Women's Associations UNDP/UNIDO
B. Intermediary Sector – in Transition (From Informal to Formal Sector)			
4) Micro Enterprises 1000 Units all over Employment <10			
<ul style="list-style-type: none"> Nigerians Dynamic Sector Urban based Emerging candidates for SMEs 	<ul style="list-style-type: none"> Wide range of products Food drinks Footwear Furniture Metal Leather Garments Tailoring Printing Services 	<ul style="list-style-type: none"> Low quality products Exports to countries around Some assistance Low level technology Employment generation No access to finance 	<ul style="list-style-type: none"> NASSI Independent trade associations NGO Women's Associations ILO, UNDP/UNIDO FSP GTZ Technical Assistance

			Projects
C. Informal Manufacturing Activities			
5) Informal Production Units			
<ul style="list-style-type: none"> • Dispersed production • Subsistence sector • Rural urban dispersion • Possible candidates for Micro and SMEs 	<ul style="list-style-type: none"> • Wide range of consumer products • Agro-based • Metal • Repairs • Use of waste materials 	<ul style="list-style-type: none"> • Low quality • Low productivity • Some technical assistance • Less productive employment 	<ul style="list-style-type: none"> • M.A.N • NGO • WOMEN • Youths • Welfare Organizations • ILO/UNDP • Aid Projects • Technical Assistance Projects

Source: FMI/UNDP, 1997

These group varies in terms of number of employees from less than five (5) to not more than hundred (100) staff. The SMEs identified in this study were enterprises employing between 10-100 persons and they represent 74.1% enterprises studied. The micro or cottage industries as well as small enterprises constitute the largest group. The classification of enterprises based on employees is internationally accepted as a standard norm. The primary criterion employed in this classification is based on the number of workers which a firm engages on a full time basis (Ngesa et al, 2003).

In view of this, the criterion used in this study was in line with the international agreed standard for SMEs classification. The International Development Research Centre (IDRC) in 1993 grouped firms with 1-4 workers as micro or cottage enterprises and those with 5-99 workers as small and medium enterprises (IDRC, 1993). Those enterprises that employ more than 100 workers are designated as large enterprises (LEs). However, the

classification mode in this study, though in line with that of IDRC, differs slightly with the national classification in the area of number of employees that constitute medium scale enterprises.

FMI/UNDP, (1997) in their study on developing policy framework for promotion and development of SMEs in Nigeria, identified enterprises employing 10-30 persons as SMEs. The study also acknowledged that SMEs are classified as enterprises employing less than 100 persons. However, for policy framework purposes, an employment figure of not more than 300 has been chosen as a benchmark for medium scale enterprises. Those employing less than 10 persons were considered as micro enterprises. It was obvious from this study and literatures consulted that the definitions and concept of SMEs is mixed up with formal sector enterprises and informal, micro rural, cottage industries. Okojie (2004) pointed out the difficulties in arriving at a universal definition of the terms “micro”, small” and” medium “sized enterprises. It must be appreciated that one of the major reasons for defining enterprises is to facilitate support services to SMEs as faulty definitions may result in fiscal incentives meant for micro, small and medium enterprises being used by large enterprises (Allal, 1999).

It is in recognition of this important reason that the FMI/UNDP report noted the confusing situation that informed why many of the SMEs promotion programmes in

Nigeria were more or less oriented towards informal and micro enterprises (FMI/UNDP, 1997). Furthermore, the International Labour Organization (ILO) based on these disparities in the definition of SMEs, clearly stated in ILO Recommendation 189 “that member countries should define small and medium-sized enterprises according to their own national, social and economic conditions”.

The study also determined the nature of staff employed by SMEs in terms of their status as either managerial or non-managerial. It has been stated that the inability of SMEs to be innovative and competitive is partly associated with the managerial capability of their staff (Ngesa et al, 2003). In a study of SMEs in Kenya, Ngesa et al (2003) observed that while the owners and managers of medium enterprises are better educated those of small enterprises are not. They concluded that quality of managers and workers of businesses is of immense importance in adopting innovations faster.

In this study, it was found that non-managerial staff with limited education constitutes more than 95% of staff strength of SMEs. This finding obviously confirms the observations by various researchers that SMEs lack the

managerial competence to run their enterprises. Mansour (2001) identified factors such as lack of innovation and management limitation as some of the major attributes hindering the growth of SMEs. These were also associated with the educational background of managers and staff of SMEs. Most SMEs managers are limited since they do not undertake activities that are related to their educational background. This situation is more prominent with micro and small enterprises. It is in view of this that Ngesa et al (2003) advised that small size manufacturing firms whose owners tend to have lower educational background need more extension services from support institutions.

Majority of the firms studied were in manufacturing or commerce. Manufacturing firms, small or large are considered very critical to any economy in terms of value-addition, productivity, competitiveness and overall job creation. The contribution of SMEs to the growth of manufacturing and the GDP of any country determines their strength and impact to the economy.

Mansour (2001) in his study of SMEs in the Arab region observed that manufacturing SMEs constitute over 70% of manufacturing employment. Also, Kalanje (2002) noted that SMEs contribute to 10% of total manufacturing output and about 70% of industrial employment in Nigeria. The SMEs involved in manufacturing and engineering constitute 70.4% of the respondents in this study and are mainly in

sub sectors like textile, leather, plastic recycling, food processing and metal works.

5.2.2 Legal and Regulatory Framework

The study established that the existing legal framework is inefficient and that the judicial system suffers from undue delays. The World Bank in one of their studies on the SME sector in Nigeria noted that the judicial system suffers from long delays in processing of claims (World Bank, 2001).

Entrepreneurs are often concerned with the nature of legal system which guarantees equity, fairness and justice in the conduct of business. Where an effective judicial system is lacking, entrepreneurs loose confidence in the system. The findings from this study further confirmed the observations made in the World Bank study of the SME sector in Nigeria, which highlighted the problems associated with access to fair judicial system.

The World Bank noted that the judicial system suffers from several problems including lengthy judicial processes, lack of credibility, corruption and very limited knowledge of commercial law. Judicial processes were observed to take up to three years for a claim to be heard at a court in the first instance. While this observation might not truly reflect the current situation, the researcher was able to confirm the lengthy judicial process. Also, the issue of fairness was elaborated as firms expressed their lack of confidence that the judicial process will be fair.

It is against this background that majority of them often resort to informal mechanisms or alternative dispute resolution system in solving commercial disputes like irregularities in the enforcement of contracts. For instance, such disputes are attimes handled by the Alternative Dispute Resolution System of the Lagos Chambers of Commerce or the Nigerian Arbitration Institute. A wide range of suggestions were made on how the legal framework should be improved upon which were explicitly stated in the preceding chapter.

5.2.3 Business Regulation

The International Finance Corporation (IFC) of the World Bank group in their global study on how businesses see government in 69 countries, both developed and developing nations identified regulatory framework as one of the major obstacles that affect businesses (Bruneti et al, 1998). The regulatory environment varies and the emphasis in this study is on the business environment, that is, the regulations governing starting of businesses and new operations, tax regulations, fees charged for business

registration and conduct of activities with government as well as the effect of corruption.

The findings from the study revealed that about 85.2% of the SMEs feel that business regulations and fee structure was complex. Also, they opined that fees charged locally were multiple and unpredictable. Considering the import of regulatory environment to SMEs growth and development, this finding was subjected to statistical analysis in order to validate the earlier stated hypothesis.

Testing of Hypothesis on Business Regulatory Environment as it Affects SMEs in Nigeria.

The data (Table 5.2) used to test the hypothesis was derived from table 4.8 in chapter four. Based on this data, the expected frequencies of the responses were computed and presented in table 5.3.

Hypothesis One

Null (H_0): Business regulations and fee structure are not complex in Nigeria

Alternative (H_1): Business regulations and fee structure are complex in Nigeria

Table 5.2: Observed Frequencies of Response on Business Regulations and Effect of fee structure

S/No	Response	Business Regulation	Fee Structure	Total
1	Not Complex	3	3	6
2	Fairly Complex	11	9	20
4	Too Complex	12	14	26
5	No. Response	1	1	2

	Total	27	27	54
--	-------	----	----	----

Source: Fieldwork Analysis, 2005

To compute the expected frequencies of response, the following equation was applied:

$$\sum ij = \frac{n_i \times n_j}{n}$$

Table 5.3: Expected Frequencies of Response on Business Regulations

and Effect of Fee Structure

S/N	Response	Business Regulation	Fee Structure
1	Not Complex	$\frac{6 \times 27}{54}$ (3.0)	$\frac{6 \times 27}{54}$ (3.0)
2	Fairly complex	$\frac{20 \times 27}{54}$ (10.0)	$\frac{20 \times 27}{54}$ (10.0)
3	Too complex	$\frac{20 \times 27}{54}$ (13.0)	$\frac{20 \times 27}{54}$ (13.0)
4	No Response	$\frac{2 \times 27}{54}$ (1.0)	$\frac{2 \times 27}{54}$ (1.0)

Source: Researcher's fieldwork, 2005

To test the hypothesis, chi-square test of independence was applied as follows:

$$X^2 = \sum_{j=i}^{nc} \frac{(\text{Observed} - \text{Expected})^2}{\text{Expected}}$$

A. Not Complex	Bus. Reg. $\frac{(3-3)^2}{3}$ (0)	Fee Struct. $\frac{(3-3)^2}{3}$ (0)
B. Fairly complex	$\frac{(11-10)^2}{10}$ (0.10)	$\frac{(9-10)^2}{10}$ (0.10)
C. Too complex	$\frac{(12-13)^2}{13}$	$\frac{(14-13)^2}{13}$

	(0.0769)	(0.0769)
D. No Response	$\frac{(1-1)^2}{1}$	$\frac{(1-1)^2}{1}$
	(0)	(0)

$$X^2 \text{ cal} = 0.10+0.10+0.0769+0.0769 = 0.3538$$

$$X^2 \text{ cal} = 0.3538$$

Decision Rule

At 0.05, if the computed value of X^2 is greater than the tabulated value of X^2 at $(r-1)(c-1)$ degree of freedom, the Null Hypothesis (H_0) is rejected

$$r= 4, c=2, d.f = (4-1)(2-1) = 3$$

$$X^2 \text{ tabulated } 0.05 (d.f =3) = 7.815$$

$$X^2 \text{ cal } (0.3538) < X^2 \text{ tab } (7.815)$$

Since X^2 calculated (0.3538) was less than X^2 tabulated (7.815), the hypothesis was accepted at 0.05 level of significance. This implied that business regulations and fee structure are not as complex as perceived by SMEs. Accepting the Null Hypothesis (H_0) does not imply that it is true. However, it might be an indication that the research study lacked enough evidence to decide against it. Therefore, the researcher failed to reject the null hypothesis rather than simply accepting it.

The conclusion is that even though SMEs perceived business regulation and fee structure as being complex, however, statistically it was not possible to establish that it is so and there is no dependence between the two variables.

Testing of Hypothesis on Tax Structure as it Affects SMEs.

Hypothesis Two

Null (H_0): Tax structure is not clear and tax refund seldomly fulfilled.

Alternative (H_1): Tax structure is clear and tax refund often fulfilled.

To test the hypothesis, reference was made to table 4.9 in chapter four in order to determine the expected frequencies of responses from the observed frequencies. The observed frequencies are presented as table 5.4 while the expected frequencies are presented as table 5.5.

Table 5.4: Observed Frequencies of Response on Tax Structure and Tax Refund.

S/N	Response	Tax structure	Tax refund	Total
1	True	24	21	45
2	False	2	5	7
3	No response	1	1	2
	Total	27	27	54

Source: Researcher's fieldwork, 2005

In order to determine the expected frequencies of response, the following equation was used

$$E_{ij} = \frac{n_i \times n_j}{n}$$

where n=54, i=row total, j= column total and E=expected frequency

Table 5.5 Expected Frequencies of Response on Tax Structure and Tax Refund.

S/N	Response	Tax structure	Tax refund
1	True	$\frac{45 \times 27}{54}$ (22.5)	$\frac{45 \times 27}{54}$ (22.5)
2	False	$\frac{7 \times 27}{54}$ (3.5)	$\frac{7 \times 27}{54}$ (3.5)
3	No response	$\frac{2 \times 27}{54}$ (1.0)	$\frac{2 \times 27}{54}$ (1.0)

Source: Researcher's fieldwork, 2005

Further analysis on the nature of tax structure as observed by the SMEs to be unclear was carried out through statistical test.

1. True	$\frac{(\underline{24-22.5})^2}{22.5}$ (0.1)	+	$\frac{(\underline{21-22.5})^2}{22.5}$ (0.1)
2. False	$\frac{(\underline{2-3.5})^2}{3.5}$ (0.6429)	+	$\frac{(\underline{5-3.5})^2}{3.5}$ (0.6429)
3. No Response	$\frac{(\underline{1-1})^2}{1}$ (0)	+	$\frac{(\underline{1-1})^2}{1}$ (0)

$$X^2 = 0.1+0.6429+0.1+0.6429+0+0$$

$$= 1.4854$$

$$r= 3, c= 2$$

$$d.f = (3-1)(2-1) = 2$$

$$X^2 \text{ calc} = 1.4854$$

$$X \text{ tab} = 5.991 \text{ at } d.f = 2$$

Decision Rule

Reject null hypothesis (H_0) at 0.05 if the calculated value of X^2 is greater than the tabulated value of X^2 at $(r-1)(c-1)$ degree of freedom (d.f). Since X^2 calculated (1.4854) is less than X^2 tabulated (5.991) the hypothesis was not rejected. This implied that the tax structure is not clear and tax refund hardly fulfilled. The outcome of the statistical test further confirmed the findings that the tax structure is unclear and tax refund hardly fulfilled.

These findings were similar to the one made by Bruneti et al (1998) in their survey of 13 regions in the world, during which they identified business regulation, especially tax as number one obstacle affecting businesses. The World Bank study on Nigeria revealed reasonable taxation and inadequate tax administration (World Bank, 2001).

However, the SMEs perception of tax regulations in Nigeria was contrary to the World Bank findings. While 48.2% of them felt that corporate tax level is unfair, 48.1% felt that it is fair. The difference in the response rate is not considered

significant to actually disagree completely with the World Bank findings. At best, it can be said that the corporate tax level is not totally unreasonable.

Nevertheless, the study revealed that capacity of government to administer collection is low (92.6%). This confirmed the World Bank report that indicated the government lacks the capacity to administer tax collection. Furthermore, the study agreed completely with the views as contained in the World Bank report that the tax structure is unclear (88.9% of respondents) and tax refund hardly fulfilled (77.8% of respondents). The World Bank reported that unclear criterion, unfair tax administration and lack of information are some of the problems that hinders a proper functioning of the support system and therefore affects SMEs disproportionately (World Bank, 2001).

Tax regulations and/or high taxes as well as tax bureaucracies, tedious tax regulations, unclear tax laws and probably corrupt tax officials were identified as major obstacles affecting small businesses (Bruneti *et al.* 1998). These factors have also been attributed to the reason why most small businesses prefer to remain informal.

The analysis further revealed that custom duties' laws are unclear as there is general uncertainty of costs of regulations especially frequent changes in tariff. Several

initiatives were suggested to improve on the taxation system in Nigeria

5.2.4 SMEs Development Strategy

The promotion and development of SMEs in Nigeria involves a number of intervening public institutions, non-governmental organizations and donor or support agencies operating at different levels. The public support institutions have been severally criticized by SMEs as not being supportive enough. It is a common belief that the public sector implemented interventions has not contributed sufficiently to develop a sustainable SMEs sector in Nigeria (FMI/UNDP, 1997).

Nadvi (1995) also observed that despite the growing awareness that SMEs are critical to industrial development, strategies aimed at supporting them have tended more often than not to fail.

Furthermore, Levitsky (1996) in a complete review of support systems for SMEs in developing countries noted that in the 1980s, government intervention policies to support SMEs through subsidies, protection from imports, cheap premises on industrial estates and special preference for SMEs in government procurement failed to produce a strong competitive SME sector.

From the study a number of public institutions operating at both federal and state levels were identified to run SME support programmes. A total of ten (10) institutions were identified to include federal ministries of industry, commerce and finance, one-stop agency for SMEs (SMEDAN), investment promotion agency, raw materials development agency and both commercial and development finance institutions. Apart from the commercial banks, nine of the institutions are public sector funded SMEs support institutions. Previous study on the institutional support framework to SMEs in Nigeria also identified some of these institutions as supportive to SMEs (FMI/UNDP, 1997).

In fact, the Federal Ministry of Industries (FMI) through its Small and Medium Industries Department (SMID) runs SMEs support programmes. It is this department that laid the foundation for the establishment of the current one-stop agency for SMEs development called Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The previous study identified other federal ministries and institutions that are involved in the sector which are in agreement with the findings from the current research study. These institutions are listed in table 5.6.

Table 5.6: Institutions Involved in SMEs Development in Nigeria.

S/N	Name of Institution	Sector
	A. Federal Government Level	
1.	National Council of Industries (NCI)	Public
2	Federal Ministry of Commerce	“
3	Nigeria Exports Promotion Council (NEPC)	“
4	Federal Ministry of Science and Technology (Technology Business Incubation Centres, TBICs)	Public
5	Federal Ministry of Labour and Productivity (National Directorate of Employment, NDE)	“
6	The Presidency (National Poverty Eradication Programme, NAPEP)	“
7	Raw Materials Research and Development Council (RMRDC)	“
8	National Planning Commission (NPC)	“
9	National Investment Promotion Commission (NIPC)	“
10	Standards Organization of Nigeria (SON)	“
11	Central Bank of Nigeria (CBN)	“
12	Nigeria Export Processing Zone Authority (NEPZA)	“
13	Federal Ministry of Women Affairs and Social Development	“
14	Federal Ministry of Agriculture and Rural Development	“
	B. State Government Level	
15	States Ministries of Commerce and Industry	“
16	Industrial Development Centres (FMI)	“
17	Industrial Estates	“
18	Women Empowerment Programme	“
	C. Banks and Financial Institutions Level	
19	Nigerian Bank for Commerce and Industry (NBCI) scrapped	“
20	Peoples Banks (scrapped)	“
21	Nigerian Industrial Development Bank (NIDB) – scrapped	“
22	National Economy Recovery Fund (NERFUND) – scrapped	“
22	National Agricultural and Cooperative Development Bank (NACDB) – merged	“
23	Nigerian Export and Import Bank (NEXIM)	“
24	Commercial banks and Development Financial Institutions (DFIs)	Private
	D. Private Sector Level	
25	Manufacturers Association of Nigeria (MAN)	Private
26	National Association of Small Scale Industries (NASSI)	“
27	National Association of Small and Medium Size Enterprises (NASME)	“
28	National Association of Chambers of Commerce, Industries, Mining and Agriculture (NACCIMA)	“

29	State Chambers of Commerce and Industries	“
30	Bilateral Chambers of Commerce (Franco-Nigeria, Japan-Nigeria, etc)	“
31	National Association of Women in Business (NAWB)	“
32	National Association of Women Entrepreneurs (NAWE)	“
33	State Levels Traders Association e.g Ariaria Market Association (Aba Shoe Cluster)	“
E. Non-Governmental Organizations Level		
34	The World Bank	NGOs (Bilateral/Multilateral)
35	UNDP, UNIDO, ILO (United Nations Organizations)	“
36	ITC, GTZ, DFID, USAID	“
37	British, German, French, Japan, etc Bilateral Assistance Programme	“

Source: Derived from FMI/UNDP, 1997

SMEs Development Policy

The study recognized the importance of SMEs development policy as explicitly captured in the statutes or mandates of public institutional frameworks established to support SMEs. Also, it was established that there is no existing national policy on SMEs development even though efforts have been made to enunciate one in the past and it is currently being reviewed.

Specifically, the SMEs development policy as it is currently being implemented is inconsistent when viewed from the strategies adopted by different institutions promoting SMEs development in Nigeria.

The study revealed that the various institutions promoting SMEs operate in their enclave without harmonized or distinctive guidelines embodied in a national policy

document. The foundation of an SME development strategy should consist of broad policies that would help to increase the demand for their products and lower costs of entry (Parker *et al*, 1995).

This implies that an explicit national policy on SMEs is desirable to be able to give distinctive guidelines and directions on how the existing support institutions should operate to actually deliver the desired services to SMEs. Without SMEs friendly policies, more targeted assistance programmes could do little to raise the aggregate income and growth of the sector.

Furthermore, from the field study findings and literature review, it was observed that over the years, there had been a policy bias against SMEs which coexists with policy objectives aimed at promoting SME development. The bias usually arises from policies enunciated which inadvertently affected SMEs such as trade, monetary, fiscal, tax, labour and price policies. SMEs policy constitutes an integral component of the national industrial and trade policies. The industrial and trade policies often target large enterprises to the detriment of small and medium enterprises.

The World Bank in their study of support institutions established as part of government policy on SMEs development especially in respect of finance, infrastructure, investment and technology have been historically oriented heavily toward large modern firms (Parker *et al* 1995). The study therefore noted that the current challenges is to

develop both policy incentives and strategies that will orient banks, utilities, extension services, government agencies and NGOs towards designing appropriate services that are demanded by SMEs and ensuring that they are delivered cost effectively.

Generally, the research identified the following factors to have hindered the various efforts and incentives given by the public sector to SMEs:

- i. inconsistency and ad hoc nature of policies and measures introduced;
- ii. instability and bureaucracy in governance;
- iii. insecurity and unstable investment climate;
- iv. extraordinary interventions by the government to promote the sector without a long term plan and a clear vision and identification of target beneficiaries;
- v. very limited role of the private sector at the policy formulation and implementation levels for programmes.
- vi. confusion and misinterpretations of the concept of SMEs and programmes to be accomplished
- vii. absence of coordination efforts and too widely spread and isolated efforts by a multitude of institutions to promote SMEs.
- viii. lack of awareness of what policy incentives are available to SMEs.
- ix. non-transparency in the implementation of support measures, and

- x. inadequate reference in the national policies and awareness of global changes and policies related to the SME sector.

It is therefore obvious that development of state support policies for SMEs in Nigeria has not been a continuous and coordinated process. In essence, steps taken towards strengthening SME support have not been sustained and fully implemented. The ineffectiveness of support institutions that have been promoting SME is mirrored by the failure of SMEs to benefit from the numerous support services that have been put in place by government.

Specifically in the area of budget, existing public institutions designated to support SMEs have failed to channel federal budgetary resources into SME support programmes. Also, the special allocation in the federal budget for SME support was not efficiently and effectively utilized.

These limitations to the previous approach as to SME support informed the call for a re-think. The inadequacy and inefficiency of the public sector-led support therefore implies that a private sector approach should be adopted. It is in this regard that self-help groups, cooperatives, local NGOs and manufacturers associations are seen as potentially effective intermediaries to raise the probability of

survival among SMEs. They are believed to have the capacity to provide a support network to help deal with individual problems and communicate with policy-makers to address systemic problems (Paker et al, 1995).

It was against this background that government of Nigeria emphasized on the formulation of an SME policy and creation of an institutional framework to coordinate SMEs support measures and programmes. In fact, government felt that the adoption of direct SME support schemes will remove the prevailing policy biases observed earlier. It is believed that this approach will create a level playing ground for SMEs to operate successfully.

Also, government is mindful of the need to harmonize the various activities of the existing support institutions. Designating clear responsibility for SME policy within government structures is important to avoid a situation in which different ministries create their own SME development agendas (UNIDO, 2003). It is in line with this thinking that a national focal point for SME development was established primarily to play an advocacy role and ensure synergy among the various SME-related activities promoted by support institutions, government departments and ministries.

The issue of overlapping mandates and functions was considered very significant to overall effective delivery of support services. The research study established the overlapping functions of support institutions and called for harmonization or centralization in order to ensure effective service delivery. Though this view is quite rational, however, the centralization of all SME support services under one umbrella organization has been contested.

Review studies on the effectiveness of SME support institutions have drawn attention to frequent overlapping functions between institutions and the resultant waste due to duplication (Levitsky, 1996). Large national, centralized and more diffused institutions attempting to offer a wide array of advisory and industrial support services unrealistically are no longer tenable. Large centralized SME support institutions due to size and cost have been found to usually help only a relatively small number of enterprises.

The 1988 review study of UNDP, the Netherlands government, ILO and UNIDO team on institutional support observed that highly centralized organizations were not very effective because institutions needed strong field links (Levitsky 1996). Strong field links are essential to develop and promote SMEs and such links may only be sustained through a local decentralized organization.

The study revealed that while a centralized body coordinating SMEs development activities is desirable, such institution requires to collaborate with other existing support institutions in order to achieve synergy in the overall interest and benefit of SMEs. It was also realized that different aspects of SME development demands diverse capacities and capabilities which no single organization can handle alone.

5.2.5. Business Culture

The perception of business culture among SMEs was studied which revealed high entrepreneurial capacity but very limited operating capacity and lack of trust in the government commitment to assist them. This lack of confidence in the government possibly contributed to their inability to comply with the law and explains why they prefer to remain informal. The study recognized the role entrepreneurs could play in the overall, economic development of the country.

The shortage of skill and knowledge needed to mobilize, organize and coordinate capital and other resources of production are major obstacles to SMEs development. The main limitation of local enterprises is not only capital but

knowledge and experience required to effectively manage capital. The capability of an entrepreneur was found to be influenced by factors such as education, skill, occupational experience and the existence of capital markets.

It has been reported that findings from studies on small and cottage level enterprises development in Africa revealed that entrepreneurs have been highly responsive to economic opportunities and incentives within the limits imposed by their technical and commercial skills (Abdullahi and Ajoku, 2001). This study noted the need to improve on entrepreneurial culture as part of the overall strategy of developing business culture.

Also, far reaching suggestions on how to improve on business culture as it relates to legislation on business standards, transparency, good governance and business ethics in conduct of businesses were provided.

In all cases, the importance of enterprise support was highlighted. This was in line with the observation made by some researchers that enterprises support measures put in place will assist greatly in the evolution of indigenous entrepreneurs capable of contributing to the economic development of the country (Lalkaka, 1997). It must be equally appreciated that innovation and entrepreneurship development requires adequate support systems for them to achieve the desired impact to the economy.

5.2.6. Macroeconomic Policy

The research study examined the effect of macro-economic policies on SME development in Nigeria. The essence of the study is to create the awareness among policy makers on the influence of these policies on the operations of SMEs. It was established that government macro-economic policies are not favourable to SMEs. Policy reforms have both positive and negative effects on the operating environment of SMEs (Parker *et al*, 1995). Fiscal policies, especially tax regime are not SMEs friendly. Most SMEs believe that levels of taxation are high relative to their profits, a reason considered to be responsible

for their remaining as informal as possible. Mansour (2001) in a study of SMEs in the Arab states reported that SMEs find regulatory laws inconsistent which inhibit their further development. He noted that monetary, financial, trade and fiscal policies are not often SMEs friendly.

The World Bank in their study on SME development in Nigeria observed that the macroeconomic policy is unstable and that unpredictable monetary supply makes banks very conservative about their exposure to risk and therefore limits funds available for SME lending (World Bank, 2001). The research findings confirmed the World Bank observation as majority of the respondents held the view that government macro-economic policy has not been

stable in the past five years. Pertinent recommendations were made by the respondents of which the issue of micro-economic policies being supportive to SMEs development was seriously canvassed as well as the reduction of interest rate to single digit. It must therefore be appreciated that institutional and policy interventions need to be designed to harness the potentials of the SME sector for improved economic performance.

5.2.7 Infrastructure

The study tried to ascertain the perception of SMEs on the extent to which transportation, telecommunication, water, electrical and power supply affects their operation. It was established that electric power supply is the most critical infrastructural constraint affecting SMEs as most small businesses cannot afford independent/alternative supply sources of electricity.

Also, transport was rated among the critical infrastructural constraint while telecommunication was considered the least constraint. The case of telecommunication is understandable judging by the government liberalization of the telecom sector and the advent of Global System of Mobile Communication (GSM). Of the four critical infrastructures, SMEs were of the view that transport, water supply and electric power supply have not been adequately addressed by government of Nigeria.

Even though there is wide network of roads, however, they are in very poor state particularly in rural areas which

affected the cost of transportation of raw materials including finished products. Also, the port facilities are reported to be inefficient causing undue delays associated with long clearing process at customs. Government current efforts at road rehabilitation and port reforms were recognized but the impact is yet to be felt by SMEs. The respondents suggested that government should develop a regulatory and legal framework for private sector participation in the rehabilitation of roads especially in rural areas and encourage subcontract works to SMEs if there are potential efficiency gains.

This is in line with the World Bank proposed initiatives towards strengthening the SME's participation in improving the infrastructure. The World Bank is assisting the government in supporting SME participation in the provision of municipal services particularly water provision. Also, the bank is providing technical assistance and financial support for better equipment to SME involved in municipal services (World Bank, 2001).

The respondents acknowledged the current efforts of government in improving power supply through the involvement of the private sector. The government over the past three years has launched a power sector reform policy to encourage private sector participation in power generation and distribution. The International Finance Corporation (IFC) of the World Bank is supportive of the government initiatives through the Emergency Power

Program for new generation capacity and the Rehabilitate–Operate-Transfer/Own Program (World Bank, 2001).

The Federal Government of Nigeria through its Ministry of Science and Technology provided infrastructure for emerging SMEs through the Technology Business Incubation programme. The main objective of the programme is to strengthen the industrial base of the country through commercialization of R&D results. The business incubation concept provides common facilities and spaces for entrepreneurs in the centre. The study identified six technology business incubation centres involved in nurturing technology-based businesses from micro to SMEs. The TBICs apart from acting as the medium of commercialization of R&D and the emergence of a knowledge-based SMEs, equally created job opportunities. These centres are listed in table 5.7 showing the jobs created after inception.

Table 5.7 Job creation Ability of TBIC in Nigeria

TBI Centre	Year of Admission of Tenants	Number of Tenants at Inception	Number of Tenants' staff at inception	Number of tenants' to date	Number of tenants' staff to date
Lagos	1993	10	40	27	500

Kano	1994	6	24	19	154
Aba	1996	4	12	20	208
Minna	1998	6	30	26	104
Nnewi	1998	3	8	16	43
Calabar	1998	5	18	14	89

Source: Technology Acquisition and Assessment Dept. (FMST)

The employment generation of the centres can equally be appreciated if viewed from the Minna point of view of the skill imported to individuals by tenants (Table 5.8)

Table 5.8 Skill Acquisition Capability of TBICs in Nigeria

Centre	Number of People Trained in Skill Acquisition	Number that have established businesses out side the centre	Number of un-utilized acquired skills
Kano	448	20	428
Aba	102	15	87
Minna	89	12	77
Nnewi	90	20	70
Calabar	165	25	140
Lagos	498	37	461

Source: Technology Acquisition and Assessment Dept. (FMST)

The centres equally provided a platform for technology acquisition and capabilities for local fabrication of machineries. The following technologies were identified to have been incubated at the centres:

- yoghurt production,
- full fat soya extrusion,
- fish milling,
- drug compounding (syrup),
- oil extraction from oil seed,
- chalk making,

- ceramic mould,
- paint mixer/filler,
- fabrication of bread making oven.

The translation of R&D results into industrial venture among the centres is equally an on-going activity and the following products are being developed based on R&D results of some RIs.

Centre	Product or R&D	RIs
Lagos	Full-fat soya Benniseed oil extraction	RMRDC RMRDC/FIIRO
Aba	Scouring powder Mr. Flush	Local R&D Local R&D
Minna	Rice Husk Ashes for ceramic glaze material	PRODA
Calabar	Bricks and roofing tiles	NBRRI

Evidences abound of successful adoption of technology in the TBICs. The study revealed the importance of business incubator as a major strategy in the creation and facilitation of small and medium sized enterprises (SMEs) development. Apart from providing affordable space and core business support functions, the TBIs focus more on technology commercialization and diffusion.

The following R&D institutions were identified to directly or indirectly assist SMEs. However, the general impression on the support assistances these institutions is the very low level of liaison between them and SMEs especially, as it relates to extension services:

- National Office for Technology Acquisition and Promotion (NOTAP),
- Federal Office of Industrial Research, Oshodi (FIIRO),
- Project Development Agency (PRODA),
- Raw Materials Research and Development Council (RMRDC),
- National Agency for Science and Engineering Infrastructure (NASENI),
- National Centre for Technology Management,
- Technology Incubation Centre (TBICs),

It was in recognition of the failure of R&D support institutions to render deserved services to SMEs that the Federal Ministry of Science and Technology in the revised 2003 S&T policy affirmed the importance of SMEs to the national economy. The policy recognizes the importance of ensuring that the nation's SMEs enjoy adequate technical and extension services and improving on SMEs product quality through innovation and R&D. The policy is concerned with creating enabling environment for S&T-driven SMEs to flourish.

5.3. RESEARCH AND DEVELOPMENT SUPPORT

The importance of research and development support to SMEs was identified as very critical to their survival, growth and competitiveness. The need to conduct research into

technologies, including process improvements, adaptation of imported technology, upgrading of production systems, etc, appropriate to the needs of SMEs have been identified (Ayiku, 1991). Research and development support to SMEs is therefore desirable in order to improve on their operations and to enable them survive in the current competitive environment.

5.3.1 Structure of R&D Institutions

The study identified the public R&D institutions especially those under the Federal Ministry of Science and Technology to have been rendering support to SMEs through their R&D programmes. Research and development program is often carried out for SMEs with the prime aim of improving quality and standards of their products, application of new process or techniques to reduce costs and to increase productivity.

Odaman (1996) noted the importance of R&D support to SMEs as it relates to improvement of standards and quality in addition to development of new technology in order to improve on competitiveness. Through R&D the possibility of adapting a new technology is also assured.

The Research Institutions (RIs) in Nigeria by virtue of their mandates are expected to support SMEs through provision

of technological and scientific assistance. Research institutions are designed to have resources in terms of high-level manpower and specialized equipment which are used in the conduct of research leading to the production of research results.

The study observed that the structure of the RIs as presently constituted lacks the capacity and capability for providing the desired technological and scientific assistance to SMEs (Abdullahi, 2004). The findings from the study revealed the low technical manpower level of the RIs studied. There was more non-technical staff (69.6%) than technical staff (30.4%) in the fifteen RIs studied. This limitation in terms of human resource capability was found to have hindered RIs from delivering effectively support services such as technology extension services to SMEs.

5.3.2 Technical Extension Services

Furthermore, it was found that agric-based RIs offer more extension services than science and technology based RIs. This finding was in line with observations made by some researchers in this field (Abdullahi, 2004, Ayiku, 1991). Ayiku (1991) observed that extension services are well developed for the agricultural sector but almost non-existent in the industrial sector.

Boone (1989) identified two principles behind technology extension to SMEs. The first is that extension services must be within the client's context and the second is that the client should be active participant in the extension service being offered. The first principle therefore emphasize the necessity for extension service providers to determine abnatio, the needs of the clients (SMEs) especially their problems, resource base, experiences and culture before designing extension programmes.

The participatory approach to extension service provision brings about empowerment of clients. There is no doubt from the research findings that extension services to manufacturing firms will help to enhance SMEs accessibility to technological capabilities. Extension services creates the platform for linking R&D institutions with manufacturing firms (Tiffin, 1994, Ngesa *et al*,2003).

Unfortunately, technology extension services to SMEs in Nigeria have not been effectively delivered based on the findings from this study. One primary constraint identified apart from the limited capability of RIs, is associated with the inability of SMEs to identify, seek and utilize appropriate technology (Ngesa *et al* 2003). Also, there are currently weak institutional arrangements for providing access to technology. IDRC (1993) in their study on SMEs development in other developing countries linked the limitations of SMEs from accessing and utilizing improved

technology to their low levels of education and limited financial resources.

Ngesa *et al* (2003) in a study of SMEs in Kenya noted that the adoption of new idea or innovation has been associated with educational background of the client SME. The ultimate goal of providing extension services is for clients to adopt a new idea or innovation of which education is very vital. Beal and Rogers (1960) and Van den Ban and Hawkins (1996) identified early technology adaptors as innovators who are usually well educated and endowed with resources to take risks associated with new technology.

These observations further emphasized the importance of education in enhancing the entrepreneurial skills of client SMEs. The findings from the study linked the limited education of SMEs managers to their inability to foster closer ties with R&D institutions in terms of appreciating the importance of R&D.

Ayiku (1991) also attributed the low educational background of many entrepreneurs in the SME sector in Africa to be responsible for their inability to assess their own needs nor accurately define their problems. It was therefore suggested that the general and specific needs of SMEs should be investigated and the findings made available to enable policy makers provide maximum and up-to-date support appropriate to the needs of SMEs (Ayiku 1991). The research institutions are expected to

research on these needs to enable them fine tune their programmes for maximum impact. Ayiku (1991) further observed that research activities of research institutes are often not designed to fulfill some of the real needs of industry. This was considered as one of the main reasons why the results of research are irrelevant as the research institutes are unable to grasp the productive sectors demands for technology.

5.3.3 Technology Upgrading

In the area of technology upgrading, it was found that most RIs have not been very effective in assisting SMEs. Levitsky (1996) reported that R&D institutes in developing countries have not been able to effectively assist SMEs upgrade their technologies, mainly because they had virtually no outreach to SMEs. It must be recalled that the research study attempted to establish the level of relationship between RIs and SMEs in order to determine if actually research activities target SMEs. The findings from the study revealed that RIs claim to target SMEs in their R&D programmes. Considering the critical nature of this claim to the overall objective of this study, the finding was subjected to empirical analysis by testing an hypothesis earlier stated.

Testing of Hypothesis on R&D Activities and Services of Research Institutions that Target SMEs

The hypothesis was tested based on data derived from figure 4.13 and table 4.20 as contained in chapter four. Consequently, the observed frequencies of responses on R&D activities and services of RIs were derived as well as the computation of expected frequencies.

HYPOTHESIS THREE

Null (H₀): Research and development activities and type of services offered by Research Institutes are not targeted at SMEs

Alternative (H₁): Research and development activities and type of services offered by Research Institutes are targeted at SMEs.

Table 5.9 Observed Frequencies of Response

S/N	Response	R&D Activities	R&D Services	Total
1	Yes	13	6	19
2	No	2	8	10
3	No Response	0	1	1
	Total	15	15	30

Source: Researcher's Field Work, 2005.

The expected frequencies were determined using the following equation.

$$E_{ij} = \frac{n_{i.}n_{.j}}{n}$$

where n=30, j=row total, i=column total and E= expected frequency.

Table 5.10 Expected Frequencies of Response

S/N	Response	R&D Activities	R&D Services
1	True	<u>19x15</u>	<u>19x15</u>

		30 (9.5)	30 (9.5)
2	No	$\frac{10 \times 15}{30} (5.0)$	$\frac{10 \times 15}{30} (5.0)$
3	No Response	$\frac{1 \times 15}{30} (0.5)$	$\frac{1 \times 15}{30} (0.5)$

Source: Researcher's Fieldwork, 2005

Applying the chi-square formula,

$$X^2 = \sum_{j=1}^{nc} \frac{(\text{Observed} - \text{Expected})^2}{\text{Expected}}$$

$$1. \text{ True} \quad \frac{(13-9.5)^2}{9.5} + \frac{(6-9.5)^2}{9.5}$$

$$(1.2895) \quad (1.2895)$$

$$2. \text{ No} \quad \frac{(2-5)^2}{5} + \frac{(8-5)^2}{5}$$

$$(1.800) \quad (1.800)$$

$$3. \text{ No Response} \quad \frac{(0-0.5)^2}{0.5} + \frac{(1-0.5)^2}{0.5}$$

$$(0.5000) \quad (0.5000)$$

$$X^2 \text{ calc} = 1.2895 + 1.2895 + 1.8000 + 1.8000 + 0.5000 + 0.5000$$

$$= 7.179$$

$$Df = (r-1)(c-1) = (3-1)(2-1) = 2$$

$$X^2 \text{ tab at d.f} = 2 = 5.9991$$

Decision Rule

At 0.05, the computed value of X^2 (7.179) is greater than the tabulated value of X^2 (5.991) at degree of freedom (2). Consequently, the null hypothesis was rejected at 0.05 level of significance. The study concluded that research and development activities and type of services offered by Research Institutes are targeted at SMEs.

Although, the RIs claim that their activities and services target SMEs, nevertheless, it has been generally observed that most of them have not rendered effective assistance to SMEs so as to upgrade their technologies and improve on their product quality and competitiveness (Levitsky, 1996, Nsa, 2003, Abdullahi, 2004).

Levitsky (1996) reported that most R&D institutes and centres and similar sub-sectoral institutions in developing countries faced little demand for help from SMEs and therefore, had no field extension service to promote SMEs interest. This observation is in line with the findings from this study as most researchers surveyed complained of lack of demand for R&D support by SMEs.

Based on these findings, it is pertinent to suggest that RIs should find ways to better utilize their facilities through a more effective referral system and to make the institutions more “**demand-driven**”. To achieve demand-driven R&D, the needs of SMEs must be considered by RIs in

formulating their R&D programmes. SMEs should be able to influence the direction of researches carried out by RIs. Laichena (2002) suggested that “**need-oriented**” approach of technology extension service support should emphasis first, on identifying constraints/problems facing the entrepreneurs, seeking a solution(s), testing, evaluating and finally the adaptation.

5.3.4 Dissemination of Information on R&D

The importance of dissemination of information on R&D findings to SMEs was studied, while the SMEs claim that RIs do not inform them of the outcome of their research results, the RIs argued that they do so through avenues such as seminars, workshops, exhibition, etc. However, the study established the fact the R&D institutions rarely communicate with SMEs. The view of the RIs studied on the subject did not tally with the findings from similar studies on this subject matter. For instance, the World Bank in one of their studies remarked that “it appears that many researchers in Africa do not even recognize the need to be accountable for their research results let alone transmit same to users”.

Ayiku (1991) observed that many institutions have been established to promote SMEs development but majority hardly collect, process and disseminate information to SMEs. He further identified seven core areas that mission-

oriented research into the information needs of SMEs must be directed:

- local and foreign technologies that are viable and appropriate to the needs of SMEs;
- searches on internet and other sources of information on specific products and processes;
- market trends for SMEs product;
- dissemination of information on technological institutions and various events such as workshops, seminars, training, etc;
- government investment and other policies relevant to the operations of SMEs;
- credits available to SMEs and their sources, and
- government regulations concerning regulatory environment and operations of SMEs;

These information areas are not strictly limited to the functions of Research Institutions but equally include those in social research and consultancy services.

The study recognized the views expressed by respondents that R&D results are expected to be disseminated through the electronic and print media as well as other effective publications to enable SMEs become aware of available new ideas, products and techniques. To achieve this, researchers are expected to liaise with industry and institutions with responsibility for promoting SMEs. The lack of effective machinery for continuous consultation between research and industry resulted in researchers being

unaware of the needs of industry and this clearly limits the possibilities of marketing research findings (Ayiku, 1991).

These findings informed the need to suggest the effective involvement of the Organized Private Sector (OPS) such as Manufacturers Association and Chambers of Commerce and indeed, other umbrella associations of SME to assist researchers to popularize the utilization of locally-developed technology. It is equally pertinent to consider contract research funded and supervised by the Organized Private Sector.

Most SMEs have been found to be incapable of entering into any contract research arrangement due to their weak financial position. In this regard, SME need support from public research institutions in solving specific and common problems faced by them. This is indeed the normal function of the publicly funded or government research institutions. But this function is best performed with greater efficiency if these institutions are formally and effectively linked to SMEs (Ayuki, 1991).

The factors limiting SMEs access to R&D services of RIs were identified to include;

- lack of information on R&D activities,
- lack of intervention by RIs on SMEs activities,
- limited access to skilled personnel of RIs by SMEs,
- R&D market is very personal,
- inability to access R&D institutions,

- lack of viable R&D results, and
- R&D market being irrational.

The finding from the study on the relationship between R&D institutions and SMEs gives credence to the need to foster effective institutional linkages, communication lines and support services. This will no doubt change the attitude of SMEs to RIs which was found not to be too cordial. On the type of support services most demanded by SMEs, consultancy was found to be of critical concern. Consultancy which is usually in the technical field of engineering and business advisory services is

the most common form of assistance required by SMEs (Ayiku, 1991 and Mansour, 2001). Also, SMEs were found to be in need of advice on technical feasibility, plant design, plant layout and maintenance. In the business advisory area, SMEs need assistance to prepare pre-feasibility and feasibility reports as well as accounting reports.

5.4 FINANCE SUPPORT SERVICES

Access to finance has been recognized as a major constraint for all SMEs which can seriously affect the ability of a small industry to survive, increase capacity, upgrade its technology and even expand its markets, improve management or raise productivity (Levitsky, 1996). The study in assessing the nature of finance activities observed that most financial assistance for SMEs is offered as loans.

However, lack of collateral, fear of excessive debt burdens and the low profitability for banks in lending to SME impose definite limits on the levels of finance in the form of credit that SMEs can expect to receive. Furthermore, it was found that SMEs are undercapitalized and usually rely to a greater extent on loan capital or on retained earnings which are usually inadequate.

Preliminary aspect of the study observed that since independence, successive governments of Nigeria have put in place considerable number of incentives and programmes and well as institutional frameworks (funding agencies) to offer credit facilities to SMEs. Despite these efforts, the SMEs sector is still undercapitalized and poorly funded. Efforts were therefore made to find out why the situation is so and possibly proffer suggestions or strategies to improve on the funding system. Two main funding institutional framework most relevant to SMEs were identified to include Commercial Banks (or Deposit Money Banks-DMBs) and Development Finance Institutions (DFIs).

The deposit money banks comprise the commercial and former merchant banks and they play a key role in the development process as they accept deposit and give out loans. The study revealed that commercial banking commands a significant portion of the financing system (73.3%) of SMEs relative to development finance institutions (26.7%). This is understandable when viewed from the standpoint that most government policies that

affect SMEs both monetary and fiscal are implemented through deposit money banks (DMBs).

Furthermore, the Federal Government funding programmes for SMEs are also implementing in collaboration with DMBs. It is pertinent to note that the bulk of commercial bank lending to industries is working capital which often goes to well established blue-chip enterprises with enough bargaining power to negotiate better borrowing terms (Udechukwu, 2003).

Udechukwu (2003) further noted that the negative bias against SMEs was demonstrated by commercial bank's preference to pay penalty rather than meet the 20% target lending to small scale enterprises. This explained to an extent why commercial banks lending to SMEs drastically declined after the abolition of the Central Bank of Nigeria's Credit guide lines in 1996 (table 5.10.).

Table 5.11 Commercial Bank Lending to SMEs (1992-2001)

Year	Total Loans (1)	Loans to SMEs	% of Total (1)	Loans to other sectors	% of total (1)
1992	52,998.8	23,893.9	45	29,104.9	55
1993	73,245.8	20,362.9	28	52,882.90	72
1994	122,809.1	26,041.8	21	96,767.30	79
1995	171,758.2	41,534.1	24	130,224.10	76
1996	210,381.5	47,897.9	23	162,483.60	77
1997	275,273.5	48,022.2	16	247,251.30	84
1998	333,186.1	50,061.5	15	283,124.60	85
1999	402,338.8	48,480.5	12	353,858.30	88
2000	573,069.5	62,760.8	10	510,308.70	90
2001	796,164.8	57,761.2	7.3	738,403.60	92.7
Total	3,031,226.10	426,826.80	14	2,604,409.30	86

Source: CBN Statistical Bulletin Vol.12, 2001

It is very clear that the share of aggregate credits to SMEs declined steadily from N47,897.9 million (or 23%) in 1996 to N57,761.2 million (or 7.3%) in 2001. The cumulative loans granted by commercial banks to the economy within a ten year period (1992-2001) show that accumulated loans to SMEs accounted for only 14% (N426.8 billion) while the other sectors accounted for 86% (N2,604.4 billion).

Ukpabio (2004) commenting on this financing trend, noted the pivotal role of SMEs to the industrial development of the country and that such investment profile to the sector is grossly inadequate in providing the needed lifeline for the growth of the sector. Also, development finance institutions (DFIs) or specialized financial institutions were established to contribute

to the development of specific sector of the economy.

Recently, there was a major restructuring of the DFIs due to problems ranging from poor asset quality to management as well as the erosion of their capital base.

The restructuring led to the consolidation of the DFIs through mergers. For instance, the Nigeria Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) were merged to form the Bank of Industry (BOI) with an initial capital of N50 billion.

The primary function of the bank is to provide financial assistance for the establishment of large, medium and small scale projects as well as the expansion, diversification and modernization of existing enterprises and the rehabilitation of ailing industries (Ukpabio, 2004). Also, the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) was formed through merger.

The domineering role of commercial banks in the financial sectors of the Nigeria economy, accounting for 93% of non-central bank assets has also been reported (World Bank, 2003). It is pertinent to note that generally, access to term finance by the real sector is very limited. Like any other investment in the real sector, investment in SMEs is quite considerable because of the need for fixed assets such as land, civil works, buildings, machinery and equipment as well as movable assets. This implies that manufacturing SMEs have a long gestation period unlike buying and selling (Udechukwu, 2003).

Unfortunately, from the findings of this study loans made available to SMEs by DMBs are mainly short-term rather than long-term loans. However, loans to SMEs for capital investment should be long-term in order to mitigate on project gestation and loan maturity. The World Bank in their in-depth study of the SME sector in Nigeria also observed that most of the credit available is short-term and that the

borrowers are mainly large firms or small scale traders (World Bank, 2001). The bank equally reported that long-term financing is scarce. The costs of funds were identified as a critical factor to accessing funding facilities by SMEs. The lending rate was found to fluctuate between 19 to 22.5% which is lower than 35% reported by the World Bank in their 2001 study.

Nevertheless, it was observed that this rate is high since it impact significantly on the competitiveness and survival of SMEs. Udechukwu (2003) observed that it is not in the interest of the competitiveness and survival of SMEs to rely on commercial bank funds because of the high cost even if such funds are available. Parker *et al* (1995), however argued that cost is not the principal issue but access as SMEs are willing and able to pay market rate for credit. The study nevertheless, noted the critical importance of access and cost. Credit providers need to charge reasonable rates that are sufficient to compensate for transaction costs and risk.

High interest rate on loan no doubt, stifles the growth of SMEs and encourages default in terms of repayment. The study revealed that the core competence of commercial banks is not in long-term lending which is line with observation made by Udechukwu (2003).

He observed that this factor together with risk aversion prevented many commercial banks from participating in the defunct SMEII and the National Economic Reconstruction Fund (NERFUND). He also noted that the commercial banks being unskilled in project appraisal and monitoring are often overwhelmed by the prospects of inadequate recovery of loan in the face of automatic debiting of their accounts in the Central Bank in respect of their projects.

It is obvious from this study that financial institutions are less motivated to compete for SME clients under tight monetary policies and government deficit finance as well as profitable short term lending opportunities. Consequently, lines of credit targeted at SMEs are unlikely to be successful especially term loans that involves substantial transaction costs to evaluate.

The study therefore noted the need to put in place, appropriate support programmes that would offer training of financial institutions staff to evaluate small borrowers quickly and monitor them in addition to training entrepreneurs to keep good financial accounts. These findings from the study revealed that there is currently a considerable gap in the funding of SMEs which development finance institutions (DFIs) have to fill.

However, the development finance institutions that have the capacity to provide long term debt capital for the real sector have suffered in the past decade a decline in

financial status. The poor performance of DFIs must have discouraged the commercial banks from being involved in the long-term finance of the real sector.

The current restructuring process of the financial sector by the Central Bank of Nigeria which had led to the pegging of the commercial banks capital base at N25.0 billion is a welcome development as it will guarantee sustainable funding of the real sector, especially SMEs. In the same light, DFIs which are major financiers of SMEs with the cheapest and most competitive funds will be strengthened.

The competitiveness and sustainable growth of SMEs require that government should channel cheap funds through

DFIs to SMEs. Channeling unclaimed dividends for investment in SMEs through DFIs has been recommended (Udechukwu, 2003). The Securities and Exchange Commission (SEC) has reported that “unclaimed dividends have steadily grown to alarming proportions in recent times”. Available data indicate that unclaimed dividends have grown from N818.80 million in 1996 to over N3.00 billion in 2003.

The dilemma that a sector with a great economic potential is being starved of funds informed why the Federal

Government of Nigeria (FGN) collaborated with the financial sector (Bankers Committee) on financing programme for SMEs. The credit-granting services of the commercial banks and those of DFIs set up to supplement them could not meet the financial requirement of the industrial sector, especially SMEs whose entrepreneurs had no collateral facilities to apply for banking system loans (Ukpabi, 2004). It was obvious that the current practice was averse to the real sector as banks still preferred to grant credit facilities to general commerce in anticipation of quick returns to their investments.

In order to encourage banking system lending to the industrial sector especially SMEs the Federal Government in collaboration with Bankers Committee established the Small and Medium Industry Equity Investment Scheme (SMIEIS) which offers risk-mitigating services to banks for loans granted to SME operators. The scheme requires all banks in Nigeria to set aside 10 per cent of their profit before tax (PBT) for equity investment and promotion of small and medium enterprises in the country. Ukpabio (2003) reported that in 2004, 82 banks set aside N28.8 billion for investment under the SMIEIS scheme. A total of 176 projects have so far been executed by 56 banks amounting to N9.5 billion (Table 5.12)

Table 5.12 Sectoral Distribution of SMIEIS investment by Banks as at July 2004

/N	Sector	Enterprise	Investment		% Total Number	% Total Number
			No. of Projects	Amount =N=		
1	Real Sector	Agro-allied (including wood-work & water bottling)	26	817,665,848.00	14.77	8.63
		Manufacturing (including printing & publishing)	83	4,498,845,592.40	47.16	47.46
		Construction (including quarrying)	11	1,207,872,356.33	6.25	12.74
		Solid Minerals	3	59,440,000.00	1.70	0.63
		Sub-total	123	6,583,823,796.73	69.89	69.46
2	Service-related enterprises	Information Technology & Telecommunication	17	1,414,891,359.00	9.66	14.93
		Educational Establishment	2	34,980,000.00	1.14	0.37
		Services	26	784,014,923.45	14.77	8.27
		Tourism & Leisure	8	660,932,742.14	4.55	6.97
		Sub-Total	53	2,894,819,024.59	30.11	30.54
3	Others	Micro Enterprises	0	0.00	0.00	0.00
		Grand Total	176	9,478,642,821.32	100.00	100.00

Source: Ukpabio, 2004.

It is hoped that with the recapitalization of commercial banks to N25.0billion, more funds will be made available for the scheme. Despite the bright prospect of the scheme, fears are being expressed in some quarters that SMIEIS like other financial scheme might fail. The argument is that equity investment is new to the commercial banks and they lack the expertise to implement it (Udechukwu, 2003). Moreover, SMEs are mainly family businesses and

therefore are often reluctant to open up their business, especially to the banks.

Furthermore, small scale and micro-enterprises operate at such a low scale that is unattractive to banks which makes it difficult for banks to invest in multiplicity of small ventures scattered all over the country (Udechukwu, 2003). The resultant effect is that less than 10% of the funds available for the scheme have been disbursed to date.

Attempt was made to establish other financial support measures to SMEs such as being quoted in the stock market, equity financing and leasing opportunities. Udechukwu (2003) observed that the stock market is yet to be a factor to reckon with in the financing of SMEs. He further noted that few SMEs are quoted on the stock exchange while the country's bond market is currently too weak to be a major source of finance for the real sector. This observation was further confirmed by the findings from this study as 66.7% of the respondents stated that most SMEs do not participate in the stock market.

They argued that apart from lack of capacity of SMEs to meet with the stock exchange guidelines and requirements, the cost of fund available in the bond market would be unfavourable to the competitiveness of SMEs.

On the issue of equity investment, the introduction of SMIEIS has made it imperative for banks to be involved in

guaranteeing SMEs equity in the domestic market. Despite this, the banks still feel that SMEs lack security for equity guarantee and therefore a high risk group.

The study established that leasing opportunities to SMEs is lacking among banks in Nigeria. The World Bank in a similar study on SMEs in Nigeria observed that SMEs medium to long term finance requirement through leasing remains underdeveloped and accounted for only one percent of total domestic investment in 1997 (World Bank, 2003). They observed that the growth of leasing industry was affected by factors such as;

- lack of a coherent legal framework governing leasing transactions;
- problems associated with contract enforcement and difficulties in repossessing leased equipment from defaulting lessees;
- lack of domestic long-term funds to finance leasing;
- rising cost of equipment, and
- lack of awareness and the poor skill base in the industry.

Finally, it is pertinent to comment on the micro-finance sector which unfortunately, has not fared well too. The institutions created by government to offer financial assistance to micro enterprises experienced significant losses in the recent past. The average loan repayment rates were quite low. These institutions are known to be operationally and financially weak, only driven by social justice goals rather than by financial and operational

sustainability (World Bank, 2003). There is no doubt that they lack a national presence and outreach.

Even, the credit unions and cooperatives that exist, estimated at approximately 15,000 in Nigeria could not contribute effectively to the strengthening of the micro enterprise sector through micro financing. It is therefore pertinent to remark that neither the formal and informal financial sectors have been able to effectively support a strong expansion of the real sector and maximize their contribution to economic growth and development.

Factors affecting financial support to SMEs were identified and despite the high liquidity and large margins, financing of SMEs by deposit money banks (DMBs) and development finance institutions (DFIs) is still limited. Several factors were identified to be responsible among which, include the following:

- financial institutions perceive SMEs as a high-risk segment of the market with high failure rate.
- Widespread non-repayment of loan culture among SMEs,
- CBN's unstable monetary policy,
- Weak legal system that makes the realization of collateral very unlikely or a lengthy process that brings the risk to unacceptable levels for commercial long-term lending.

- Commercial bank lack adequate loan and project evaluation methods, skills and manpower to lend to SMEs.

Like many human activities, finance is a very critical factor to the success of an SME sector (Kolawole, 1992). Most issues on the growth and development of SMEs revolve around provision of adequate funding facilities. The OECD report of Africa Economic

Outlook for 2004 observed that poor growth of SMEs in the African continent could be associated with lack of access to funds, legal requirement, and poor earnings from export. These observations are line with findings from this study.

The report therefore, recommended banks to establish SME units to assist entrepreneurs, educate operators and provide business plans for informed entrepreneurs, reduce collateral or use of stored produce as collateral. The study equally recognized and emphasized on the importance of a dedicated unit for SMEs in the operations of commercial banks to ensure that adequate attention is given to SMEs.

Lack of information on the operations of banks on the part of SMEs was identified as the most limiting factor hindering SMEs from accessing financial support services. Often, there is a constraint posed by inadequate information on financial facilities, incentives as well as information on market features, prices, competition, market segments and general operating environment (Kolawole, 1992). The four most

limiting factors to SMEs access to financial support services of banks as identified by the study are:

- lack of information on facilities available in the banks
- lack of viable projects from SMEs,
- lack of intervention by banks on issue surrounding financing SMEs proposals, and
- lack of access to skilled bank personnel.

Inability to access banks was considered as the least limiting factor which implied that SMEs can access banks but cannot get the desired support from them for obvious reasons, some of which have been identified. This situation perhaps, informed why there is a general apathy among SMEs about the support capabilities of banks to meet their financial needs. The study revealed a negative attitude towards banks by SMEs. It was against this background that efforts were made through the study to determine which services SMEs sought most from banks, that is, advisory or financial management services. The finding revealed that more financial management services are sought relative to advisory services. The finding was subjected to statistical analysis by testing the hypothesis stated earlier on the subject matter.

Testing of Hypothesis on Type of Services Desired Most by SMEs

The observed frequencies of response Table 5.13 was generated from the data contained in table 4.33 in chapter

4. From this data, it was possible also to derive the expected frequencies of response as presented in table 5.13.

HYPOTHESIS FOUR

Null (H₀): SMEs do not seek advisory services more

than financial services from support institutions.

Alternative (H₁): SMEs seek advisory services more than financial services from support institutions.

Table 5.13 Observed Frequencies of Responses on Type of Services Desired by SMEs

S/N	Response	Advisory Services	Financial Mgt. Service	Total
1	Yes	6	7	13
2	No	9	7	16
3	No response	0	1	1
	Total	15	15	30

Source: Researcher's Fieldwork, 2005

The expected frequencies was determined using the following equation.

$$\sum_{ij} = \frac{n_i \times n_j}{n}$$

n=30 i=row total, j=column total, E= expected frequency

Table 5.14 Expected Frequencies of Response on Type of Services Desired by SMEs.

S/N	Response	Advisory Services	Financial Mgt.
-----	----------	-------------------	----------------

			Services
1	Yes	$\frac{13 \times 15}{30}$ (6.5000)	$\frac{13 \times 15}{30}$ (6.5000)
2	No	$\frac{16 \times 15}{30}$ (8.000)	$\frac{16 \times 15}{30}$ (8.000)
3	No Response	$\frac{1 \times 15}{30}$ (0.5000)	$\frac{1 \times 15}{30}$ (0.5000)

Source: Researchers Fieldwork, 2005

The chi-square value was determined by applying the formula

$$X^2 = \sum_{j=1}^{nc} \frac{(\text{Observed}-\text{Expected})^2}{\text{Expected}}$$

	Advisory Services	Financial Mgt. Services
i. Yes	$\frac{(6-6.5)^2}{6.5}$ (0.03846)	$\frac{(7-6.5)^2}{6.5}$ (0.03846)
ii. No	$\frac{(9-8.0)^2}{8.0}$ (0.12500)	$\frac{(7-8)^2}{8}$ (0.12500)
iii. No Response	$\frac{(0-0.5)^2}{0.5}$ (0.5000)	$\frac{(1-0.5)^2}{0.5}$ (0.5000)

$$X^2_{\text{calc}} = 0.03846 + 0.03846 + 0.12500 + 0.12500 + 0.5000 + 0.5000 = 1.32692$$

$$\text{Degree of freedom (Df)} = (3-1)(2-1) = 2$$

$$X^2_{\text{tab}} = 5.991 \text{ at d.f} = 2$$

Decision Rule

At 0.05, the calculated value of X^2 (1.32692) is less than the tabulated value of X^2 (5.991) at 2 degree of freedom. Based on this, the null hypothesis was accepted at 0.05

level of significance. This finding confirmed the earlier observed need for financial management support services to SMEs who lack skill and competence in this area. It is not sufficient enough to provide funds to SMEs but they must be properly trained on how to manage funds to ensure accountability, transparency and ultimately achieve sustainable management and growth of their enterprises.

Communication between finance institutions and SMEs was found to be very weak as respondents from finance institutions opined that they rarely communicate with SMEs. Effective communication is desirable to familiarize SMEs with the facilities being offered by finance institutions as well as build the desired confidence required for effective business transaction. Lack of trust could be related to poor communication between SMEs and finance institutions.

Strengthening the communication network will no doubt remove the prevailing distrust between SMEs and finance institutions.

Finance institutions should from time to time organize forums for SMEs where issues surrounding access to financial facilities are discussed. Financial institutions should endeavour to act as investment participants in giving credit facilities and should see to it that their investment yield the maximum result. Bankers should assist SMEs to receive bank loans, create institutional credit consciousness in small industrialist and also help

them to maintain proper account. All these require effective communication network for it to succeed to the mutual benefit of all stakeholders.

REFERENCES

Abdullahi, A and Ajoku, K.B.(2001). *Capacity Building for Sustainable Industrial Development. A Nigerian Perspective.* Raw Materials Research and Development Council, Abuja, Nigeria Pg 333-346.

Allal, M(1999). Micro and Small Enterprises in Thailand: Definitions and Contributions. In: ILO/UNDP Study on SMEs in Thailand. ILO/UNDP Pg 5.

Ayiku, M,N,B (1991). University-Productive Sector Linkages. IDRC-MR 280e, May 5-20

Beal, G.M and Rogers, E.M(1960). Adoption of Two Firm Practices in Central Iowa Community. Report No.26 in Special Report, Ames, Iowa, USA: Agricultural and Home Economics Experimental Station, Iowa State University. Pg 20-30.

Boone, E.J (1080). Philosophical Foundations of Extension. *In, Foundations and Changing Practices of Extension, Blackburn. D (Ed),* Guelph, Ontario, Canada, Pg 1-9.

Bruneti, A., Kisunko, G and Weder, B(1998): How Businesses See Government: Responses from Private Sector Surveys in 69 Countries International Finance Corporation (IFC, the World Bank Pg 3-62.

Carpenter,C(2003).SME Finance in Nigeria. Paper Presented for the Roundtable on “Making Small Business Finance Profitable in Nigeria”. Access at <http://www.ypforum.org/news-carpenter>.

CBN(2001). Statistical Bulletin, Vol,12.

Duman, D.A(1978). *Mail and Telephone Surveys: The Total Design Method.* New York Wiley Pg 10-6.

FMI/UNDP(1997).A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja Pg 75-106.

IDRC (1993). Small Enterprise Development and International Development Research Centre, Ottawa, Ontario, Canada, IDRC Pg 5-10.

Kalanje, C.(2002). Enhancing the Competitiveness and Growth of SMEs. Paper Presented at the 5th NASME International Conference and Exhibition, Abuja, Nigeria, 17th 19th September, Pg1-10.

Kolawole, A.F(1992). Small and Medium Scale Industries in Nigeria: An In-depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies, Kuru, Nigeria Pg 1-81.

Laichena, J.K(2002). Role of Appropriate Technology in the Development and Growth of Small Enterprises. In, WAITRO Biennial Congress Abstract, Porto Alegre-RS, Brazil, Pg 22

Lalkaka, R.(1997). Convergence of Enterprise Support Systems. In, WAITRO News. Special Issue No. 6, WAITRO, Denmark Pg 6

Levitsky, J(1996). Support Systems for SMEs in Developing Countries. A Review. Paper Commissioned by

the Small and Medium Industries Branch, UNIDO, Vienna,
Pg 25-30

Mansour, A(2001). Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Workshop on “What Makes your Firm Internationally Competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rd meeting of Mediterranean Development Forum, Cairo, Egypt, 5-8th March, Pg 4-5.

Nadvi,K(1995). Industrial Clusters and Networks: Case Studies of SMEs Growth and Innovation. Paper Commissioned by the small and Medium Industries Branch, UNIDO, Vienna Pg 3-67.

Ngesa,F.U., Ombati, J.M and Mutuku, M(2003) Extension Services and Enterprise Development. Study of Technology Extension to Small and Medium Size Firms in Nairobi, Kenya, ATPS Working Paper Series, No. 38 Pg 6-15.

Odaman, A(1996). SMEs Role and Importance in Turkish Economy. Small and Medium Industry Development Organization(SMIDO), Turkey Pg 1-16.

Okojie,E.E(2004). Micro Enterprises in Poverty Eradication and Job Creation. A paper presented at the World Association of Small and Medium Enterprises, 15th

International Conference on SMEs, Abuja, Nigeria 19-22 July Pg 2-8.

Parker,R.L.,Riopelle, R and Steel, W.F(1995) *Small Enterprises Adjusting to Liberalization in Five African Countries*. The World Bank, Washington DC Pg 1-63.

Saunders, M.O. Lewis P and Thornhill, A (1997). *Research Methods for Business Students*. Financial Times Management Pg 25.

Tiffin, S(1994). The key profit: A practical Guide to Managing Science and Technology. Ottawa, Ontario, Canada: International Development Research Centre Pg 60-65.

Udechukwu, N.N(2003). Survey of Small and Medium Scale Industries and their Potentials in Nigeria. Unpublished paper.

Ukpabio,G.E(2004).Financing Investment Projects through SMEs: The Contributions of financial Institutions. Paper presented at the investment Day of the 7th Raw Materials Research and Development Council (RMRDC) Techno-Exposition 2004, Abuja, Nigeria, 14th October Pg 1-11.

Van den Ban, A.W and Hawkins, H.S(1996). *Agricultural Extension*. London, U.K: Blackwell Science, Pg 25-30.

World Bank(2001). SME Country Mapping of Nigeria. SME Department, The World Bank Pg 1-19.

CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

6.1 SUMMARY OF FINDINGS

Over the years various governments in Nigeria have paid special attention to the promotion of SMEs as they are considered the providers of the bulk of employment as well as their substantial contribution to overall manufacturing production and gross domestic product (GDP).

Consequently, government invested considerable efforts and resources in supporting SMEs growth and development. Despite the growing attention accorded to the development of SMEs in Nigeria, their impact and growth are yet to be felt in the society.

The research work examines the institutional support measures and their relative importance to SMEs development. Past studies on SMEs in Nigeria have centred more on their structures, characterization, constraints to operation, business and regulatory environment with limited attention to the dynamics of the institutional support structures established to enhance the performance of SMEs.

This however, is an area of persistent feature of SMEs development that requires consideration if they are to contribute significantly to the overall goal of national economic growth and development. Furthermore, most studies described the constraints or problems SMEs face but hardly proffer solutions that would make it possible to address these problems as well as gauge the nature of existing or potential demand for various types of support services that could address these constraints.

The need for this study was therefore imperative, primarily to examine the various initiatives of government and donor-support institutions in assisting SMEs grow. These initiatives no doubt, varied in scope, emphasis and extent. The impact equally varies with considerable number of success stories as well as constraints and failures. Nevertheless, these initiatives offered vital lessons of experience and policy concern in the development of a dynamic and virile SME sector in Nigeria.

The study therefore, attempted to examine the dynamics of the various institutional supports to SMEs in the country. Considering the broad nature of the subject matter, the study was limited to three core areas which include business environment, R&D support and financial support

services. The summary of findings is therefore predicated along these three core areas, viz;

- Business environment
- Research and development support
- Finance support services

6.1.1 Business Environment

Based on in-depth literature studies and findings from the research work, the following issues were identified to have significant bearing to development of SME sector in Nigeria.

- Government of Nigeria recognized the importance of small and medium enterprises in the overall industrial and economic development of the country.
- The government has therefore severally stated this as part of its industrial development strategy encapsulated in its mission to build an enterprise society in which all small businesses thrive and achieve their potentials.
- Equally, government recognized the importance of SMEs to the national economy in terms of growth, employment generation and wealth creation.
- The study confirmed the contributions of SME sector to the growth of Nigerian economy in terms of the following:
 - i. promoting the development of entrepreneurship and managerial skills

- ii. engendering the acquisition of skills among workers
- iii. promotion of local sourcing of raw materials and process technology,
- iv. promotion of local savings and investments, and
- v. employment creation

The overall manufacturing sector was found to comprise an organized and structured SME sub-sector, thousands of micro, informal, rural level manufacturing activities as well as large scale enterprises.

- A review of the various definitions of SMEs in the Nigerian context was made and a wide range of definitions primarily to facilitate political interpretations on development objectives and the implementation of specific programme, schemes, was identified.
- The definitions were found confusing in terms of interpretation and in the implementation of support programmes to SMEs. The confusing definitions have included a wide range of manufacturing activities such as micro, cottage and informal sector

as SMEs in support programmes involving technical, financial and other assistance schemes.

- It was obvious from the findings that there was inadequate clarity of the concept of SMEs to be promoted as well as the prevailing confusion of SME with other micro/informal/self employment activities which affected the level of scope of assistance to them.
- Nevertheless, on the issue of concepts and definitions, the study established that employment is the main criterion while other criteria such as investment, turnover are used for specific programme assistance to SMEs.
- The characterization of SMEs in Nigeria shows that “traditional” SMEs are dominant compared to “path-finding” SMEs. The traditional SMEs are those involved in producing goods and services or products with technologies and managerial processes that do not exhibit economies of scale.

The path-finding SMEs are enterprises that are promoted by highly skilled risk-takers often technology-driven and have potentially significant economies of scale. They hold promise to serve as an engine of private sector-led export-oriented (competitive) growth. It equally has the capability to play a major role in enhancing the inflow of

managerial and technology-transferring foreign direct investment (FDI) which are critical to successful industrial development efforts.

- The SME studied were more in manufacturing than non-manufacturing and engineering services and were engaged in activities such as textiles, leather, metal works, plastic recycling and food processing.
- The importance of a good legal framework for conduct of businesses was recognized and majority of SMEs surveyed expressed the view that the existing legal framework is inefficient.
- Also, the study noted that judicial system suffers from long delays in processing claims and is often very discretionary in this regard.
- The study recognized the importance of the judicial process for contractual dispute which is very critical in building investors confidence in any economy. However, it was found that the judicial system suffers from lengthy process of settlement of commercial disputes especially at lower and intermediate levels of the judicial system. Also, the knowledge of commercial law is very poor.
- The nature of the regulations governing the conduct of business was studied and found that business

regulations are complex and the fees charged by local administration are multiple and unpredictable.

- Fiscal policies no doubt affect businesses. The study revealed that tax regulations are unfair to SMEs as follows:
 - i. corporate tax level is unfair
 - ii. capacity to administer collection of tax is very low
 - iii. Tax structure is unclear and refund hardly fulfilled
 - iv. Custom duty laws are unclear and
 - v. Taxable base/duty draw backs hardly fulfilled.
- Assessment of the dynamics of the existing institutional framework for support to SMEs revealed their inadequacy to deliver appropriate support measures to promote and develop a sustainable SMEs sector.
- The public sector institutions supportive to SMEs were found to have very limited input from the private sector.
- The institutions related to SMEs development such as Industrial Development Centres (IDCs) were found to be incapable of delivering effective assistance. The IDCs which are extension service providers could not function due to poor funding, lack

of focus and programmes, directives, clear objectives and depleted work force that is highly demoralized.

At state levels, SMEs development programmes and plans are ad-hoc or not in existence. Technology business incubators established to nurture emerging SMEs are constrained with lack of resources and proper orientations.

- The activities and programmes relating to SMEs which were offered by other public sector institutions such as Federal Ministries, Research Institutions and similar SME-oriented agencies were implemented in an isolated and uncoordinated manner.
- It was established that there is currently no existing national policy on SMEs development even though efforts were made to entrench this in the industrial policy and explicitly in the statutes or mandates of public support institutions.
- The study revealed that the various institutions promoting SME operate in their enclave without a harmonized or distinctive guidelines encapsulated in a national policy document.
- Research findings indicated that there has been policy bias against SMEs resulting from such issues as trade, monetary, fiscal, tax, labour and price

policies which coexists with policy objectives aimed at promoting SME development.

- The research identified among other factors the inconsistency and ad-hoc nature of policies and measures introduced as well as the extraordinary interventions by government to promote the sector without a long-term plan and a clear vision including identification of target beneficiaries.
- The issue of overlapping mandate and functions of support institutions was identified as very significant limitation to efficient and more focused support service delivery to SMEs.
- The centralization of SMEs support services was reviewed and the study revealed that while a centralized body that coordinates SME development activities is desirable, however such body need to collaborate with other support institutions as SME requirements demands diverse capacities and capabilities which no single organization can handle alone.
- The assessment of business culture indicates that though there is high entrepreneurial capacity among SMEs in Nigeria, however, they operate in an obscure manner and hardly trust government or

comply with the law. These attributes perhaps, explains why it is difficult to deal with SMEs and also account for why they are regarded as high risk group.

- Uncertainties in the stability and implementations of government policies was identified as factors that hinder planning in most businesses including frequent changes in the tariff regime and other fiscal policies. The study revealed that the existing macro-economic policy is not favourable to SMEs. SMEs attributed the conservative stance of financial institutions in lending to them as partly due to the unpredictable monetary supply.
- Poor infrastructure was considered as a significant barrier to business entry and competitiveness of SMEs in Nigeria. In this regard, electricity supply was identified as a critical constraint to SMEs development compared with telecommunication which is the least. Telecommunication was adjudged to be the only infrastructure that government has fairly addressed in recent times compared with transport, water supply and electricity.

- The study recognized the efforts of government through the Federal Ministry of Science and Technology in providing infrastructure for emerging SMEs through Technology Business Incubation Centres (TBICs). Unfortunately, TBICs have not been able to effectively impact on SMEs in terms of productivity, growth and competitiveness.

6.1.2 RESEARCH AND DEVELOPMENT SUPPORT

- SMEs have been identified to lack the capacity and capability to embark on industrial research in order to improve on their competitiveness and therefore rely on public research institutions for such support services. The study further identified the R&D institutions especially under the Federal Ministry of Science and Technology (FMST) to have been rendering support to SMEs through their R&D programmes with emphasis on quality improvement and application of new process in order to reduce cost and increase productivity.
- The findings from the study revealed the low technical manpower level of the R&D institutions which hindered them from providing the desired technological and scientific assistances to SMEs, especially technology extension services. Also, it was found that agric-based R&D institutions offer more extension services than science and technology-based R&D institutions.

- It was equally observed that there are currently weak institutional arrangements for providing SMEs access to technology in Nigeria.
- The analysis of findings revealed that R&D programmes of research institutions do target SMEs but the delivery system of R&D findings to SMEs is virtually weak or not in existence at all. Furthermore, it was observed that most of the R&D institutions have not rendered the desired effective assistance to SMEs in order to upgrade their technologies improve on their product quality and competitiveness.
- The study established the fact that R&D institutions rarely communicate with SMEs even though the research institutions claim to do so through various fora such as workshops, seminars, conferences and exhibitions/fairs.
- The research findings also linked the limited education of SMEs managers to their inability to foster closer ties with R&D institutions in terms of appreciating the importance of R&D to their operations. The research institutions equally expressed difficulty in engaging SMEs in R&D due to lack of financial and requisite human resources on the part of SMEs. Also, the informal nature of SMEs was identified as a limiting factor to their involvement in R&D.

- SMEs were found not to influence or determine the type of services R&D institutions offer, to them or the direction of researches carried out by the institutions.
- Three factors were identified to have significantly limited SMEs access to R&D results from research institutions which include; lack of information on R&D activities, limited interventions of R&D institutions in the activities of SMEs and lack of access of SMEs to skilled personnel of R&D institutions. From these findings, there is no doubt that the relationship between research institutions and SMEs is a critical factor to the appreciation and utilization of R&D results.
- Consultancy service which is usually in the technical field of engineering and business advisory services is the most common form of assistance required by SMEs.

6.1.3 FINANCE SUPPORT SERVICES

- Effective and sustainable financing of SMEs development was recognized as a critical factor to their overall performance and contribution to the economic growth and development of Nigeria.
- The nature of finance activities revealed commercial banking to command a significant portion of the financing system relative to development finance.

- The study established that most financial assistance to SMEs comes in form of loans. Three types of loans short-term, long-term and microfinance were identified to be operational of which only short term loans are made available to SMEs. Lack of collateral, fear of excessive debt burden and low profitability of credit facilities to SMEs imposes definite limits on the levels of financial support to SMEs.
- The cost of funds was identified as a very critical factor to accessing funding facilities by SMEs. This is reinforced by the lending rate which was found to fluctuate between 19 to 22.5%.
- It was observed that financial institutions are less motivated to compete for SME clients under tight monetary policies and government deficit finance.
- The study revealed that there is currently a considerable gap in the funding of SMEs which development finance institutions (DFIs) have to fill considering their capacity to provide long-term debt capital for the real sector.
- The study examined support measures to SMEs in the context of being quoted in the stock market, guaranteeing equity finance, leasing opportunities

and information dissemination on banking services and products. The stock market was found not to be a serious factor to reckon with in the financing of SMEs as they lack the capacity to meet the stock exchange guidelines and

requirements. Also, banks feel that SMEs lack the security for equity guarantee and therefore a high risk group. Equally lacking among banks is leasing opportunities to SMEs.

- It was reported that SMEs medium to long-term finance requirements through leasing remains underdeveloped and only accounted for one percent of total domestic investment.
- The microfinance sector was found to be very weak and lack national presence and outreach. Also, micro financing schemes are known to be driven by social justice goals rather than by financial and operational sustainability.
- The study recognized and emphasized on the absence of dedicated unit for SMEs in the operations of commercial banks necessary for effective service delivery.
- Generally, it was established from the research findings that neither the formal or informal financial sectors have been able to effectively support a strong

expansion of the real sector and maximize their contributions to economic development of the country.

- The factors limiting SMEs access to financial services were identified and lack of information on financing activities of banks was considered as the most significant constraint as well as lack of viable projects from SMEs. Limited interventions of banks on SMEs activities were equally identified as a limiting factor.
- The type of services desired by SMEs from financial institutions was more of financial management than advisory services.
- Communication between finance institutions and SMEs was found to be very weak as banks rarely communicate with SMEs.

6.2 CONCLUSIONS AND RECOMMENDATIONS

The study seeks to establish the principles by which support institutions would achieve greater coherence and clarity in their interventions to SMEs. There are numerous support measures offered by different institutions, some of which are good and some are indifferent. There is incoherence and inconsistency between the institutions in executing their functions.

The need for effective dialogue between the public support institutions and the private sector was identified bearing in mind that publicly funded support is only a relatively modest proportion of total support. Therefore, the more coherently the support institutions are organized, the more the private sector (SMEs) can work with them to maximize the total support available to small firms.

Expectations from SMEs on Institutional Support.

Key, expectations of public support institutions in their dealings with SMEs were identified to include:

- **Customer-driven and not supply-led service delivery:** The real needs of the customer (SMEs) must first be identified before support is provided. Consequently, support measures must be constantly revised and updated to ensure that it meets the real needs not theoretical ones.
- **Prioritization of needs:** SMEs should be helped to prioritize their needs for external support recognizing that no single SMEs could take up all the support and schemes that are on offer.
- **Flexibility:** Support available including schemes and grants should be adapted to the customer and not the other way round. Support institutions need to appreciate the different learning styles of SMEs and offer advice when the owner or manager wants it and not when it suits the supplier to provide it.
- **Professionalism:** Access to business support services and other assistances should be as straightforward as possible. This demands minimal administration and minimal paperwork. Services rendered must be professional, with promises kept and services delivered on time and to specification.

- **Collaboration:** Public support institutions should never be competitive in their service delivery to SMEs but rather collaborative. There are too many organizations offering support services in a wholly uncoordinated manner.
- **Sustainability:** Institutional support need to be sustained based on developing an on-going relationship not simply one-off intervention.

Assessment of the Effectiveness of the Existing System

It was realized from the analysis carried out in this study that despite best efforts at institutional support, the system is currently working less effectively than it should in a number of ways. SMEs particularly complained that:

- quality of assistance is inconsistent. Many personnel from support institutions offering support services are not regarded as having the requisite skills and experiences.
- lack of customer focus. Support services are available in a way that suits the service provider and not the customer.
- too many support schemes or initiatives. Accessing the numerous schemes is often seen as confusing and complex with the attendant bureaucratic processes associated with the schemes.
- too many support organizations. Many of the support organization work in an uncooperative manner

leading to dissipation of energy and resources without achieving target objectives of support measures. Often, very few SMEs are aware of how the different organizations fit together.

- lack of continuity in service delivery. There is a lack of continuity as organizations and schemes mutate at regular intervals. Support measures and institutions are created and dismantled at ease without proper evaluation to learn from their shortcomings in order to avoid making the same mistakes always.
- support measures are institution-driven rather than customer (SMEs) driven. Specific products of support institutions appear to be driven by socio-political goals and not by the needs of the SMEs.
- business support appears to be completely missing out in some of the most dynamic parts of the SMEs business community, notably SMEs in rural or disadvantaged areas.
- relationships with the private sector are not seen as effective. Lack of effective communication network has resulted in distrust whereby SMEs do not trust public support institutions and some private sector institutions such as banks and consultancy service providers.

Though the issues raised can be exaggerated, they are in most cases very real. Addressing them will require a great deal of commitment on the part of the public support institutions and SMEs themselves. Nevertheless, there is need for a more coherent approach to minimize these difficulties and improve standards at federal and state levels. The key question the study tried to address in this context is “what are the key building blocks for an effective system”.

Building Effective Institutional Support for the Future

The key building blocks for an effective system of institutional support to SMEs have been identified to be in place at federal and state levels of government. For instance, the establishment of a one-stop Agency, the Small and Medium Enterprises development agency of Nigeria (SMEDAN) with the direct responsibility for the main government support programmes for SMEs is a welcome development.

The agency has a responsibility to determine national priorities and ensure that institutional support infrastructure is coherent and effective. It equally has national partners in other institutions or agencies with mandates relevant to SMEs development such as RMRDC, NEPC, NIPC, NEPA, CAC, etc as well as the organized private sector.

SMEDAN should also be aware that in offering support to SMEs, they will not be operating in a vacuum and therefore

need to work closely with other institutions and private sector support organizations including non-governmental organizations (NGOs).

To build the future for SME development in Nigeria through institutional support some critical issues need to be constantly addressed which include the following:

- **Essence of a shared commitment to a network**

In order for support institutions to succeed in delivering effective services to SMEs, there has to be a shared commitment to operating as a network. The support institutions and the SMEs themselves need to work on the basis that they have shared responsibility for a single system of business support for SMEs.

- **Build a customer culture**

Support institutions and SMEDAN need to focus, refocus and focus again on the needs of SMEs. Rivalry among support institutions and the need to impress government of their effort is not what is needed. Customer satisfaction assessment should

be a major determinant of performance which should also be an integral part to the national measurement/evaluation framework.

- **Promotion of limited entry points backed by effective service delivery.**

SMEs are confused by the complexity of the institutional support networks and do not know how best to access them. Two entry points to the support systems for SMEs are identified to include “New entrants” in seeking for business support should be encouraged through appropriate mechanisms and relevant institutional framework. Secondly, the more experienced SMEs should be encouraged to work through their local associations (NASME) as the local entry point.

This thinking does not preclude the possible request for support assistance from SMEs at national level. However, it must be properly channeled through an umbrella association.

- **Taking an holistic and long term approach**

The new institutional support approach should be designed to encourage SMEs to take a longer term approach in addressing their needs. The focus should not be on single interventions but on an initial diagnosis of a business

potential and areas of improvement followed by a series of measures, sensibly prioritized to develop the potential. It is however, pertinent to note that the “holistic” approach is not easily achieved.

- **Encourage shared priorities**

It was observed that resources are quite limited to allow support institutions to offer equal level of services to SMEs. Consequently, there is need for a mechanism to establish priorities across the network of support institutions. However, priorities may differ between, national state and local levels. The need for more SMEs to embrace-e-business agenda for example, could be a key national priority but at state level, the priority may focus on particular sectors with strong “cluster” potential or in increasing the number of “start-ups”. At the local level, the emphasis might be on rural issues or specific disadvantaged areas. Priorities might be different, however, it is important that they are articulated at all the three levels and a mechanism established to ensure that they are reflected in the agreed programme of support institutions.

- **Need for coherent organization of support**

There is need to strive to achieve economies of scale in providing institutional support to SMEs. For instance, economies of scale could be achieved in having one database of information at national level rather than a number of state and local databases. For support

infrastructure to function effectively, it is essential that the development of specific forms of support at whatever levels be a shared endeavour.

- **Effective linkage with the organized private sector**

Public funded support institutions should collaborate with the private sector to achieve efficient and effective service delivery to SMEs. The existence of public sector support should not create the potential for unfair competition with the private sector. The private sector is in the best position to render effective support services to SMEs even though at a cost which many SMEs are often very reluctant to buy in services. This underlines the need for cost structure in service provision to SMEs, especially at a moderate and affordable level to elicit commitment patronage and.

- **Need to promote fewer schemes**

There is need to promote fewer support schemes and ensure that they are effectively and sustainably delivered to SMEs. Schemes should be designed to meet real needs and must satisfy clients (SMEs).

- **Promoting commercial and professional approach to SMEs support**

Institutional support to SMEs may be publicly funded but should not be a poor relation in terms of quality to the private sector. It must be delivered on time and efficiently too. Where appropriate, customers should also be

expected to pay at least part of the cost of the service, recognizing it as an investment in their own future.

- **Promote learning network**

One significant weakness of the existing support infrastructure is that it has not been designed to be an effective learning network. There is lack of best practices at all levels for effective service delivery as well as appropriate mechanism for knowledge sharing of good practices. This calls for a total review of the quality and available institutional support services to SMEs. With a commitment to promote and share good practices, good ideas and practices will be identified and shared much more quickly across the support network.

- **Measuring performance evaluation**

There is no serious benefit in providing support without effective measurement of impact to beneficiaries. Support institutions need to ensure that their services are functional and are continuously being improved upon. In this regard, there is need to conduct studies occasionally in order to measure and evaluate what is achieved, applying the results and ensuring constant feed back to refine services.

- **Commitment to management**

Effective management of support infrastructures is imperative for better service delivery. The challenge is to take the opportunity of a better management structure to drive through performance.

Policy Recommendations

The formulation of an appropriate policy framework for promotion and development of SMEs sector in Nigeria is advocated and should take into consideration the critical issues raised in this study particularly as it relates to concepts, definitions and objectives of the SME sector, development of SME, its promotion and the changing role of the sector in the national economy. It is therefore pertinent to recommend that the SMEs to be strictly considered in policy formulation are those concerned primarily with manufacturing and service enterprises linked directly or indirectly to industrial activities. General issues as examined in this study alongside the various constraints affecting SMEs development in Nigeria and some recommendations on what is needed to be done to address these constraints are summarized in Appendix I.

However, specific recommendations are made within the context of the three core issues examined in this study which are the business environment, R&D support and financial support to SMEs. These recommendations provide necessary inputs to the formulation of an appropriate policy and implementation strategies for SMEs development in Nigeria.

- The business environment in which SMEs operate should be improved upon in terms of the regulatory

and legal framework in order to encourage the growth and competitiveness of SMEs.

- With respect to administrative and business environment, support to SMEs should be extended through administrative facilities/subsidy and promoting a competitive environment to support SMEs productivity. In addition, it is necessary for local government and stakeholders to develop advocacy for improving the conducive environment for SME business development.
- The bureaucracy associated with the conduct of businesses in government and public institutions should be reduced, especially as it relates to business registration, easy documentation and prompt decision making process in the court system.
- The tax structure should be clear and not duplicated at all levels of governance and the collection system should be centralized and computerized to avoid multiple taxation.
- Considering the disparate nature of institutional supports to SMEs, there is urgent need for reorganizations and harmonization of the activities of these institutions in terms of their management, structure, approach to work, level of expertise, etc, so as to achieve synergy in service delivery and

effectively meet the real needs of small entrepreneurs.

- Support institutions need further exposure to international experiences in SME support which will no doubt provide them with effective systems, mechanisms, values and approaches to assist in the delivery of services to SMEs.
- Programmes and activities of support institutions should be incorporated in a framework of an organized plan of action spread over a period of time with clearly defined responsibilities of a macro level action. This should be coordinated by the umbrella organization responsible for SMEs development which is the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).
- SMEs support institutions should be encouraged to collaborate in order to render the desired services to SMEs. Institutional linkages and collaboration will help to eliminate the tendency for existing institutions to venture into areas they lack competence and ill-equipped to provide quality assistance. There is neither justification nor is it cost effective for institutions to be created or expanded to offer advisory services for which they do not have adequate capability when other existing

organizations are quite able to provide the support required.

- There is need to formulate appropriate policies to improve on business culture as an integral part of the overall SMEs policy in order to promote trust, transparency, accountability, good governance which are the hallmarks for building a strong corporate entity.
- Policy meant for SMEs should reflect their views and aspirations and they should be part of the process of policy formulation. Therefore, macroeconomic policies should be supportive to SMEs and should be effectively and sustainably be implemented. There is need to carry out from time to time a study of the impact of macroeconomic policies on the performance of SMEs.
- With respect to infrastructure, the private sector should take the lead in infrastructure development with the support of government at all levels. The privatization of power supply and other infrastructures should be sustained as well as involving SMEs in the provision of less complex infrastructural facilities such as water supply and environmental management.
- There is a need for stronger service providers targeting the SMEs. The service providers must be

in position to provide high quality SMEs support services sustainably and at affordable cost. To this end, effective business associations or even government-sponsored institutions will help to offer performance enhancing products at low cost. Also, such business associations are in position to provide useful member services and dialogue with government on industry-specific issues.

- Human resources development in the SME sector should be given top priority in the policy agenda of government. Entrepreneurs are in dire need of trained manpower, continuing education for their employees and themselves, certification of skills and training in entrepreneurial skills. Furthermore, there is need to certify acquired skills both in the technical and non-technical fields.
- Many SMEs have difficulty in determining the causes of their stagnation or failure and as such, these industries need assistance in a timely manner through industrial extension services. These services can be effectively provided through the establishment of clusters with common facilities.
- There is need to promote the creation of integrated networks of small firms. The new role of support services is to influence SMEs to help each other and work together. This network will be aimed at

increased output and upgraded technology to produce through combined efforts, products that can compete locally and internationally. This demands that policy makers should aim at creating the enabling environment to move SMEs away from relying on their own limited capability towards cooperation within groupings in order to gain greater competitive strength. It equally calls for the promotion of industrial clusters which will encourage specialization and cooperation between firms of the cluster with a view to developing collective efficiencies.

- The existing relationship between R&D institutions and SMEs need to be strengthened. The desired linkages with SME is very weak and R&D institutions have shown little interest in the SME sector despite their expected supportive role as enshrined in their mandates.
- There is need to promote the establishment of SME coordinating units in the R&D institutions in order to facilitate assistance to small and medium size manufacturing firms. Also, the creation of frameworks for joint research projects that address sectoral needs of SMEs such as product quality, environmental management, foreign markets, sectoral technology needs and technological information infrastructure is imperative.

- The resources and organizational structures needed to deploy effective technology extension services which include improved laboratory facilities, workshops, equipment, training and retraining of trainers on entrepreneurship, business planning business start-up and operations, setting up of demonstration units and advisory service centres should be provided.
- Universities and polytechnics should be encouraged to establish incubation centres. The researchers and extension specialists can use these centres to initiate technological change and management changes by working with local SMEs in skills development through training, counseling and transfer of technology.
- There is a need to support technology acquisition and upgrading by SMEs through a number of recognized arrangements such as technical assistance agreement, “know-how” agreements, joint ventures and franchising. The understanding, application and use of patenting among SMEs should be encouraged and promoted.

- SMEs should be advised and guided in choosing suitable and economic technology. Such advice and guidance on both the choice of technology and the appropriate provider and the manner of implementation of agreement can be provided by private consultant or technical service provider at subsidized cost with the support of private sector organizations such as chamber of commerce and industry.
- Private sector organizations and non-governmental organizations should serve as an essential element of future technology extension service provider, technical assistance as well as a delivery system for financial assistance to SMEs at different levels of governance in the country.
- In the field of financing, SME development should be promoted through the services of commercial banks and development finance institutions (DFIs) including micro finance institutions (MFIs). This can be achieved through increasing fund allocation (e.g SMIEIS) to SMEs through experienced and reputable financial institutions with experience in managing micro, small and medium credits for working capital and investment.
- Promoting integration, modernization and credit expansions to MFIs including revolving fund

mechanisms as well as the rationalization of financing schemes for micro, small and medium scales businesses is imperative. Also, improving the services of existing credit guarantee scheme including developing a credit guarantee scheme for SME at all levels is absolutely necessary.

- Long term loan facility should be provided to SMEs at a lower interest rate that is supportive to loan repayment and overall growth and competitiveness of the SMEs sector.
- The core competence of commercial banks in long term lending which the current recapitalization of banks in Nigeria is promoting should be strengthened and sustained.
- There is a strong need to promote appropriate support programmes that would offer training of staff of financial institutions to evaluate small borrowers quickly and monitor them in addition to training entrepreneurs to keep good financial records.
- The competitiveness and sustainable growth of SMEs requires government to channel cheap funds through DFIs to SMEs. In this regard, the channeling of unclaimed dividend for investments in SMEs through DFI is recommended.

- In order to improve the funding of SMEs, it is recommended that commercial banks and development finance institutions should create an SME unit to assist entrepreneurs, educate operators and provide business plans for informed entrepreneurs and even participate in equity investment in small and medium scale enterprises.
- There is a need to promote effective communication mechanism between SMEs and finance institutions in order to create awareness of finance facilities available and build trust among SMEs.

Finally, it must be appreciated that the evolution of support institutions for SME development over the years was predicated on differing objectives. Agencies or institutions have been established out of social motives to help small enterprises. It was believed that support to SMEs can help to alleviate poverty and improve income distribution. Even, multilateral and bilateral support institutions have seen SME support as a veritable means to promote private sector development. SME in essence were seen as a balance to large scale public investments and government control of the economy.

Furthermore, SMEs were viewed as a means for generating jobs as opposed to fostering growth, innovation and exports. Consequently, important opportunities for dynamic industrial growth were therefore lost when the potential contributions of SMEs were overlooked. Experience indicates that the major sources of assistance likely to be most effective in the long run will be from the various elements of the private sector and through non-governmental organizations. This implies that specialized support systems of assistance to SMEs need to be implemented with the close collaboration with the private sector.

In formulating appropriate SME development policy framework for Nigeria, there should be a long-term vision of establishing a well structured and sufficiently matured SME sector that could be responsible to contributing to sustainable economic development of the country. There must be a strategic plan which should focus on the establishment of people's economy based on the market justification, local natural resources, virtual and human resources that are productive, independent, progressive, competitive and conscious of sustainable environment as well as maintaining the nation's norms and values.

BIBLIOGRAPHY

Abdullahi,A(2004) An Impact Assessment of Science and Technology Policy on National Development of Nigeria A thesis submitted to St. Clements University in partial fulfillment of the requirements for the award of PhD in Management Pg 185-186

Abdullahi, A and Ajoku, K.B(2001). *Capacity Building for Sustainable Industrial Development. A Nigeria Perspective.* Raw Materials Research and Development Council, Abuja Nigeria Pg 333-346.

Allal, M(199). Micro and Small Enterprises in Thailand: Definitions and Contributions. In ILO/UNDP Study on SMEs in Thailand. ILO/UNDP Pg 5.

Amobi, I(2004), Nigeria: Emerging Opportunities in Business Development Services. Paper presented at an Industrial Policy Forum on “Can Nigerian Industry Compete?. Organized by United Nations Industrial Development Organization (UNIDO), Abuja, Nigeria 29th April, Pg 5-6.

Asika,N(2001). *Research Methodology in the Behavioural Sciences,* Longman Nigeria Plc Pg 21-100.

Ayiku,M.N.B(1991). University-Productive Sector Linkages
IDRC-MR 280e, May 5-20.

Beal,G.M and Rogers,E.M(1960). Adoption of Two Firm
Practices in Central Iowa Community. Report No.26 in
Special Report, Ames. Iowa , USA Agricultural and Home
Economics Experimental Station, Iowa State University Pg
20-30

Boone,E.J(1980). Philosophical Foundations of Extension.
In, Foundations and Changing Practices of Extension,
Blackburn (ED) Guelph, Ontario, Canada, Pg 1-9.

Bruneti, A., Kisunko, G and Weder, B(1998): How
Businesses See Government: Responses from Private
Sector Surveys in 69 Countries International Finance
Corporation (IFC, the World Bank Pg 3-62.

Carpenter,C(2003).SME Finance in Nigeria. Paper
Presented for the Roundtable on “Making Small Business
Finance Profitable in Nigeria”. Access at
<http://www.yforum.org/news-carpenter>.

CBN(2001). Statistical Bulletin, Vol,12.

Cooper, D.C.and Schindler,P.S(2001).*Business
Research Methods.* McGraw-Hill, International
Edition, Pg. 25.

Deming, W.E(1960).*Sample Design in Business Research.*
New York, Wiley Pg26.

de Vaus, D.A(1991). *Surveys in Social Research* (3rd Edn).
UCL Press and Allen and Uwin London. Pg 12-13

Dillman, D.A(1978).*Mail and Telephone Surveys: The
Total Design Method*, New York, Wiley Pg 50-
56. Accessible at <http://survey.sesyc.wsu.edu/tdm.htm>

Duman, D.A(1978). *Mail and Telephone Surveys: The
Total Design Method.* New York Wiley Pg 10-6.

Easterby-Smith, M., Thorpe, R and Lowe, A (1991)
Management Research: An Introduction, London, Sage Pg
41.

Economist,(1993).*The Economist Numbers Guide*,
London,
Hamish Hamilton Pg 10.

Egbuogu, L. O. D (2003). What Small Business
Entrepreneurs Expect from Local Credit Agencies and
International Business Facilitators. Paper Presented at
“Business America” A forum organized by the US
Commercial Consulate, Lagos, Nigeria, 3rd March, Pg1-10.

Ekpo, A. H and Umoh, O. J (2003). The Informal Sector
November, 2004 accessible at
<http://www.onlinenigeria.com/links/adv.asp?blurb=495>

FMI/UNDP (1997). A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja, Nigeria, Pg 2-40

Hakim, C(1982). *Secondary Analysis in Social Research*, London, Allen and Unwin Pg 10-12.

IDRC (1993). Small Enterprise Development and International Development Research Centre, Ottawa, Ontario, Canada, IDRC Pg 5-10.

Iornem,D(2005). Developing and Testing Hypothesis: An Unpublished Paper, Kaduna, Nigeria, P1-10.

Kalanje, C.(2002). Enhancing the Competitiveness and Growth of SMEs. Paper Presented at the 5th NASME International Conference and Exhibition, Abuja, Nigeria, 17th 19th September, Pg1-10.

Kervin, J. B(1992), *Methods for Business Research*, New York, Harper Collins. Pg 20-25.

Kolawole, A.F(1992). Small and Medium Scale Industries in Nigeria: An In-depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies, Kuru, Nigeria Pg 1-81.

Laichena, J.K(2002). Role of Appropriate Technology in the Development and Growth of Small Enterprises. In,

WAITRO Biennial Congress Abstract, Porto Alegre-RS, Brazil, Pg 22

Lalkaka, R.(1997). Convergence of Enterprise Support Systems. In, WAITRO News. Special Issue No. 6, WAITRO, Denmark Pg 6

Levitsky, J(1996). Support Systems for SMEs in Developing Countries. A Review. Paper Commissioned by the Small and Medium Industries Branch, UNIDO, Vienna, Pg 25-30

Mansour, A(2001). Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Workshop on “What Makes your Firm Internationally Competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rd meeting of Mediterranean Development Forum, Cairo, Egypt, 5-8th March, Pg 4-5.

Moyo,R(2004).Technology Transfer and SME Promotion through Village Skills Training Programme in Botswana. June, 2003 accessible at <http://www.fes.de/fulltext/wana/00554003.htm>

Nadvi,K(1995). Industrial Clusters and Networks: Case Studies of SMEs Growth and Innovation. Paper Commissioned by the Small and Medium Industries Branch, UNIDO, Vienna Pg 3-67.

Ngesa, F.U., Ombati, J.M and Mutuku, M(2003) Extension Services and Enterprise Development. Study of Technology Extension to Small and Medium Size Firms in Nairobi, Kenya, ATPS Working Paper Series, No. 38 Pg 6-15.

Oboh, G.A.T(2004). Contemporary Approaches for Financing Micro, Small and Medium Enterprises. Conference on SME held at the International Conference Centre, Abuja, Nigeria, 19-22 July Pg 2-15.

Odaman, A(1996). SMEs Role and Importance in Turkish Economy. Small and Medium Industry Development Organization (SMIDO), Turkey. Pg 1-16.

Okojie, E.E(2004). Micro Enterprises in Poverty Eradication and Job Creation. A paper presented at the World Association of Small and Medium Enterprises, 15th International Conference on SMEs, Abuja, Nigeria 19-22 July Pg 2-8.

Osoba, A.B(1987). Small Scale Enterprises in the Development Process. In, Towards the Development of Small Scale Industries in Nigeria, Osoba, A.M (Ed) Nigeria Institute of Social and Economic Research, Ibadan, Nigeria, Rosprint Industrial Press.

Owen, F and Jones, R (1990). *Statistics* (3rd Edn), London, Pitman Publishing Pg 56-70.

Parker,R.L.,Riopelle, R and Steel, W.F(1995) *Small Enterprises Adjusting to Liberalization in Five African Countries*. The World Bank, Washington DC Pg 1-63.

Robson,C(1993).*Real World Research*. Oxford Blackwell, Pg 120-5.

Saunders, M.P. Lewis and Thornhill,A(1997). *Research Methods for Business Students*. Financial Times Management, Pg 170-175.

Sonaïke, P. O(1975). Small Scale Industries in Nigeria: Techniques of Probability Sampling and Analysis. Doctoral Thesis for Oxford University, London, Pg 50-52.

Stokes, D(1998). *Small Business Management: A Case Study Approach, Continuum*, London, New York Pg 100-111.

Tarka, D(2004).Contemporary Issues for Financing Micro, Small and Medium-sized Enterprises. Paper Presented at the 15th International Conference on SMEs, Abuja, Nigeria, 19th-22nd July, Pg 1-12.

Tiffin, S(1994). The key profit: A practical Guide to Managing Science and Technology. Ottawa, Ontario, Canada: International Development Research Centre Pg 60-65.

Udechukwu, N.N(2003). Survey of Small and Medium Scale Industries and their Potentials in Nigeria. Unpublished paper.

Ukpabio, G.E(2004).Financing Investment Projects through SMEs: The contributions of financial Institutions. A paper presented at the Investment Day of the 7th Raw Materials Research and Development Council (RMRDC) Techno- Exposition 2004, Abuja, Nigeria, 14th October, Pg1-11.

UNIDO(1969).*Small-Scale Industry in Latin America.* United Nations, New York Pg 16-20.

UNIDO(1999): Capacity Building for Private Sector Development in Africa. Private Sector Development Branch, PSD Technical Working Paper Series No.3 UNIDO, Vienna, Pg 1-23.

Van den Ban, A.W and Hawkins, H.S(1996). *Agricultural Extension.* London, U.K: Blackwell Science, Pg 25-30.

Wimmer R.D and Dominick, J.R.(2000). Mass Media Research-An introduction, 6th Edition Belmont Ca: Wadsworth Brooks/Cole

World Bank(2001). SME Country Mapping of Nigeria. SME Department. The World Bank Pg 1-19.

World Bank(2003). Project Appraisal Document on a Proposed Credit to the Republic of Nigeria for Micro, SME Project. The World Bank, Pg 37-50.

APPENDIX I.0: MAJOR ISSUES, CONSTRAINTS AND RECOMMENDATIONS FOR AN

APPROPRIATE POLICY FRAMEWORK FOR PROMOTION AND DEVELOPMENT OF SMES IN NIGERIA

Issues	Nature of Constraints	Recommendations
1.0 CONCEPTS, DEFINITIONS AND OBJECTIVES Of SMEs		
1.1 Concept Definition related to SMEs.	<ul style="list-style-type: none"> Absence of a constant/clear definition of SMEs Confusion SMEs with 	1. Appropriate definition for SME and Micro Enterprises 2. SMEs: Organized and a formal sector to be promoted and developed

<p>1.2 Objectives of the Sector</p> <p>Create and develop organized sustainable and competitive formal enterprises sufficiently matured and responsible for economic growth in Nigeria.</p>	<p>informal, Micro enterprises, SSEs</p> <ul style="list-style-type: none"> • Major objectives are not précised. • Objectives and strategies are confused. 	<p>3. Definition based on employment to be adopted:</p> <ol style="list-style-type: none"> a. Large >300 b. Medium 100 to 300 c. Small 10 to 100 d. Micro <10 <p>4. Existence of candidates for SMEs in formal and Micro sectors to be recognized</p> <p>5. Investment and turnover criteria to be used for specific objectives as financial, special schemes etc.</p> <p>Objectives of the sector:</p> <ol style="list-style-type: none"> a) Create productive employment opportunities throughout the country b) Increase the utilization of local raw materials, technologies, skills and other resources and to increase value addition by the manufacturing sector. c) Provide an effective instrument of production to Federal and States Governments to strengthen rural/regional development policies. d) Reduce the rapid expansion of informal manufacturing activities through up-scaling of these to formal sector. e) Increase non-oil export income from exports by promoting direct and indirect exports through SMEs. f) Strengthen the technological base in the manufacturing sector through transfer of technologies and introduction and development of products/services and through encouragement of the innovativeness of the SMEs.
<p>2.0 DEVELOPMENT OF THE SME SECTOR</p>		
<p>2. 1 Macro economic and structural measures to create an enabling environment.</p>	<ul style="list-style-type: none"> • Inadequate commitment to recognize the priority role of the SMEs as a 	<p>1. Firm declaration by the highest level on SME role in the economy.</p>

	<p>major instrument of economic development.</p> <ul style="list-style-type: none"> • prejudices of investors on inadequate security and respect to law and order. • lack of investor confidence on consistency of policies and other promotion mechanisms. • Dominant role of government intervention in SME promotion. • Inadequate recognition of the private sector as engine of economic growth. • Cumbersome bureaucratic processes, resulting in delays and efficiency related to registration of companies, imports exports, obtaining rebate, etc. 	<p>2. An institutional network to monitor the implementation of the SME programmes with the participation of other ministries/agencies concerned and the private sector.</p> <p>3. Strengthening the measures for civil security and appropriate measures to maintain strict law and order in general to protect industries.</p> <p>2.4 Maintenance of consistency, transparency and efficiency on implementation of policies.</p> <p>2.5 Consultation with all actors involved including the private sector before making drastic policy changes. Regular meetings with the private sector and the government.</p> <p>2.6 Strengthen the private sector capacity of delivery of assistance.</p> <p>2.7 Consultation of private sector on major economic policy decisions.</p> <p>2.8 Create professional/technical institutions with private sector for promotional activities.</p> <p>2.9 Diversion of external assistance to private sector beneficiaries directly</p> <p>2.10 Appointment of Committee/Task force composed of private sector investors and professional consultants to advise the government on SME development.</p> <p>2.11 Government to retain the role of policy directives, monitoring & evaluation role, maintaining the balance of the other social and economic</p>
--	--	---

<p>2.2 Liberalized economic policy and globalization process and industrial development</p> <p>2.3 Interest rates</p> <p>2.4 Exchange rate situation</p> <p>2.5 Other Fiscal Incentives available:</p> <p>-customs & Excise, Tariffs/seven Tariff System. -Exception/prohibition of certain goods -Export incentives, duty rebates, grants, financial assistance, tax exemption, tax holidays, pioneer</p>	<ul style="list-style-type: none"> • Lack of knowledge, understanding and information at all levels of entrepreneurs, administrators, general public, etc • Unpredictable changes in the interest rate, • High real interest rate and inflation rate • Unpredictable changes in the past, putting investors in serious difficulties. • Wide difference between official and parallel market rates. • Many of these incentives are not beneficial to SME • Unawareness of incentives by SMEs • Multiple local taxes • No tax concessions for SME level indirect 	<p>interests, ensuring that the rules are followed by all the actors and private sector to be the main delivery agencies of technical assistance to SMEs.</p> <p>2.12 Review of the business registration procedures and its simplification and streamlining at state and local government levels to facilitate SMEs and ensuring transparency.</p> <p>2.13 Strengthen capacity of the institutions, computerization/training of staff for a better efficiency.</p> <p>a. An awareness campaign at different levels investors officers, bureaucrats, schools, universities</p> <p>b. Creation of special cell to study/ research on globalization aspects/issues</p> <p>a. Institute measures to maintain fiscal discipline;</p> <p>b. Minimize budget deficits and introduce schemes, measures, etc.</p> <p>c. Incentives to SMEs to meet the rising cost of production</p> <p>d. Appropriate measures to reduce inflation and special low interest loan schemes for SMEs.</p> <p>a. Measures to unify the official and autonomous exchange rates</p> <p>b Free access to foreign exchange loans to SMEs.</p> <p>a. Review of fiscal incentives to make available the benefits to SMEs.</p> <p>b 100% tax holidays for new SMEs for a longer (12 years)</p>
--	---	--

<p>status, depreciation allowances.</p> <p>-Pioneer status, tax holiday/tax deductible on R&D expenditure</p> <p>-Allowances on capital expenditure.</p>	<p>exporters</p> <ul style="list-style-type: none"> • Tax relief precludes SMEs having a capital investment of less than \$9000. • Duties on capital equipment not totally exempted. 	<p>fixed period.</p> <p>c. Full tax exemption and financial support to SMEs on expenditures on training, technology, modernization, productivity, improvement, exports, marketing, Pollution, Control, Environmentally friendly products and technologies infrastructure development, security.</p> <p>d. Awareness on incentives</p> <p>e. Streamline and rationalize local taxes</p> <p>f. Exemptions of sales tax and duties on exports.</p> <p>g. Total exemption of duties on machinery and equipment imported for industry.</p> <p>h. Progressive return to uniform lower tariff regime.</p> <p>a. Strengthen a formal SME sector that could build up the confidence of the normal banking system of the country.</p> <p>b. Financial reforms including restructuring of the system:</p> <ul style="list-style-type: none"> • Review of DFIs, Implementing (SMIEIS) and other special funds created. • Negotiation of special credit lines for SMEs • Adaptation of more flexible liquidity policies. <p>c. Sensitizing Banks to be more development oriented.</p> <p>d. Creation of a special support schemes for SMEs.</p> <ul style="list-style-type: none"> • Creation of special counseling and evaluation, research & training cells for SMEs in all possible lending banks.
<p>2.6 Financial facilities to SMEs</p>	<ul style="list-style-type: none"> • Inaccessibility of SMEs to finance • High cost of finance • Continuously weakening financial institution system at high level of insolvency of Banks. • Lack of confidence of Banks and their conservative attitude to SMEs as nonviable sector. • Inadequate capacity of banks to process small loans and SME projects • Lack of innovative approach of banks on SME funding. • Lack of collateral • Tradition of obtaining finances from non-banking systems. 	

<p>2.7 Infrastructural facilities</p>	<p>7. Under managed, under equipped, malfunctioning</p> <ul style="list-style-type: none"> -Inadequately developed industrial sites. - Under resourced Industrial incubators. -Unsatisfactory functioning of public sector managed facilities of electricity, water, telephone. -High cost of infrastructure unacceptable to SMEs and Frequent interruptions of power, water and telephone facilities. 	<ul style="list-style-type: none"> • Creation of specialized bank branches in the local government areas with the association of SME groups. • Assistance to Community Banks, as peoples Banks to fund micro enterprises. • Education and awareness of SMEs to build confidence with commercial Banks to obtain Working Capital and fixed capital. • Education of SMEs to better utilize the company profits and funds to develop and expand the enterprise rather than engaging funds in unproductive expenditures such as purchase of luxurious vehicles. <p>e. Diversion of financial assistance to SMEs as a priority to:</p> <ul style="list-style-type: none"> • modernize improve productivity of competitiveness <p>-promote R&D/quality and standards, product development</p> <ul style="list-style-type: none"> • export promotion link up through subcontracting with large industries • packaging credit assist in new products development introduction
<p>2.8 Regional Development and SMEs</p>	<p>8. Regional imbalances of industrial dispersion.</p> <ul style="list-style-type: none"> • Lack of clear policy directives to state governments • Absence of a proper institutional mechanism and network to promote SMEs at state levels • Breakdown of the extension services of IDCs, incubators and other services. Control by the Federal Government. 	<p>a. Reduce federal government intervention in managing industrial estates TBICs, IDCs, etc.</p> <p>b. Encourage State governments to provide infrastructural facilities to SMEs through private sector</p>

<p>2.9 Institutional Framework for SME Promotion and Development</p>	<ul style="list-style-type: none"> • Rapid expansion of the informal sectors; • Lack of resources, training information, awareness and assistance flowing down to state government level. • Lack of marketing facilities of the products of SMEs. • Inadequate technical facilities, standard and quality control at state level. • SMEs, micro enterprises burdened with local taxes and levies more than 10 in some States. <p>9. Absence of professional and specialized institutional framework for SMEs at National and State levels.</p> <ul style="list-style-type: none"> • Breakdown of the government managed Extension services 	<p>involvement.</p> <p>c. Management of TBICs by private sector NASSI/MAN.</p> <p>d. Priority to SMEs to obtain electricity and water facilities and affordable cost.</p> <p>e. Development of transport facilities to all states with the support of private sector.</p> <p>f. Encourage BOO (Build Own & Operate) and BOT (Build Operate and Transfer) arrangements to infrastructural facilities.</p> <p>a. Creation of state Industrial Services Coordinating Committee composed of public sectors headed by the private sector to facilitate, coordinate assistance to industries/SMEs.</p> <p>b. Regular dialogue between State Governments, FMI NCI.</p> <p>c. Strengthening of private sector delivery agencies.</p> <p>d. Identify and strengthen focal points for dissemination and receiving of information.</p> <p>e. Transfer of IDCs regional level management to the private sector as Resource Centres for SMEs to cater for their needs.</p> <p>f. Transfer of Industrial Estates and TBICs to the management of private sector supported with adequate resources in collaboration</p>
---	--	---

		<p>with State Governments.</p> <p>g. Introduction of special Promotion programmes for informal/micro</p> <p>h. Decentralized training Centres</p> <p>i. Regular awareness programmes at state level</p> <p>j. Database of local raw materials of Nigeria at local government levels.</p> <p>k. Promote State level professional trade fairs for SMEs.</p> <p>l. Decentralized Centres of SON and introduction of special schemes for quality control and standards for SMEs</p> <p>m. Streamline and rationalize local taxes for SMEs.</p> <p>a. Strengthen the role and the powers of NCI to an inter-ministerial level Industrial Development Council.</p> <p>b. Role of the FMI on SME to be coordinating, monitoring and policy directing and not promotional function.</p> <p>c. Creation of an advisory committee on Industries with private/public sector</p> <p>d. Setting up of State level industrial service committee, as an advisory and service body to facilitate investors. The committee will be comprised of senior officials of all service sector and private sector.</p> <p>e. IDCs, TBICs to be managed at the State level with the private sector as Resource Centres that will be</p>
--	--	---

		<p>a one stop centre for SMEs at State levels.</p> <p>f. Industrial estates to be managed by the private sector.</p> <p>g. Establishment of Information network linking with all the States through Wide Area Network (WAN).</p>
3.0 PROMOTION OF SMES		
<p>3.1 Assistance to SMEs umbrella organizations to create new SMEs.</p> <p>-Develop/rehabilitate the existing SMEs -Upgrade the Micro and informal potential SME candidates</p> <p>3.2 Support the private sector to improve delivery capacity to assist SMEs</p> <p>3.3 Diversification of the products and services offered by the sector</p> <p>3.4 Quality and standards of the products and services offered by the sector,</p> <p>3.5 Productivity of the SMEs</p> <p>3.6 Entrepreneurship and</p>	<p>• Adhoc assistance to informal and micro enterprises confused for SMEs.</p> <p>Inconsistent</p> <p>• Absence of clear identified product sectors that have comparative advantages to be promoted.</p> <p>• Absence of innovative strategies for the sector.</p> <p>• Resource base potential not exploited</p> <p>• Non utilization of local R&D</p> <p>• More than 140 R&D findings available locally.</p> <p>• Inadequacy or ignorance of quality and standards</p> <p>• Low productivity,</p> <p>• Entrepreneurial skills inadequate.</p>	<p>a. Identify with the private sector MAN, NASSI, NACCIMA, NASME etc, the SMEs to be assisted and promoted.</p> <p>1.2 Separate different Mechanisms delivery institutions to assist different sub sectors</p> <p>a. Strengthen the delivery capacity of private/public sectors</p> <p>a. Identify priority product sectors that should be specially assisted without marginalizing other private initiatives.</p> <p>b. Awareness and popularization of local R&D among SMEs.</p> <p>c. Preparation of a database of local raw materials resources by RMRDC.</p> <p>d Regular review of strategies of the sector.</p> <p>a. Promotion of programmes, special schemes to encourage SMEs for standards and quality control (SON).</p> <p>a. Training on productivity improvement programme among SME.</p>

training required.		
3.7 SME empowerment	<ul style="list-style-type: none"> Limited training opportunities for SMEs Inadequate training of staff of support institutions Inadequate encouragement for SME promotion. 	<p>a. Conduct of entrepreneurship programmes for SMEs.</p> <p>-specially designed modules -at state levels -by specialists -through creation of special institutions. -on development of entrepreneurial culture in schools and universities.</p> <p>a. Effective training of SME staff by Special training programmes for staff of the support institutions.</p>
3.8 Successful encouragement		<p>a. Counseling cells, information Centres for SMEs at state/local government levels, banks, focal points.</p> <p>b. Preparation of project profiles</p> <p>c. Assistance for creation of new enterprises</p> <p>d. Awards to best SMEs at state and National levels</p>
3.9 Environment concerns and SMEs.	<ul style="list-style-type: none"> Ignorance of environmental concerns 	<p>a. Environment awareness programmes</p> <p>b. Encouragement of production of environmental friendly products.</p> <p>c. Special awards for environmental friendly enterprises.</p>
3.10 Marketing facilities for SMEs	<ul style="list-style-type: none"> Inadequate marketing facilities 	<p>a. Creation of permanent trade/exhibition centres at State levels at proposed Resource Centres</p>
3.11 Information for SMEs	<ul style="list-style-type: none"> Inadequate information on trade, technology, designs, services, markets, etc, flowing down to SMEs. Inadequate middle level skilled 	<p>b. Special trade fairs at state levels</p> <p>c. Schemes for local trade fair participation</p> <p>d. Assistance to established trading houses for SME products</p>

women, youths.	<ul style="list-style-type: none"> b. Information network for women entrepreneurship c. Training programmes for product sector where women are involved. d. Specific technical & entrepreneurial assistance for young entrepreneurs.
4.4 Micro Enterprises and informal sector.	<ul style="list-style-type: none"> a. Organization of consistent programmes to identify candidate enterprises of the informal/micro sectors with potential to be SMEs.
4.5 Environmental Concerns	<ul style="list-style-type: none"> b. Systematic assistance to these sectors to ensure their passage or transition towards SMEs. a. Installation of Central Pollution Control measures in the industrial estates and industrial areas. b. Awareness and information on cleaner and environmentally friendly products and technologies. c. Familiarization awareness of ISO 9000/14000 d. Promotion of environmentally friendly products, packaging materials.
4.6. Transition of Micro Enterprises and informal activities to formal sector	<ul style="list-style-type: none"> a. Special training and awareness on formalization of informal sector. b. Special programmes, counseling services, financial assistance, modernization of micro enterprises. c. Joint programmes with UNIDO/ILO/NGOs/other agencies and other information networks for entrepreneurship development.

**QUESTIONNAIRE ON INSTITUTIONAL SUPPORT TO SMALL AND
MEDIUM ENTERPRISES (SMEs) DEVELOPMENT IN NIGERIA**
(The questionnaire is for academic research only)

SECTION A (BUSINESS ENVIRONMENT)

Please tick (✓) or complete as appropriate

1.0 NAME OF COMPANY/ORGANISATION:

2.0 ADDRESS OF COMPANY

.....
.....
.....

3.0 STAFF STRENGTH a. Managerial

.....

b. Non-Managerial

.....

LEVEL OF ENTERPRISE A. Small () B. Medium () c. Large
()

4.0 LEGAL FRAMEWORK

4.1 Please state your assessment of legal framework for SMEs
development in the Country as:

Efficient ☐

In-efficient ☐

Others (Please specify) ☐

4..2 Judicial system suffer from long delays in processing claims and
are very discretionary.

Agree ☐

Disagree ☐

No idea ☐

4.3 Knowledge of commercial law is law and collection of collateral
could take considerable length of time through the court systems:

Agree ☐ Disagree ☐

4.4 Please suggest what can be done to improve on the legal framework for SMEs development.

.....

.....

.....

.....

.....

5.0 BUSINESS REGULATIONS

5.1 Please, evaluate the following as it affects business regulations in the country.

i.		Not Complex	Fairly Complex	Too Complex
i)	Business regulation in my opinion is	()	()	()
)				
ii)	Fee structure at local level is	()	()	()
)				
iii)	Fees charged by Unpredictable local administration are	Multiple ()	Not Multiple ()	()
)				
iv).	Poor salary of officials	Agree	Disagree	No
Idea	lead to corrupt practices	()	()	()
)				

6.0 TAXATION

6.1 Please comment on taxation in the country as it affects SMEs by responding as appropriate.

- | | | | | |
|------|----------------------------------|---------------|--------------------|--------------|
| i. | Corporate tax level is | Unfair
() | Fairly Good
() | Good
() |
| ii. | Capacity to administer | Very low | Low | high |
| high | collection is | () | () | () |
| |) | | | |
| iii. | Tax structure is unclear | True
() | | False
() |
| iv. | Tax refunds are seldom fulfilled | True
() | | False
() |
| v. | Custom duties laws are | Unclear | Clear | V. Clear |
| |) | () | () | () |
| vi. | The taxable base and duty | Agree | Disagree | No Idea |
| | draw backs are seldom fulfilled | () | () | () |

6.1 Briefly suggest activities/initiatives to improve on the taxation system.

...

.....

.....

.....

7.0 SME STRATEGY

7.1 Please rate the major institutions responsible for developing and implementing SME strategy in Nigeria as most relevant and supportive.

- i. Federal Ministry of Finance

- | | | | |
|-------|---|--------------------------|--------------------------|
| ii. | Federal Ministry of Commerce | <input type="checkbox"/> | |
| iii. | Federal Ministry of Industry | <input type="checkbox"/> | |
| iv. | Small and Medium Enterprises
Development Agencies of Nigeria | <input type="checkbox"/> | |
| v. | Central Bank of Nigeria | <input type="checkbox"/> | |
| vi. | Bank of Industry | <input type="checkbox"/> | |
| vii. | NEXIM Bank | <input type="checkbox"/> | |
| viii. | Commercial Banks | | <input type="checkbox"/> |
| ix. | Raw Materials Research & Development Council | | <input type="checkbox"/> |
| x. | Nigerian Investment Promotion Commission | | <input type="checkbox"/> |
| xi. | Others (Please Specify) | | <input type="checkbox"/> |

7.2 Is SMEs development policy in the country?

- | | | |
|------|--------------|--------------------------|
| i. | Consistent | <input type="checkbox"/> |
| ii. | Inconsistent | <input type="checkbox"/> |
| iii. | Not Sure | <input type="checkbox"/> |

7.3 Are the mandates of different agencies that report to the Ministries?

- | | | |
|------|-----------------|--------------------------|
| i. | Overlapping | <input type="checkbox"/> |
| ii. | Not overlapping | <input type="checkbox"/> |
| iii. | No idea | <input type="checkbox"/> |

7.4 Do you agree or disagree with the view that the different agencies promoting SMEs development should be harmonized.

☐

i. Agree

ii. Disagree

☐

7.5 If you agree or disagree with the views expressed above, kindly state your reasons.

.....
.....
.....
.....
.....
.....

7.6 Suggest activities and initiatives that could be embarked upon to improve on SME development strategy.

.....
.....
.....
.....
.....

8.0 BUSINESS CULTURE

Please respond accordingly to the following possible opinion about business culture in Nigeria

i. There is high entrepreneurial capacity Agree
Disagree
among microentrepreneurs () ()
)

ii. Microentrepreneurs in the country
operate in the dark () ()
)

iii. There is low trust in government () ()
)

- iv. Compliance with the law is very low among microentrepreneurs ()
()

8.2 Suggest how business culture can be improved upon

.....
.....
.....
.....
.....

9.0

MACROECONOMIC POLICY

9.1 Is the existing macroeconomic policy favourable to the development of SMEs in the country?

Yes ☐

No ☐

9.2 If No, suggest measures that can be adopted to ensure a favourable macroeconomic policy to SMEs.

.....
.....
.....

9.3 Please state whether macroeconomic policy has been stable in the past 5 years

.....
.....
.....

9.4 Unpredictable monetary supply is responsible for banks being conservative about their exposure and limits fund available for SME lending.

Agree ☐

Disagree ☐

No Idea ☐

10.0 **INFRASTRUCURE**

Please rank (strongest 4– weakest 1)

10.1 Which of these factors do you consider as most critical
infrastructural constraint to the development of SMEs

- a. Transportation
- b. Telecommunication
- c. Water Supply
- d. Electric power supply

10.2 Which of the above constraint in your opinion has the Federal
Government addressed adequately well

- a. Transportation
- b. Telecom
- c. Water Supply
- d. Electric Power Supply

10.3 Suggest possible initiative or activities that can help
improve on infrastructure.

.....

.....

.....

.....

**QUESTIONNAIRE ON INSTITUTIONAL SUPPORT TO SMALL AND
MEDIUM ENTERPRISES (SMEs) DEVELOPMENT IN NIGERIA
(The questionnaire is for academic research only)**

SECTION B (RESEARCH INSTITUTION)

Please tick (☐) or Complete as appropriate

1.0 NAME OF INSTITUTE

.....

ADDRESS:

.....

2.0 STAFF STRENGTH

.....

a. Technical

.....

b. Non

Technical/Administrative

.....

4.0 NATURE OF R & D

4.1 Which of these research is your organisation mainly involved

- Mission oriented research (i.e fulfilling the objective and mandate of the organization) ☐
- Scientific institution research (mandate defined in scientific terms) ☐
- Academic research ☐
- Others (please specify) ☐

4.2 What type of R & D service do you provide that target market needs?

- (a) Applied research only ☐
- (b) Basic research only ☐
- (c) Both ☐

4.3 Who are your major clientele?

- (a) The Public ☐
- (b) The Government ☐
- (c) The Private Sector ☐

4.4 Do your research activities target the Small and Medium Enterprises (SMEs)?

- a. Yes ☐ b. No. ☐

4.5 If your answer to 4.4 is "No" kindly state the reasons

.....

5.0 SUPPORT TO SMEs

5.1 It has been observed that efforts to increase R & D activity in SMEs are difficult.

Do you agree or disagree with this view?

- a. Agree ☐ b. Disagree

5.2 If you agree or disagree, kindly give your reasons

.....

5.3 Does SMEs determine the type of services you offer to the target market

- Yes ☐ No. ☐

5.4 If "No" give your reasons

.....
.....
.....
.....

5.5 Do you inform SMEs about your capabilities, services, innovations and research results?

Yes ☐ No ☐

5.6 If "yes" how do you achieve this

.....
.....
.....
.....

5.7 How do you identify the needs of SMEs or individual entrepreneurs in order to decide on what service to offer ?

- a. By visiting SMEs ☐
- b. Through seminars/workshops/conferences ☐
- c. Surveys ☐
- d. None of the above
(please specify) ☐

5.0. Please state if you have any unit or department responsible for business development.

Yes ☐ No. ☐

If yes, please give the name

.....
.....
.....
.....

6.0 FACTORS AFFECTING R & D SUPPORT TO SMEs

6.1 Please list in the order of importance the main factors affecting Research Institutes support to SMEs:

.....

6.2 Certain factors have been identified to be responsible for inability of SMEs to benefit from research activities of Research Institutes. Indicate by circling the relevant number (1,2,3,4) whether they are 1 =highly insignificant, 2 = insignificant, 3 = significant or 4= highly significant

1 2 3 4 Lack of information on R & D activities.

1 2 3 4 Lack of viable R & D results.

1 2 3 4 Inability to access R & D institutions.

1 2 3 4 Lack of intervention by Research Institutions on SMEs activities

1 2 3 4 Access to skilled personnel of Research Institutes is limited

1 2 3 4 R & D market is very personal.

1 2 3 4 R & D market is not rational.

1 2 3 4 Others (specify)

6.3 How do you perceive SMEs attitude towards the activities of Research Institutes. Indicate the attitude by circling a number between very negative (1) and very positive (4)

- 1 = Very Negative
- 2 = Negative
- 3 = Positive
- 4 = Very Positive

6.4 Do SMEs approach you for the following services

	Yes	No
a. Consultancy	<input type="checkbox"/>	<input type="checkbox"/>
b. Quality Control	<input type="checkbox"/>	<input type="checkbox"/>
c. Process technology	<input type="checkbox"/>	<input type="checkbox"/>
d. New product development	<input type="checkbox"/>	<input type="checkbox"/>
e. Others (specify)		
.....		

6.5 How often do you communicate with the following regarding your R & D activities (1 = never , 2 = rarely , 3 = annually, 4 = monthly, 5 = more often)

1 2 3 4 5 SMEs Chief Executives

1 2 3 4 5 Scientists in SMEs employment

1 2 3 4 5 Potential Entrepreneurs

1 2 3 4 5 Others (specify)

.....

**QUESTIONNAIRE ON INSTITUTIONAL SUPPORT TO SMALL AND
MEDIUM ENTERPRISES (SMEs) DEVELOPMENT IN NIGERIA**
(The questionnaire is for academic research only)

SECTION C (FINANCE INSTITUTIONS)

Please tick (✓) or complete as appropriate

1.0. NAME OF
COMPANY/BANK.....

ADDRESS:.....
.....

2.0. STAFF
STRENGTH:.....

4.0. NATURE OF FINANCING ACTIVITIES

4.1. Which of these categories of financing is your organization mainly involved?

- Commercial Banking ☐
- Development Financing ☐
- Others (please specify) ☐

4.2. What type of financial service do you provide that target market needs?

- (a) Short term loan ☐
- (b) Long term loan ☐
- (c) Microfinance ☐
- (d) All of the above ☐

4.3 What is the current lending rate to SMEs?

4.4 Is the Current lending rate supportive to SME development -----

4.5 Who are your major clientele?

- (a) The big firms ☐
- (b) Medium firms ☐
- (c) The Small firms ☐

4.6 Do your banking activities target the Small and Medium Enterprises (SMEs) ?

a. Yes ☐ b. No. ☐

4.7 . If your answer to 4.5 is "No" kindly state your reasons

.....
.....

.....
.....

.....
.....

5.0 SUPPORT TO SMEs

5.1. SMEs do not participate in the stock market. Do you agree or disagree with this view?

a. Agree ☐

b. Disagree ☐

5.2 If you agree, kindly give your reasons

.....
.....
.
.....
.....
.....
.....

5.3 Do you guarantee SMEs equity in the following markets

Domestic Market

Foreign Capital Market

Yes ☐ No ☐

Yes ☐ No ☐

5.4 If "No" give your reasons

.....
.....
.....
...

5.5 SMEs do not seem to benefit from leasing opportunities. Please state if you agree or disagree.

a. Agree ☐

b. Disagree ☐

5.6. If you disagree, Kindly give your reasons

.....
.....

.....
.....

5.7 Do you inform SMEs about your capabilities, services, innovations and products?

a. Yes ☐

b. No. ☐

5.8 If "Yes" how do you achieve this?

.....
.....

.....
.....

.....
.....

5.9. How do you identify the needs of SMEs or individual entrepreneurs in order

to decide on what service to offer?

a. By visiting SMEs

☐

b. Through seminars/workshops/conferences

☐

c. Surveys

☐

d. None of the above (please specify)

☐

5.10 Please state if you have any unit or department responsible for SMEs financing

a. Yes

☐

b. No.

☐

If yes, please give the name

.....

.....

.....

.....

6.0 FACTORS AFFECTING FINANCIAL SUPPORT TO SMEs

6.1 Please list in the order of importance the main factors affecting financing

SMEs:.....

.....

.....

.....

6.2 Certain factors have been identified to be responsible for the inability of SMEs to benefit from financial activities of banking. Indicate by circling the relevant number (1, 2, 3, 4) whether they are 1 =highly insignificant, 2 = insignificant, 3=significant, 4 = highly significant.

1 2 3 4 Lack of information on financing activities

1 2 3 4 Lack of viable SMEs project proposals

1 2 3 4 Inability to access banking institutions

1 2 3 4 Lack of intervention by banking institutions on SMEs activities

1 2 3 4 Lack of access to skilled personnel of banks and development finance institutions

1 2 3 4 Financing SMEs projects is very personal

1 2 3 4 SMEs financing market is not rational.

1 2 3 4 Others
(specify).....

6.3. How do you perceive SMEs attitude towards the activities of banking institutions. Indicate the attitude by circling a number between very negative (1) and very positive (4). 1 2 3 4

6.4. Do SMEs approach you for the following services?

a. Yes

b. No

a. Advisory Services

☐☐

b. Financial management

☐☐

c. Others (specify)

☐☐

6.5 How often do you communicate with the following regarding your banking activities

(1= never, 2 = rarely, 3 = annually, 4 = monthly, 5 = more often)

1 2 3 4 5 SMEs Chief Executives

1 2 3 4 5 Financial personnel in SMEs employment

1 2 3 4 5 Potential Entrepreneurs

1 2 3 4 5 Others (specify)

.....

A STUDY OF THE DYNAMICS OF INSTITUTIONAL SUPPORT MEASURES TO SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA.

CHAPTER ONE INTRODUCTION

1.2 BACKGROUND

Prior to independence and thereafter, the Nigerian economy had been characterized by increased focus on large scale enterprise development. This attention to large enterprise development was part of the national industrial development strategy aimed at diversifying the economy which hitherto, focused on agriculture. It is during this period that huge investments were made in state-owned enterprises such as iron and steel, petrochemicals and refineries and cement industries. These accounted for over 60 per cent of Federal government investments in the industrial sector between 1980-85.

A study on SME development in Nigeria observed that the economy had been characterized by support for large enterprises (FMI/UNDP, 1997). The study revealed that between 1962 and 1987, SMEs contributed more than 50 per cent of value added manufacturing as a percentage of gross domestic output while large enterprises (LEs) contributed below less. To encourage the growth of large companies, government policies had been characterized

by special favour for large enterprises in terms of incentives, tax structure, marketing, investment and export promotion (FMI/UNDP, 1997). Unfortunately, in subsequent attempts to pursue industrialization, no special attention was given to SMEs. Furthermore, there was no significant consideration to technology acquisition and adaptation in the industrial strategy that saw the establishment of the State-owned Large Enterprises. This situation no doubt, hampered technology acquisition in the SME sector due to lack of sub-contracting system.

The incentives provided under the various macroeconomic policies enunciated by government were not specifically targeted at SMEs. Also, SMEs have not been able to take advantage of previous policy opportunities due to lopsided administrative procedures and operations of the support institutions designed to provide support (FMI/UNDP, 1997). It is against this background that it is commonly accepted that public sector implemented intervention or support measures have not contributed sufficiently to develop sustainable SME sector in Nigeria.

SMEs Definition

The term small business refers to enterprises engaged in low level manufacturing, services, commerce, tourism, franchising, etc. The definition of small business is often based on the following criteria, size and nature of assets,

number of employees, registered or unregistered business and formality of management structure. Governments in both developed and developing countries are giving special attention to the promotion of small and medium enterprises (SMEs) as they are considered the providers of bulk of employment as well as their substantial contribution to exports and innovative activity. (Mansur, 2001). Consequently, governments are investing considerable efforts and resources in supporting SME growth and development. The contribution of SMEs to employment and output differs on country bases. Mansur (2001) in his study on the competitiveness of SMEs in the Arab region noted that the share of SMEs in total manufacturing employment reaches 74% and 78% respectively in Thailand and Korea, 66% in Germany and 91% in Greece compared to 31% in Bahrain and 41% in Jordan.

Furthermore, he observed that SMEs in developed countries tends to be in “modern” manufacturing and services, often in the field of cutting edge technology with strong entrepreneurial bases, vibrant export sectors and a large base of educated and technical manpower. In contrast to less developed countries, SMEs are concentrated in labour-intensive and traditional activities with low levels of productivity and poor quality products. Also, there is little or no technological dynamism among SMEs and a few graduate into larger sizes or modern technologies (Mansour 2001).

Profiles of Entrepreneurs in the SME group

Entrepreneurs in the SME sector in Nigeria share a common feature or characteristics compared with those in most less developed countries. Their profiles show a common trait such as the following:

- **Family, background:**-Most are family businesses and entrepreneurs come from a traditional business family background. Business family relatives are important for new start-up businesses, particularly in countries characterized by a relative absence of institutional support for entrepreneurs.
- **Reliance on Personal Savings:** The formal banking system does not play any significant role in the provision of financial support to start-ups or existing enterprises. This implies that entrepreneurs must search for informal sources of finance. Personal savings accumulated from previous jobs or money borrowed from family and relatives formed the seed money for start-ups to establish the business.
- **Lack of Innovation:** - SMEs entrepreneurs in less developed countries have been observed to lack innovation as most businesses are repetition of existing enterprises. Often, they have limited innovation in business ideas, production processes or targeted market. The marketing constraints which are

considered as the major problem by most of the entrepreneurs are in fact related to the product itself which does not satisfy customer needs, in terms of quality, taste, design and price (Mansur, 2001).

- **Management Limitation:** - Most SMEs are owned and managed by one person who is all and all and handles alone activities such as production, organization, marketing, accounting, etc. Often, they are saddled with daily routine and cannot prepare strategic plans for their company. Furthermore, they start their business without a business plan or feasibility study report. Business plans are one of the major instruments that help entrepreneurs understand market needs and therefore generate new products.
- **Educational Background:** - The educational background of SME entrepreneurs differs. Generally, majority of them are not learned and therefore learn business from experience and practice. The activities undertaken by entrepreneurs are usually not related to their educational background. This is due to the fact that entrepreneurial people take advantage of opportunities where they exist, even when they are not related to their specialization.

Past Interventions or Support Measures

Since independence in 1960, the government of Nigeria had at different times implemented a wide range of assistances and support measures aimed at promoting and developing an SME sector. These measures include but not limited to policy measures, financial assistance, legal and institutional frameworks, technical support and extension services, training and entrepreneurial development, research and development (R&D), infrastructural facilities, multilateral and bilateral assistance programmes, etc.

The national development plans which commenced in the early sixties (1962-68) identified the importance of SMEs in Nigeria's industrialization strategy. The first five—year plan saw the establishment of the first extension institutions for SME which include;

- Industrial Development Centre, Owerri, Eastern region in 1963
- Industrial Development Centre, Zaria, North Central region in 1967.

In the second development plan, emphasis was placed on promotion of indigenous ownership of enterprises and 5.4 million naira was allocated to grant loans through banks to SMEs until 1978 (FMI/UNDP, 1997). The Nigerian Enterprises Promotion Decree of 1972 further strengthened the resolve to promote SME development.

The fourth five year plan of 1981--85 emphasized the importance of SMEs while providing the groundwork for the industrial policy document published in 1989. The Structural Adjustment, Programme (SAP) period of the mid 1980s brought a new dimension to SMEs development as various measures were put in place such as de-regulation stabilization and privatization. Unfortunately, SMEs did not make good use of the numerous opportunities this period offered due to absence of effective mechanism to promote the sector.

The fiscal incentives put in place at that time include'

- Income tax relief under Industrial Development Act of 1958, amended by Decree No. 22 of 1971,
- Tax holiday for pioneer industries up to 5 years
- Tax relief on R&D work industry (Miscellaneous Taxation Provision No. 2 Decree No. 55 of 1989.
- Tax holidays (3 years) on solid mineral mining.
- Tax relieve on replacement of industrial plants and machinery
- Tax relief (25%) on purchase of locally made spare parts, tools and equipment
- Tax relief of 1.5% on purchase of locally manufactured plant and machinery, etc.

Also, a series of laws and regulations were introduced which affected SMEs directly or indirectly. In addition, a number of support institutions as well as infrastructure facilities were established to promote SMEs.

These include IDC, Department of Small and Medium Industries (SMD) in the Federal Ministry of Industries, National Council on Industries (NCI), Technology Business Incubation Centres (TBICs), National Directorate of Employment (NDE), financial institutions such as Peoples Bank, Community Banks, etc. Industrial estates were equally established in many states for SMEs. The most significant area of intervention of the government in promoting SME in Nigeria is in the area of financial support. Several Commercial Banks, Merchant Banks, Finance Companies, Industrial Development Bank, Bank of Commerce and Industry, etc, were established some of which later became distressed.

Various funding schemes were initiated and implemented such as the following:

- c. SMI I programme of World Bank – introduced in 1984 with a negotiated loan of US\$ 41 million.
- d. SME II funding loan scheme – introduced in 1989 with US\$ 270 million and it was reduced to \$142 million in 1992.

Between 1975 and 1980 a Small Industry Credit Scheme was launched under the third five year plan, but was later discontinued in 1979. The establishment of National Economic Recovery Fund (NERFUND) as well as various Central Bank of Nigeria financial provisions for loans to SMEs. For instance, in 1970 Central Bank directed commercial banks to provide at least 16% of

loan to local borrowers and was eventually raised to 20% in 1984. Through the Nigerian Directorate of Employment Programme (NDE) a Credit Guarantee Scheme was established to help self employment. In the area of R&D, the Raw Materials Research and Development Council was established to look into the issue of local sourcing of raw materials by industries including SMEs as a way to reduce dependence on importation of raw materials.

Apart from government support, non-governmental organization such as UNDP, UNIDO, the World Bank, GTZ, DFID have implemented various SME support programmes covering training, standards, studies, awareness, institutional strengthening, etc. Despite all these support measures the promotion, expansion and development of SMEs in Nigeria have remained stagnated. It has been reported that the real organized SME sector did not benefit from many of the support programmes (FMI/UNDP, 1997). Even, many of the assistance programmes were diverted and continued to be directed towards micro and informal activities or enterprise. While some of these efforts were not sustainable, the financing of the SME sector through formal banking system appeared to be almost impossible. The extension service providers particularly IDCs failed completely to render the desired support services due to fund constraint and bureaucratic bottleneck.

Generally, the following factors were identified to have hindered the various efforts and incentives given by the public sector:

- inconsistency and ad-hoc nature of policies and measures introduced;
- instability and bureaucracy in governance;
- insecurity and unsuitable investment climate;
- extraordinary interventions by the government to promote the sector without a long term plan and a clear vision and target beneficiaries;
- very limited role of the private sector at the policy formulation and implementation of programme levels;
- confusion and misinterpretations of the concept of SMEs and programmes to be accomplished;
- absence of coordination efforts and too widely spread and isolated efforts by a multitude of institutions to promote SMEs;
- lack of awareness of what is available by SMEs;
- non-transparency in the implementation of support measures, and
- inadequate reference in the national policies and awareness on global changes and policies related to the SME sector.

These constraints informed a re-think in the approach to SME support. The inadequacy and inefficiency of the public sector led support informed the call for the private sector approach to support measures.

1.2 STATEMENTS OF THE RESEARCH PROBLEM

The study in broad terms attempted to address the numerous questions surrounding SME development while specifically tried to address the following key issues:

10. The business environment for the operation of SMEs is not enabling in Nigeria.
11. The legal framework for SMEs development in the country is highly inefficient
12. Business regulations are too complex for effective functioning of SMEs in Nigeria.
13. The tax structure is unclear and tax refunds are seldom fulfilled.
14. SMEs development policy is inconsistent and the mandates of different agencies promoting SMEs are overlapping.
15. The business culture is very limited with low entrepreneurial capacity of micro enterprises.
16. The existing macroeconomic policy is not favourable to the development of SMEs in the country.
17. Poor infrastructures, especially electricity and water supply are limited factors to the operations of SMEs
18. The nature of financing SMEs is not very supportive to their growth and development
10. SMEs do not participate in the stock market which limits their equity capital formation.
21. SMEs in Nigeria are known to lack the prospects of benefiting from leasing facilities in the country.

22. Financial supports to SMEs in terms of long-term loan as well as lending rate are quite limited.
23. Incentives and support to SMEs in terms of business development support services, export, credit facilities and capacity building are very limited and often inaccessible.
24. There is very poor industrial technology extension services to SMEs in Nigeria
25. Research activities hardly target SMEs and as such they do not benefit from local R&D efforts.
26. SMEs attitude towards the activities of Research Institutions in Nigeria is not encouraging which hinder the desired linkage.
27. Research Institutions lack the capacity and skill required to provide technology extension services to SMEs.
28. What support systems should R&D institutions provide to SMEs?.
29. Is there existing linkage between Research Institutes and SMEs that encourages patronage of R&D activities?.
30. Do Research Institutions have the requisite personnel for providing effective industrial technology extension services to SMEs?.

1.3 RESEARCH OBJECTIVES

In the past years, governments of Nigeria have made concerted efforts to promote Small and Medium Enterprises (SMEs) development in the country through various support programmes.

These support programmes are diverse in nature and uncoordinated in implementation. Various institutions have emerged pursuing similar mandates aimed at promoting SME development.

Since the 1980, especially during the Structural Adjustment Programme (SAP) period when the need to establish a virile SME sector was reinforced, not much has been done to assess the institutional supports to SMEs in order to determine their nature, impact and possible constraints limiting the beneficiaries of such support programmes.

It is believed that without the knowledge base such studies would provide, it will be extremely difficult to formulate appropriate policies with regard to institutional support to SMEs. It is therefore the desire to provide this knowledge base that informed this study.

The immediate objectives include the following:

- to review the existing institutional support programmes that targets SMEs in Nigeria,
- to determine current state of support services such as business development, financial and technology extension services to SMEs.
- to examine the institutional arrangements that could best meet the needs of SMEs in Nigeria.
- to determine the type of industrial enterprises in which proprietors of SMEs engage.

- to identify the government and non-governmental agencies that provide support services to SMEs in Nigeria.
- to document and examine the nature of support services provided by both government and NGOs to SMEs in Nigeria.
- to identify and analyze strategies used in providing support services and its implementation to the benefit of SMEs.
- to determine the adequacy or not of such support services to the growth and development of SMEs.
- to draw lessons for policy formulation in respect of institutional support to SMEs in Nigeria.

The future objectives are as follows:

- to provide a valid body of knowledge that will form background information for future activities on SMEs including policy formulation, planning and implementation in Nigeria.
- to provide conceptual framework for identifying institutional support service providers and activities for SMEs.
- to identify issues for future consideration in strengthening the SME sector of the economy through provision of support services and incentives.

1.4. JUSTIFICATION OF THE STUDY

It has been reported that about 50% of all small businesses in Nigeria fold up before the end of one financial year and that 20% of survivors fold up before the end of the fifth year of operation (Kolawole, 1992). Some of the factors associated with the early demise of small businesses include; inadequate management ability, inadequate financing including unfair taxation, poor competitive position, among others. The lack of managerial capability among SMEs informed why majority of them failed to survive. Also, there is limited local support for them in the area of business management.

Furthermore, some institutions that could support SMEs in this area are not well equipped to render business services. Despite these limitations, SMEs are still recognized as the driving force for economic development. However, their contribution to the economic development of the country over the years is yet to be determined or adequately evaluated.

Although some studies have been initiated and adequately carried out on the SMEs operational activities, identifying the major problems and constraints affecting them, not much have been done in respect of institutional support measures to SMEs. Perhaps, the nature of support measures as well as their effectiveness might have

hindered the growth and development of SMEs and their effective contribution to national development.

Therefore, the need to study the institutional support measures to SMEs in Nigeria became imperative in order to identify the nature of such measures and the possible limitations to their effective implementation to the benefit of the SME sector. There is no doubt that the study is expected to reveal the current trend in the evolution of support measures to SMEs in terms of technology support, business support and financial support measures.

It is therefore expected that the outcome of the study will further strengthen the importance of SMEs and inform the public on the significant role of SMEs as the engine of economic growth and industrial development of the country. This will no doubt, elicit considerable interest in improving support measures to SMEs and also change their perception as soon as these measures improve and become readily accessible to them.

Furthermore, the study will identify key issues relating to technology extension services, business and financial support services and the areas that need to be improved on in order to promote the growth of SMEs. The findings and recommendations will be useful to institutions, both government and non-governmental as well as SMEs in promoting the growth of the sector.

1.5 STATEMENT OF HYPOTHESIS

Being mindful of the errors associated with probability sampling techniques, efforts were made to validate the findings through hypothesis testing. Consequently, quantitative analysis was carried out using statistical methods. The essence of the hypothesis is to give direction to the study and eliminate trial and error research.

Furthermore, it will help to rule out intervening and confounding variables and allows for quantification of variables (Iornem, 2005, Wimmer and Dominick, 2000).

The following hypotheses were formulated for statistical testing.

HYPOTHESIS ONE

Null (H_0): Business regulation and fee structure as they affect SMEs in Nigeria are not too complex.

Alternative (H_1): Business regulation and fee structure as they affect SMEs in Nigeria are too complex.

HYPOTHESIS TWO

Null (H_0): Tax structure is unclear and tax refund seldomly fulfilled.

Alternative (H_1): Tax structure is clear and tax refund always fulfilled.

HYPOTHESIS THREE

Null (H_0): Research and development activities and type of services offered by Research Institute does not target SMEs.

Alternative (H₁): Research and development activities and type of services offered by Research Institutes target SMEs.

HYPOTHESIS FOUR

Null (H₀): SMEs hardly seek advisory and financial services from support institutions.

Alternative (H₁): SMEs often seek advisory and financial services from support institutions

These hypotheses were tested using chi-square (χ^2) statistical test.

1.6 SCOPE OF THE STUDY

Small and medium enterprises in the context of this study include both micro, small and medium enterprises. The existing institutional frameworks for support to SMEs have been found to be inadequate to deliver appropriate mechanism to promote and develop a sustainable SME sector (FMI/UNDP, 1997). The previous studies on SME sector in Nigeria include among others, the following:

- Financing of SMEs in Nigeria
- Past SME Policies
- Challenges for SMEs
- Urban Informal Sector
- Apex Organizations to Promote SMEs
- Assessment of Industrial Estate, Incubators, etc
- SME/Extension Agents
- Access to Institutional Credit
- Industrial Development Centres

- R&D Results and its Commercialization
- Incentives and Guarantees
- Raw Materials for SMEs
- SME Development Project Documents

Some of these studies have been found to include repetitions, confusing concepts and lacks clear mechanisms for promotion of institutional support for SME development.

The scope of the study therefore attempts to cover four core areas related to the SME sector, such as:

- e. Concepts, definitions and objectives of SMEs
- f. Extension services to SMEs especially technology support
- g. Business development support services and
- h. Financial support services.

The study could not assess the activities of all identified institutions supportive to SMEs development as well as the SMEs themselves. Nevertheless, attempt was made to limit the study to selected research institutes, financial institutions, business development service providers and SMEs. It is hoped that the findings from the study will provide inputs to the formulation of a national SME policy framework as well as serve as a useful source of recommendations to improve the technical, advisory or business support services and financial assistance delivery capacity to promote SME development in Nigeria.

REFERENCES

FMI/UNDP (1997). A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja P 75-106.

Iornem, D (2005). Developing and Testing Hypothesis: An Unpublished Paper, Kaduna, Nigeria, P1-10.

Kolawole, A.F (1992). Small and Medium Scale Industries in Nigeria: An In depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies Kuru, Nigeria Pg 1-5.

Mansour, A (2001). Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Wokshop on “What makes your Firm Internationally competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rf Meeting of Mediterranean Development Forum, Cairo, Egypt, 5th -8th March, Pg.1-10.

Wimmer, R.D and Dominick, J.R.(2000). *Mass Media Research-An Introduction*,6th Edition, Belmont Ca: Wadsworth Brooks/Cole.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The private sector has become the central focus for the economic development of African countries in recent years. Within the context of private sector is the recognition of Small and Medium Enterprises (SMEs) which also include micro-enterprises. SMEs are known to form the backbone of the private sector at all levels of development and a significant contributor to economic development in general and in industrial development in particular (UNIDO, 1999).

Furthermore, SMEs constitute 90 per cent of enterprises in the world and account for 50 to 60 per cent of employment. SMEs need a wide range of support services from representation before government to consulting and technical services, including financing. Because SMEs make-up the bulk of the private sector and also, considering their size and isolation, there is a need to provide access to the resources they need to prosper.

UNIDO (1999) observed that government or donor–provided support services for businesses have not been very effective in the past. They therefore called for new approaches that rely on the market or on the efforts of SMEs themselves to identify and obtain services.

Private sector firms and institutions are usually believed to be in a better position to provide support services than government institutions.

2.1.1 Characterization of SMEs

There is no doubt that the Nigerian economy is dominated by SMEs in terms of number of enterprises. It is estimated that the number of SMEs in Nigeria at an average growth rate of 3.5% was 160,000 in 1991 (Kolawole, 1992). Going by this rate and baring increasing number of SME turnover, it is estimated that by the end of the year 2005, the number will be about 560,000. Of this number, it is also estimated that less than 10% (i.e 56,000) are medium scale, while over 50% (280,000) are cottage or micro-enterprises which constitute the “informal sector” and the rest are small scale enterprises.

SMEs are described as “frontline troops in the battle for even development in Nigeria”. Kolawole (1992) observed that development of the economy cannot proceed rapidly if priority attention is not given to the SMEs. Sectorally, they are found in the consumer goods industry especially textile and clothing, wood products and furniture and metal products. The metal product and engineering services groups are dominated by traditional crafts, metal works and low--end technology, automobile, electrical/electronic services.

It has been reported by the International Labour Organization (ILO) that the informal sector accounts for about 60% of the urban labour force in most African countries (ILO, 1996). SMEs in Nigeria are noted for their high labour force employment capacity, employing about 50% of the labour force.

In terms of value added manufacturing, SMEs are known to contribute substantially, accounting for more than 70% of manufacturing value-added. The sectoral contribution of SMEs to national gross domestic product (GDP) is estimated at about a third of total GDP. SMEs are equally known to contribute to technological development and absorption. Nigerian economy is characterized by modern industries such as automobile, plastic manufacture and assembly plant including oil prospecting services. These industries lack inter-industry linkages that should create a platform for the emergence of a strong SME sector offering ancillary services

Furthermore, because these industries are import dependent in terms of manufacturing inputs including spare parts, it has become extremely difficult for SMEs to develop around the existing large scale industries.

However, SMEs are known to have the potential to utilize local raw materials as well as indigenous technologies compared to large enterprises. It is believed that the ability of SMEs to rely on local raw materials is a pre-requisite for a country's technological development capacity. This implies therefore, the need for government to put in place appropriate policies that will make SMEs really the engine of growth of the economy through increased use of local raw materials as input to manufacturing production.

The structure of management of SMEs which is characterized by their informality affects their performance and contribution to the overall economic growth and development. Kolawole (1992) noted that the preponderance of sole proprietorship in Nigeria's SMEs sub-sector and the poor educational background of proprietors adversely affect the quality of their management. He attributed this factor to be responsible for inability of entrepreneurs to perceive and utilize opportunities that exist for improving their businesses.

This implies that, given the poor level of literacy of the entrepreneurs, it will be extremely difficult for them to perceive and appreciate technological innovation and adoption of innovation in areas such as product design, marketing and management, considered as sources of opportunities for enterprise growth.

Also, ownership structure affects the dynamism of SMEs in Nigeria. It has been reported that more than 90% of the SMEs in the country are owned by individuals, 4.0% by partnerships and less than 2.0% each, by families and limited liability companies (Kolawole, 1992).

This pattern of ownership structure has been found to have wider implications for the financial strength and health of SMEs as well as their management efficiency, attraction of finance and support services, government promotional policies and continuity of existence. The limitations posed by the ownership structure affected the funding prospects of SMEs.

The sources of fund for SMEs in Nigeria include among others the following; personal loans from family and private sources, credit finance companies and institutional sources. It has been reported that family sources account for 80% of initial investment capital (Osoba, 1987, Sonaike, 1975). Also, borrowing from private lenders often account for 10% of initial investment capital.

Currently, loanable fund facilities exist in the country, however, it has been observed that only insignificant proportion (about 1.0%) of SMEs have succeeded in obtaining loans from banks (Kolawole, 1992). Stakeholders in the SME sector have complained at various fora that

they have not benefited from the lending schemes of banks established to support the sector.

Bank officials while agreeing with this view, observed that lack of adequate counterpart funding by promoters, infrastructural deficiencies, fear of risks, poor business plan and unstable macroeconomic environment are factors responsible for the low funding of SMEs. From the above issues reviewed, it is obvious that the importance of SMEs to the economic development and growth of the country is recognized. Also, that no country desirous for rapid industrial development can afford to relegate the SME sector to the background.

Consequently, the sector needs a considerable institutional support for it to contribute meaningfully to the overall economic development of Nigeria. According to Kolawole (1992), a virile SME sub-sector by contributing immensely towards the realization of a wide range of government objectives such as the following, plays an important role in the restructuring of the country's industrial base:

- creation of employment opportunities;
- mobilization of domestic savings and investments;
- development of local entrepreneurship;
- encouragement of the use of local raw materials,
- promotion of regional balance in the distribution of industries;
- encouragement of rural development and the

- encouragement of production that provide basic consumer needs.

The institutional and policy interventions need to be designed to harness the potentials of the SMEs sector for improved economic performance. This explains why governments committed itself to the promotion of SMEs and have launched specific support programmes in this regard.

However, government has been accused of policy bias against SMEs especially in relation to its trade monetary, regulatory and labour/policies because of its favourable inclination to the large scale sector.

Based on this, the current emphasis is in the adoption of direct SME support schemes and programmes that will remove the prevailing policy biases with the objective of creating a level playing field for SMEs. It must be appreciated that designating clear responsibility for SME policy within government structures is important to avoid a situation in which different ministries create their own SME development agendas. It is against this background that the Small and Medium Enterprise Development Agency of Nigeria was established to play an advocacy role for SMEs and to ensure synergy among the various SME-related activities of different government departments and ministries.

2.21 CLASSIFICATION OF SMES.

Classification of SMEs varies among countries or economies. However, certain criteria are unanimously used to classify SMEs which include; number of persons employed, value of investment, annual turnover, etc. Oboh (2004) noted that variation in the classification of SMEs is attributable to such factors as movement in the general price level and technological advancement. In a developed economy a small scale enterprise could be equivalent to a medium to large scale enterprise in less developed economy. The IFC of the World Bank Group classified in 2003, micro and SMEs based on the following criteria:

- d. Micro-enterprise
Employees: 10 or less
Total Assets: U\$100,000 or less
Total Annual Sales: U\$100,000 or less
- e. Small Enterprise
Employees: between 10 and 50
Total Assets: U\$100,000 to \$3m
Total Annual Sales: U\$100,000 to \$3.0m
- f. Medium Enterprise
Employees: 50 to 300
Total Assets \$3.0m to \$15.0m
Total Annual Sales: U\$3 million to \$15 million.

Within the Nigerian context, the National Council on Industry (NCI) in 2001 classified SMEs as follows:

- e. Micro/cottage Industry: An industry with total capital employed of not more than N1.50 million, including working capital but excluding cost of land and or a labour size of not more than 10 workers.
- f. Small-Scale Industry: An industry with total capital employed of over N1.5 million but not more than N50 million including working capital but excluding cost of land and or labour size of 11-100 workers.
- g. Medium-Scale Industry: An industry with total capital employed of over N50 million but not more than N200 million, including working capital but excluding cost of land and or a labour size of over 300 workers.
- h. Large-Scale Industry: An industry with total capital employed of over N200 million including working capital excluding cost of land and or labour size of over 300 workers.

2.2 INSTITUTIONS TO SMES

Virtually all countries at whatever stage of economic development recognized the importance of SMEs and the need to support their development (Levitsky, 1997). SMEs were seen as engine of economic growth and industrial development in Nigeria. It was against this background that considerable amount of incentives and privileges were given to SMEs to empower them so as to contribute positively to the overall economic development of the country. Despite these incentives, SMEs unfortunately

failed to achieve the very objectives for which they were supported.

Even some measures taken to support them, invariably contributed in the end to the maintenance of weak and uncompetitive SMEs sector. Firms within the sector were inevitably inefficient and hardly create the desired employment opportunities for which they are noted for and supported to achieve.

In the late 1980s it was realized that government interventionists policies to help SMEs through subsidies, protection from imports, cheap premises on industrial estates and special preference for SMEs in government procurement were failing to produce a strong competitive SME sector (Levitsky, 1997). This realization informed why some development economists argued that if policies are set to allow a free market and competition to flourish, good entrepreneurs who manage their small businesses efficiently will be competitive and need special help or support programme. Also, it was observed that most of these interventionists assistance measures involved constraining bureaucratic regulatory framework.

Furthermore, global trend in economic development resulting in a shift towards structural adjustment and policy reform based on liberalization, deregulation and removal of constraints to trade and technology flows brought

increased expeditions that new entrepreneurial initiatives would be released and SME would grow and flourish.

Unfortunately, this was not realized in most less developed countries as SMEs were unable to exploit the increased market opportunities because of low productivity, incapacity to compete with imports and exports, combined with limited access to finance to introduce innovation and improve on productivity. Invariably, the comparative advantages SMEs enjoy in terms of employment creation at low levels of capital is scarce and labour is relatively abundant was lost.

It must be appreciated that under favourable policy environment and a less restrictive regulatory framework, SMEs may help in the long run to compete in the market and even have access to finance. However, the working of free markets remains imperfect which put SMEs at a distinct disadvantage.

These issues compounded the problems of SMEs and compelled government to seek for avenues to solve their problems. The recognition of SMEs difficulties and weaknesses has led in most countries to the creation and continuous expansion of special institutions targeted at providing assistance to Small enterprises in order to improve the situation (Levitsley, 1997).

Another pertinent issue that has affected the sector is the objectives that informed the support measures put in place to assist SMEs. Social motives as well as encouraging private sector development were among the critical objectives for which support measures were put in place.

Even, both multi-lateral and bilateral donor support projects were predicated on these objectives and were really aiming at promoting indigenous entrepreneurship to enable the local population contribute to and have greater share in the benefits resulting from economic developments. Donors often looked to SMEs as a way of dispersing economic development and of raising the standard of living of the rural sectors.

In most cases, despite the disparity in the support objectives most programmes were justified by the argument that small enterprises generated more employment for a given investment of scarce capital. In Nigeria, the support to SMEs started shortly after independence and was conceptualized after the Indian model “which concentrated on the creation of special public institutions and directed programmes for assisting the small enterprise sector. The reason why the Indian model was adopted has been attributed to lack of any prototype model that could be to developing countries.

Levitsky (1997) argued that donors and government followed the Indian mode in proposing support programmes for SMEs because no suitable other institutional arrangement or programme prototype existed in developed countries which could be copied. He observed that developed countries have often tried to avoid the creation of large comprehensive national public institutions and most government assistance groups, business associations, consultants, university or research institutions. The role of government was more of a “facilitator or provider of resources rather than implementing and offering services directly.

However, in the Indian model, government offered assistance in all fields and directly implemented the programmes including the identification of opportunities for small enterprise development, provision of factory space on industrial estates direct financing and obtaining government procurement orders as well as providing advice and training to small enterprises. The Federal Government of Nigeria initiated in late 1980s entrepreneurship development programme (EDP) as part of its support to SMEs development (Ekpo and Umoh, 2003).

Following the Indian model, many countries such as Egypt, Sri-Lanka, Singapore, Thailand and Nigeria established institutions including workshops, testing centres ostensibly help small scale industries in areas such as food industries, textiles and leather, ceramic, foundry, metalworking and wood-working. These common service facilities were amply equipped but poorly maintained. Also, the institutions suffered significant set backs due to the problems of finding and retaining the right staff and by failure of government to adequately fund them in the face of budgetary constraints.

In keeping with the Indian model, Nigeria promoted industrial estates, industrial extension centres, raw materials research council and technology business incubation centres.

E. Industrial Estate

F. Industrial Extension Centres

G. Raw Materials Research and Development Council

H. Technology Incubation Centres

E. Industrial Estate

The government at federal and state levels has embarked on the establishment of industrial estates as part of the national strategy for industrial development. The industrial estates are limited by lack of infrastructures such as water, electricity, access roads with only a few exceptions

(Agbara, Matori, Ogba etc, all in Lagos). All of the estates are publicly owned and its administration has resulted in considerable conflict between the various arms of state ministries.

F. Industrial Extension

iii. Industrial Development Centres (IDCs):

IDCs were established in the 1960/70 (Owerri, 1962, Osogbo and Zaria, 1970s). They were established with the objectives of accelerating industrial development in Nigeria by focusing technical assistance services to SMEs and to assist in dispersal of SMEs to rural areas. They were to provide assistance to SMEs including entrepreneurship training preparation of feasibility studies, finance, sourcing and extension services.

The IDCs are virtually non-functional due to poor funding, poor project implementation and low staff morale which have affected their support services to SMEs.

iv. Centre for Industrial Research and Development, Obafemi Awoloso University (O.A.U), Ife. The centre was established in 1968 for the purpose of extension services to assist the survival of SMEs. The centre was managed by the University, the Federal Government and UNIDO.

G. The RMRDC

The Raw Materials Research and Development Council (RMRDC) was established in 1988 to promote raw materials acquisition and exploitation to ensure rapid and integrated industrialization based on available local resources. The Council since inception has embarked on a number of projects that are supportive to SME development especially in the area of local sourcing of raw materials.

The Council offers both advisory and consultancy services, promote investments in resource-based industries, technology development and market-driven R&D. Also, it offers relevant and up-to-date information on the resource potentials of the country through its raw materials information system (RMIS) which is a database system domiciled in the Council.

H. Technology Incubation Centres

Technology business incubators (TBIC) were established in the mid 1980s as a support programme to incubate small businesses in the nursery before transfer to industrial estates. They are provided with common facilities including energy at a fee. The first generation of TBIC is in Lagos, Aba and Kano which were established between 1989 and 1993. Currently, the number has increased and there are virtually TBICs in every state of the Federation.

However, all of them are performing below expectation due to inadequate funding, poor conception of the role of TBIC, poor project implementation and bad management.

2.3 TECHNOLOGY DEVELOPMENT FOR SMEs

It has been observed that small businesses do not perform well partly, because they are unable to improve the technologies in use (FMI,/UNDP,1997). However, the choice of technology among SMEs plays a critical role in determining their productivity and competitiveness as well as the level of income of workers. Studies have revealed that the absence of the following have hindered the growth of SMEs in the country.

- a. Production of intermediate goods which is expected to stimulate the development of technology is virtually absent. The intermediate goods are products of light engineering such as metal fabrication, machine tool shops, and foundries. Also, the development of agro-allied sector, petro-chemicals and chemical industry contributed to the slow growth of SMEs.
- b. Low capacity in fabrication and design. It has been reported that the level of design capacity is low in the country and there are no manufacturing design centres.

The African Regional Centre for Engineering Design and manufacturing (ARCEDEM) in Ibadan is poorly funded and has not been able to assist to build capacity locally in engineering design and manufacturing.

- c. Adaptation of technology. The country has not been able to lay the desired foundation for technology adaptation through subcontracting between large enterprises and SMEs. The various joint ventures projects involving Nigerians and foreign investors, as well as purchase of licenses and patenting have not created the platforms for adaptation of technology.
- d. R&D Centres. The existing research institutions in the country have not created the desired linkages with industries. Consequently, the desired institutional support in terms of R&D innovation in product and process development has not been realized.

2.3.1 Institutional Support to Technology Acquisition by SMEs

The following support institutions were set up with mandates relevant to acquisition of technology by SMEs.

- National Office for Technology Acquisition and Promotion (NOTAP).

- Federal Institution of Industrial Research, Oshodi (FIIRO).
- Project Development Agency (PRODA).
- Raw Materials Research and Development Council (RMRDC).
- National Centre for Technology Management (NACETEM).
- Technology Business Incubation Centres (TBICs).
- National Agency for Science and Engineering Infrastructure (NASENI).

2.3.2 Technical Services and Assistance for SME Development

It has been recognized that technical assistance is a factor that is often overlooked, misunderstood, or neglected which is as important as financial assistance to SMEs. Research studies including those carried out by the Federal Ministry of Industry (FMI), Nigeria revealed that entrepreneurs are not aware of the value and significance of this assistance (FMI, 1997).

The study noted that technical assistance is often packaged along with international loans and the lack of understanding of its relevance and usage have made banks to even ignore the technical component of loans. Industrial extension services to SMEs are critical components of technical assistance.

Industrial extension is a form of technical assistance concerned with basic in-plant management consultancy in the development of enterprises (FMI, 1997). The principal objective of industrial extension is to transmit knowledge through communication which is the principal feature of its focus on in-plant and on- the-job problem solving for the industrialist.

2.3.3 Industrial Extension Services

Successive governments of Nigeria have over the years focused considerably on agricultural extension services which have proved to be of primary importance to farmers. For the SMEs, the converse is the case as this facility is quite limited. Industrial extension programmes are known to have the same beneficial effects to SME as agricultural extension is to farmers. In fact, it was reported that industrial extension had enabled SMEs to survive from initial establishment through growth periods. Entrepreneurs believe that all they need is working capital and often, businesses are not aware of their needs for technical assistance and the benefits derivable from such assistance. Extension services include the following:

- assistance in all aspects of management, in-work organization and product design. Development and adaptation; particular emphasis is also placed on price calculations, book-keeping and financial planning;

- domestic and export marketing assistance, including subcontracting and inventory control;
- assistance in materials procurements;
- assistance in the choice of technology and in the solution of technical problems, including skill, space, public utility and equipment requirements and procurement methods;
- advice on potential sources of finance and help in gaining access to finance, for example by preparing loan requests.
- Identification of training requirements for workers and owners/managers and identification of potential training sources;
- Assistance in explaining government regulations including taxes and legal questions such as incorporation of enterprises, registration, licensing, grants, etc
- Quality control and standardization, particularly where subcontracting and export promotion are important.

2.3.4 Plant Level Assistance

Support services extended to SMEs at plant level include promotion of entrepreneurship, technical counseling, improvement of design, quality and standards management assistance, marketing, industrial research and facilitation of subcontracting. These services are aimed at assisting SMEs raise their productivity, improve the quality of their product reduce their costs and promote the optimum utilization of their machinery (UNIDO,1969).

In developed economy, these services are provided by a variety of specialized institutions such as industrial extension centres or parks, testing and quality control laboratories, management development institutes productivity centres, production and training centres, design centres, etc. In countries where several specialized agencies are set up offering similar services to SMEs, possibilities exists for overlapping functions which demand the establishment of an umbrella organization to ensure coordination of support services and avoid overlapping or duplication of activities.

For SMEs to grow, requests for financial assistance should be linked to technical assistance. Technical assistance to SMEs or entrepreneurs will create the necessary platform for judicious use of funds or credit facilities made available. It is desirable therefore to establish extension services within a financial institution or by working out complementary arrangement with a service provider and a credit institution. Technical services equally cover advisory services and guidance on the choice of materials, machinery and tools as well as on their most efficient utilization in product development. Furthermore, it includes advice on the installation of machinery and equipment, plant layout, techniques of production, maintenance and repair, testing, on-the-job training of workers, etc.

This activity has been found to be one of the most critical input to the growth of SMEs and also, the most difficult to carry out in developing countries. To render this support services requires highly skilled personnel knowledgeable in this area. It is therefore a problem that should not be ignored in view of the scarcity of skilled, competent and experienced trained extension officers. Technical assistance facilities or business support services must be set up in location where SMEs are concentrated. These services should be all embracing including economic, technical, managerial as well as legal.

2.3.5 Management Development

Management development is a very crucial aspect of support services to SMEs. This covers advisory services, guidance and training in all aspects of management of an enterprise including, planning and control and marketing of products. It also include advice on financing, taxes, bookkeeping and cost accounting and selling. Specialized institutions or firms can provide such services.

Industrial research is very important to the innovativeness of SMEs as it guarantee new process and new product development. This implies that a strong linkage should be established between SMEs and research institutions in order to solve some of their technological problems.

Technology extension services must be provided by experienced firms to SMEs as well as provide orientation to the research institution on the type of research needed by SMEs. Quality control and standard certification is very desirable for SMEs to produce competitive products in terms of quality. This type of service can be provided by testing laboratories and may usefully be complemented by quality certification schemes. Improvements in industrial design can enhance performance, quality and appearance.

2.3.6 Incentives

A number of incentives has been provided by government as it relates to industrial growth and development. These incentives have been in the area of tax relief, tariff measures, interest rate, etc. These incentives are often targeted at large scale firms which unfortunately have not benefited SMEs. Of these incentives it is important to mention the tax free dividends/profit on R&D which is the most relevant to this study. This stipulates that all expenses on research and development (R&D) in industries whether on process and product development as well as local sourcing of raw materials are tax deductible up to the value of 10% of the total annual profit of the company. Also, companies are to enjoy 20% investment tax relief if they carry out R&D for commercialization (FMI, 1997).

2.4 SMES FINANCING

Financing SMEs has been a critical factor to the development of the sector. Udechukwu (2003) recognized finance as the most formidable obstacle to the development of SMEs in Nigeria. Characteristic of SMEs financing indicates that most micro, small and medium-sized enterprises will not be able to raise their required funding from either private or corporate investors (Tarka, 2004). This situation is more compounded for technology-based SMEs as their characteristics raise different or additional financing problems. This is due to inability in most cases of financing institutions to assess the technology or uncertainties and risks associated with costs of R&D and in estimating prospective demand for new product.

Tarka (2004) noted that the information asymmetries which characterize SMEs are very peculiar to technology-based SMEs at the start-up stage. He attributed such asymmetries to capital market imperfections which affect adversely debt and equity finance. Lack of collateral and market presence generally makes equity finance more appropriate than debt for small firms, particularly small high-tech start-ups (Tarka, 2004).

2.4.1 Financing Requirements

Four main stages of financing of SMEs in their life cycle have been identified to include seed, start-up, early growth and sustained expansion (Tarka, 2004). Most SMEs relies on personal source of funds at the seed stage. For technology-based firms, the seed and early-stage costs are likely to be higher than other SMEs because of the more complex product development process.

The financing requirement at the start-up and early growth stages is mainly for equity risk capital. The rate at which SMEs progress will depend not only on its access to appropriate finance but also, such inter-related factors as the type of product and market as well as the firm's growth objectives and the capacity of the firms management (Tarka, 2004).

Entrepreneurs fail to start up business due to lack of working capital. Odaman (1996) reported that in Turkey, SMEs are allocated credits through different Banks in order to satisfy their financial needs in terms of investment and working capital. The credits provided by the banks are often with favourable conditions in terms of low interest rate and long pay back period.

In Nigeria, government initiated development support schemes such as NDE failed to produce the intended benefits as most of the applicants are not able to raise the required personal contribution even when their business proposals have been approved to receive grant (Moyo, 2004). Furthermore, lack of business credit history or total absence of collateral have made it difficult for them to access credit facilities from commercial financial sectors.

Also, the cost of funds was identified as a major factor which impacts significantly on the competitiveness and survival of SMEs (Udechukwu 2003). Long gestation in an unstable environment coupled with unsound financial packaging tends to subject SMEs to a high failure rate which in turn makes the sector to be relatively risky and unattractive to the banking system's (Udechukwu 2003).

2.4.2 Finance Support Measures to SMEs

The Nigerian financial system is a very large one consisting of a diverse array of banking and non-banking financial institutions including the following:

- commercial and merchant banks,
- rural-oriented community banks;
- development finance institutions
- licensed financed companies (most have collapsed)

- primary mortgage institutions
- insurance companies
- discount houses;
- pension schemes and
- Exchange bureaus

Also, money and capital markets exist. Despite this diversified financial system, the commercial banks overwhelmingly dominate the financial sector accounting for 93 per cent of non-central bank assets. In the absence of few products and services, traditional bank deposits represent the major forms of financial savings (World Bank, 2003). It is pertinent to note that generally, access to term finance by the real sector is very limited. The main thrust of commercial bank lending is for working capital which often goes to well-entrenched blue-chip enterprises that have enough bargaining power to negotiate better borrowing terms.

Udechukwu (2003) argued that there are strong indications that commercial banks cannot constitute a major source of finance to SMEs in the foreseeable future judging by their antecedents. Moreover, the core competence of commercial banks is not in long-term lending and risk aversion is very high. Also, the commercial banks are

unskilled in project appraisal and monitoring, and therefore lack the capability for loan recovery. The stock market is yet to be a factor to reckon with the financing of SMEs and the bond market is currently too weak to be a major source of finance for the real sector. The problem of credit facilitation to the real sectors of the economy informed why the Federal Government established Development Finance Institutions (DFIs).

Ukpabio (2004) reported that by Central Bank of Nigeria (CBN) Decree No. 24 of 1991, all development banks are under the supervisory authority of the CBN. Also, the FGN established considerable number of funding programmes in order to facilitate credit granting services of the financial institutions to assist SME development. These programmes include the following:

- Small scale Industriesw Credit Scheme (SSICS) set up in 1971 by the Federal Ministry of Industry.
- National Economic Reconstruction Fund (NERFUND)
- World Bank SME II Loan Scheme (Facilitated and Guaranteed External financing by FGN).
- Agricultural Credit Guarantee Scheme Fund (ACGSF) operated by CBN.
- The Trust Fund Model by CBN.
- The Interest Draw Back Programme by CBN.

- Small and Medium Industries Equity Investment Scheme (SMIEIS) an initiative of the Bankers Committee, etc.

The following financial institutions operating in granting credit services to SMEs in Nigeria have been identified:

- Deposit Money Banks (DMBs) or commercial banks. Many government policies that affects SMEs such as monetary and fiscal are implemented through DMBs operations.
- Community Banks are self sustaining financial institutions owned and managed by local communities.
- Development Financial Institutions (DFIs) are specialized financial institutions established to contribute to the development of specific sectors of the economy.
- Urban Development Bank established to create capital for dealing with urban development.
- Federal mortgage Bank established to provide fund for housing development.
- Nigerian Export-Import Bank (NEXIM) established to provide finance, risk mitigating facilities and trade information and advisory services to export community.

The development finance institutions that have the capacity to provide long-term debt capital for the real sector have suffered in the past decade a decline in financial status. The poor performance of the development finance institutions discouraged the more efficient commercial banks from entering the long-term finance of the real sector

The World Bank in one of its recent publications reported that the combined annual loss of the development finance institutions in Nigeria amounted to about 2.1 billion Naira or 8.6% of average total assets (World Bank, 2003).

Also, SMEs medium to long-term finance requirements through leasing remains under developed and accounted for only one per cent of total domestic investment in 1997 (World Bank, 2003). The growth of leasing industry according to World Bank has been affected by the following:

- the lack of a coherent legal framework governing leasing transactions
- problems with contract enforcement and difficulties in repossessing leased equipment from defaulting lessees.
- lack of domestic long-term funds to finance leasing
- rising costs of equipment and
- lack of awareness and the poor skill-base in the industry.

Furthermore, the micro-finance sector has not fared well too. The institutions created by government experienced significant losses in the recent past. The average loan repayment rates have been reported to be quite low. Generally, these institutions are known to be operationally and financially weak, driven by social justice goals rather than financial and operational sustainability (World Bank, 2003).

In fact, they lack a national presence and outreach. Also, credit unions and cooperatives exist estimated at approximately 15,000 credit unions in Nigeria. It is pertinent to note that neither the formal and informal financial sectors have been able to effectively support a strong expansion of the real sector and maximize their contribution to economic growth and development.

For considerable period of time, government has recognized the importance of ensuring access to financial services to SMEs in order to maximize their contribution to national development and economic growth. Recently, the Central Bank of Nigeria in concert with the Bankers' Committee, comprising all banks as members agreed to set aside 10% of pre-tax profits for SMEs under the Small and Medium Industries Equity Investment Scheme (SMIEIS). This fund is to be used for equity investment in SMEs. Since 2001 to 2003 about N14.6 billion has been generated with N4.3 billion or 29.4 per cent invested in SMEs. The real sector enjoyed well over 50 per cent of investment from SMIEIS fund.

Most, if not all SMEs in Nigeria are not quoted in the stock market. Findings from studies revealed that the substantial fixed costs, such as underwriting and advisory fees, make it uneconomical for most SMEs to raise small amounts of public equity capital (Tarka, 2004). For many of the SMEs, their lack of size and trading record excludes them from meeting the listing criteria of public stock exchanges.

2.5 BUSINESS DEVELOPMENT SERVICES (BDS)

Amobi (2004) identified business development services as non-financial services provided to SMEs which include the following:

- marketing assistance –market information, demand for products quality control, packaging , etc.
- networking-information sharing, knowledge, business expansion and or specialization and support.
- Support services- technology supply advisory, accountancy, legal, regulatory (tax)
- Training and education-business approach and planning, product development and finishing, marketing, book keeping, etc.

The World Bank in a recent study on SMEs in Nigeria observed that business development services are not available in the quantity, quality and price ranges required by SMEs (World Bank, 2003). The reasons given for this include;

- local business service providers have limited capacity and few products that are appropriately tailored for SMEs;
- business service providers prefer working for larger firms and government or donors where contracts are larger.
- SMEs on their own part make little use of business development services, possibly due to their inability to afford such services and attimes due to lack of information about them and their possible benefits.

- business development service providers include specialized consulting firms, formal education institutions, business membership organizations, NGOs and firms within the supply chain.

Business development services are desirable for sustainable development of an SME sector. It is recommended that an industry focused program be initiated aimed at providing assistance to BDS providers to develop training and consulting services that can assist SMEs within specific industries to increase their value addition and growth.

Also, there is need to establish a BDS fund for building capacity of providers of value-adding services to reach larger number of SMEs with higher quality services using sustainable business model. It has been observed that SMEs often fail or do not realize their full potentials because they lack proper organizational capacity, skills, systems and procedures, information as well as technology. Therefore, improvement in these areas through training and use of consulting advice can often translate into cost savings and efficiency gains (World Bank, 2003) SMEs productivity in Nigeria is constrained by lack of access to critical know-how, including:

- f. appropriate technology, market information and linkage
- g. product development and marketing;
- h. human resource management

- i. quality management and efficient production systems and
- j. accounting and financial management.

International Business Facilitators

International Business facilitators are primarily concerned with capacity building industrialization, private sector development joint venture, consultancy, franchising, licensing, marketing management of agreement with local entrepreneurs (Egbuogu, 2003). In Nigeria international agencies such as The World Bank and its affiliates such as International Finance Corporation (IFC), African Project Development Facility (APDF), UNIDO and UNDP provide support assistance to SMEs.

Also, bilateral institutions such as Centre for Development of Industry (CDI) of ACP-EEC, the Industrialization Fund for Developing Countries of Denmark offers support assistance to SMEs. Egbuogu (2003) observed that small business entrepreneurs expect the international business facilitators to provide the following assistances:

- d. Skill development to include:
 - assistance with improvement of small business management skill;
 - assisting business organizations in improving service to small business and;

- improving skill of local small business consultants in small business appraisals and credit rating.
- e. Business Advisory such as:
- assistance with business plan development;
 - assistance with business valuations;
 - assistance with financial structure, restructuring and fund syndication;
 - assistance with working capital;
- f. Support Services which include assistance with:
- improving productivity and quality;
 - improving inventory and purchasing systems;
 - developing and installing management information system;
 - strategic planning;
 - developing and implementing marketing and sales systems;
 - developing organizational structures and human resources policies;
 - installing and improving financial planning and accounting standards.

These services are desired for the growth and development of an SME sector of the economy.

PROBLEMS FACING SMES

Several problems have been identified to have hindered SMEs from developing its full potentials. These problems are highlighted as follows:

Biased Economic Policies:-

Economic policies are often designed based on activities of large enterprises which are disadvantageous to SMEs. These policies create market distortions and limited access to inputs to SMEs. SMEs find the regulatory and institutional support frameworks lacking transparency, inconsistent and inefficient, thus inhibiting further development rather than acting as a mechanism for sustained growth. Monetary, financial, trade and fiscal policies discriminate against new and existing small firms through the imposition of considerable entry barriers (Mansour, 2001). Investment laws are quite discriminatory as they provide various incentives and exemptions from income tax and customs duties to projects with high level of capital investment.

The tax system is also, another limiting factor to SME development. It has been observed that small scale entrepreneurs generally do not keep accounting records, so government authorities impose taxes arbitrarily and often unfairly. SMEs tend to feel that taxes are not proportioned to their profit and that tax administration officials apply inconsistent criteria (Mansour, 2001). By not keeping accounting records, entrepreneurs also lose the ability to accurately estimate their costs and profits. Necessary details such as depreciation of machinery or other indirect costs may be excluded from margin calculations.

- **Market Distortions**

Unlike large enterprises, SMEs face problems associated with accessing inputs, credit information and technology market as providers of such services find it much easier and cheaper to deal with a few large customers than with a large number of dispersed small enterprises (Mansour, 2001). Furthermore, access to credit and banking facilities is often hindered by unreasonable high collateral requirements. Other factors limiting SMEs access to financial resources include, high administrative fees charged by banks, high interest rates and unaffordable loan conditions. SMEs are also isolated in respect to information about competitors, suppliers, new technology and export markets. Also, they lack the resources to access new technologies and skills and attmes, are not aware of existence of such technologies.

Complexity of Administrative Procedures

Prior to now, administrative bottlenecks have been limiting factors to SME development in Nigeria. Often, entrepreneurs complain of registration and or licensing of businesses as being cumbersome and highly bureaucratic. This has resulted to high cost of doing business and had driven many businesses to operate informally.

Limited Access to Business Development Services

Business development services offered by support institutions include; training, advisory and counseling services, information and marketing services. There are several agencies involved in providing training for start-ups and existing businesses. These institutions include NGOs, government agencies, chambers of commerce, manufacturers associations, business associations, credit agencies, training institutions, etc. In some developing countries training for SMEs is barely in existence. The few institutions that offer relevant training programmes are mainly private consultancy firms and their fees are often not affordable by SMEs. Even those institutions carrying out training, their programmes are often prepared without serious identification of problems faced by entrepreneurs. Need assessment as a prerequisite for organizing training is lacking.

In a study on SMEs in Arab States, it was found that entrepreneurs are more interested in technical training related to production (Mansour, 2001). It was also observed that they are unaware of the importance of management in the success of an entrepreneurial venture. The importance of training to most SMEs is linked to how it responds to their real needs. The study concluded that entrepreneurs consider learning by doing as the most important training and more useful than formal education and learning in classrooms.

Also, the learning process of an entrepreneur is based on daily work and experience, the reality and the environment, lessons from success and failure, contacts with relatives, friends and peers, the market and feedback from customers, relations with competitors and suppliers, lessons from problem solving and difficulties faced, particularly during times of stress.

Advisory and Counseling Services

Advisory services are also known as extension services which comprised technical assistance as well as management advisory services. Mansour (2001) observed that in most countries of the Arab region, there are very few specialized agencies devoted to the provision of advisory services.

Furthermore, in countries where business advisory services are not readily available, entrepreneurs are not usually aware of their existence because support institutions do not sufficiently advertise their services and the services offered tend to address the needs of large enterprises. Consequently, entrepreneurs rely more on advice from their suppliers and from other service providers in the private sector.

Business Information Services

Information is very vital to business development. Various sources of information are available in the country, however, they are scattered, often inconsistent and difficult to access. Availability of business information to SMEs is a limiting factor as most of them are not ready to pay fees for information. In addition, market related information is not easily available. Often, SMEs managers are not aware of available information and how to access it as existing information providers hardly advertises their services.

Business support services also include information and data on companies and market potentials both locally and internationally. These support services are expected to be provided by manufacturing association or chambers of commerce or other non-governmental organizations. Information services are however, more available to large firms than SMEs (Mansour, 2001). With the advent of internet, ample opportunities exist to improve on communication and business information flow. The internet offers great opportunity to make information relevant to SMEs quite easily accessible.

Market Assistance

SMEs are often most concerned with effective marketing, a problem considered next to finance. In Nigeria, despite the large domestic market size, SMEs complained of competition from imported products and government policy

with regards to protection of local industries as major marketing constraints. However, the real problems can be attributed to the inability of enterprises to expand the market base beyond the local community as well the poor standards and quality of their products which fail to satisfy the tastes and needs of customers (Mansour, 2001).

Furthermore, due to insufficient experience, entrepreneurs find difficulties in formulating an adequate marketing strategy. Trade fairs and exhibitions are important forums for exchange of information and marketing of products, but setting up a stand at the fairs is considered too expensive by most SMEs. Marketing assistance to SMEs in less developed countries is relatively scarce as existing marketing services available are for large firms.

Entrepreneurs need support programmes as it relates not only to assisting them in displaying their products in fairs and exhibitions but, to train them on management, especially in relation to marketing issues such as methods of costing and pricing and techniques of promotion and sales. Marketing support required include among others the following:

- market information and research,
- trade statistics,
- product promotion,
- product design and development

- information procedures and regulations for export and
- information on international exhibitions and fairs.

Often, existing institutions offering the above support assistances limits their activities to large firms and to an extent, medium-sized ones. This is attributed to the fact that most small firms have no exportable products and as such, no serious efforts are being made to assist them to adapt their production to customer needs.

The support provided by manufacturers associations and chambers of commerce and industry is confined to informing members who are mainly large firms on fairs organized in the country or outside and to create awareness on marketing and international regulations and procedures with regard to export. It has been established that the growth of the size of export market for a specific product encourages small firms to cooperate together to meet the needs of the market and also promotes specialization (Mansour, 2001).

Networking and Cluster formation

International experience in both developed and developing countries has proved that the geographic or sectoral clustering of firms contributes to enhance their competitiveness and provides the appropriate vehicle for intervention of support institutions (Mansour, 2001).

Concentration of firms on a sectoral basis has been found to encourage suppliers, marketing agents and other service providers to establish themselves in the cluster.

Furthermore, it will enhance interaction between small firms and lead to some degree of division of labour as well as increase specialization and innovations. There is no doubt therefore, that the existence of clusters will provide increased opportunities for SMEs to work together and cooperate in various areas. Clusters will give impetus to development agencies to provide support services to small firms in specific specialized areas such as export promotion, quality upgrading, information on international market trends and technological developments including subcontracting opportunities, technical and managerial training.

Networks between small firms have been identified as a veritable strategy for providing mutual benefits to all through active cooperation and joint action. Networking would contribute to improving the competitiveness of SMEs and prepare them to deal with globalization, through the development and marketing of new products and cooperation in the establishment of agents and distributors in new market. One of the aims of the network is to facilitate the delivery of support services by various support institutions especially NGOs which prefer to deal with groups rather than with small individual firms.

Also, the network attempts to promote inter-firms cooperation through the development of better relations between the participating firms in the network. Such cooperation has been found to enable SMEs to raise their competitiveness and focus on areas of product design and standardization, process innovation and human resource management (Masour, 2001).

Inter-firm collaboration which is an effective means for fostering SMEs development and growth is affected by factors such as geographical dispersal of firms, lack of cooperation, competition between firms and limited trust among entrepreneurs. Mansour (2001) noted two significant reasons for the relative absence of networks of entrepreneurs as the distrust that exist between owner-managers and the absence of programmes promoting inter-firm collaboration.

Current efforts at institutional support, concentrates more on improving the performance of individual firms through advisory services, provision of credit and training for upgrading technical and managerial skills. Also, efforts are geared towards recommending policies that are likely to improve the macroeconomic environment for SMEs through liberalization measures and facilitation or reduction of bureaucratic and administrative procedures.

However, very few programmes emphasized inter-firm cooperation and interaction, or self-help groups as a means to improve competitiveness of small firms and assist them in facing the challenges of globalization.

The promotions of subcontracting arrangements with large firms will also assist small firms achieve competitiveness. In modern market economies large firms play a pivotal role as SMEs cluster around these companies to act as subcontractors. Unfortunately, however, in several countries the markets lack the required linkages between small businesses and large corporations.

REFERENCES

Amobi, I (2004), Nigeria: Emerging Opportunities in business Development Services. Paper Presented at an Industrial Policy Forum on “Can Nigerian Industry Compete?”, Organized by United Nations Industrial Development Organization (UNIDO), Abuja, Nigeria 29th April, Pg 5-6.

Egbuogu, L. O. D (2003). What Small Business Entrepreneurs Expect from Local Credit Agencies and International Business Facilitators. Paper Presented at “Business America” A forum organized by the US Commercial Consulate, Lagos, Nigeria, 3rd March, Pg1-10.

Ekpo, A. H and Umoh, O. J (2003). The Informal Sector November, 2004 accessible at <http://www.onlinenigeria.com/links/adv.asp?blurb=495>

FMI/UNDP (1997). A Detailed SME Policy Study Final Report. A UNDP-Assisted SME Development Programme: NIR/B. Federal Ministry of Industry (FMI), Abuja, Nigeria, Pg 2-40

Kolawole, A.F (1992). Small and Medium Scale Industries in Nigeria: An In-depth Analysis. An essay submitted in partial fulfillment of the requirement for the award of the membership of the National Institute for Policy and Strategic Studies, Kuru, Nigeria Pg 1-81.

Levitsky, J(1996).Support Systems for SMEs in Developing Countries: A Review. Paper Commissioned by the Small and Medium Industries Branch, UNIDO Vienna Pg 3-39.

Mansour, A(2001).Support Services and the Competitiveness of SMEs in the MENA Region. Paper Presented at a Workshop on “What Makes your Firm Internationally Competitive”, Organized by Egyptian Centre for Economic Studies (ECEs) for the 3rd Meeting of Mediterranean Development Forum, Cairo, Egypt, 5th–8th March, pg 1-20.

Moyo,R(2004).Technology Transfer and SME Promotion through Village Skills Training Programme in Botswana. June, 2003 accessible at <http://www.fes.de/fulltext/wana/00554003.htm>.

Oboh, G.A.T(2004). Contemporary Approaches for Financing Micro, Small and Medium Enterprises. Conference on SME held at the International Conference Centre, Abuja, Nigeria,19-22 July Pg 2-15.

Odaman, A(1996).SMEs Role and Importance in Turkish Economy. Small and Medium Industry Development Organization (SMIDO), Turkey. Pg1-16.

Osoba, A.B(1987). Small Scale Enterprises in the Development Process. In, Towards the Development of Small Scale Industries in Nigeria, Osoba, A.M (Ed) Nigeria Institute of Social and Economic. Research, Ibadan, Nigeria, Rosprint Industrial Press.

Sonaïke, P. O(1975). Small Scale Industries in Nigeria: Techniques of Probability Sampling and Analysis. Doctoral Thesis for Oxford University, London Pg 50-52.

Tarka, D(2004).Contemporary Issues for Financing Micro, Small and Medium-sized Enterprises. Paper Presented at the 15th International Conference on SMEs, Abuja, Nigeria, 19th-22nd July, Pg 1-12.

Udechukwu, F.N(2003).Survey of Small and Medium Scale Industries and their Potentials in Nigeria. Unpublished Paper, Pg1-8.

Ukpabio, G.E(2004).Financing Investment Projects through SMEs: The contributions of financial Institutions. A paper presented at the Investment Day of the 7th Raw Materials Research and Development Council (RMRDC) Techno-Exposition 2004, Abuja, Nigeria, 14th October, Pg1-11.

UNIDO(1969).*Small-Scale Industry in Latin America.* United Nations, New York Pg 16-20.

UNIDO(1999): Capacity Building for Private Sector Development in Africa. Private Sector Development Branch, PSD Technical Working Paper Series No.3 UNIDO, Vienna, Pg 1-23.

World Bank(2003). Project Appraisal Document on a Proposed Credit to the Republic of Nigeria for Micro, SME Project. The World Bank, Pg 37-50.