SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA: PROBLEMS AND PROSPECTS

BY

BASIL ANTHONY NGWU ONUGU (FIMC, FICA)

ST. CLEMENTS UNIVERSITY

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BEING A DISSERTATION SUBMITTED TO THE ST. CLEMENTS UNIVERSITY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY IN MANAGEMENT

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2005

DECLARATION

I, Basil Anthony Ngwu Onugu, do hereby declare that this dissertation is entirely my own composition. All references made to works of other persons have been duly acknowledged**.**

Basil Anthony Ngwu Onugu

APPROVAL

This is to certify that this research work was carried out under strict supervision and has been approved for submission to the St. Clements University in partial fulfillment of the requirements for the award of the Degree of Doctor of Philosophy in Management.

Project Supervisor

Academic Adviser

Administrator

St. Clements University

DEDICATION

This work is dedicated to God Almighty who generously gave me the strength, health and other resources to successfully accomplish this research amid other competing demands.

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B.A.N. ONUGU

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ABSTRACT

This study, Small and Medium Scale Enterprises (SMEs) in Nigeria: Problems and Prospects, was undertaken to find out if the SME sub-sector in Nigeria has performed its critical role of driving the country's industrial transformation and development as it has done in other developed countries; and if not, why, and also to identify remedial measures.

The study thus investigated the performance of the Small and Medium Enterprises sub-sector of the Nigerian economy, its problems and prospects and recommended measures to make the sub-sector virile and vibrant in order to play the crucial role it is expected to play.

A total of 300 SMEs were randomly selected from a cross section of a population of 1,500 SMEs spread among all the states of Nigeria including Abuja and covering virtually all forms (Sole Proprietorship, Partnership, Private and Public Limited Companies etc) and kinds (Services, Manufacturing, Processing, Oil & Gas, Educational etc) of business took part in the study. Eleven banks were also selected for the study. Participants were selected through a simple random sampling process. Two sets of questionnaires were constructed, one set for the SMEs and the other for the Banks and administered on the participants. The responses to the questionnaires were complemented with personal interviews of the key operators by the researcher. The responses of the participants were analyzed using the statistical package for social sciences (SPSS), which generated the frequency distributions, means, standard deviations, variances, standard errors, chi-square statistics, correlations, analyses of variance, t-statistics, etc of the responses

The main hypotheses of this research which were tested at 0.05 level of significance using chi-square statistics hinged on identifying the greatest problem which SMEs face in Nigeria, the identification and ranking of the top ten problems or challenges of SMEs in Nigeria and the relationship between the form and nature of the business enterprise and its sources of funding for its operations.

The major findings of this study include the following:

SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies the world over. In the case of Nigeria, SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, instability of governments and frequent government policy changes and somersaults.

The top ten problem areas of SMEs in Nigeria in decreasing order of intensity include: management, access to finance, infrastructure, government policy inconsistencies and bureaucracy, environmental factors, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and non-availability of raw materials locally. Thus managerial problems represent the greatest problem facing SMEs in Nigeria while non-availability of raw materials locally is the least problem.

The potentials and opportunities for SMEs in Nigeria to rebound and play the crucial role of engine of growth, development and industrialization, wealth creation, poverty reduction and employment creation are enormous. The realization of this requires a paradigm shift from paying lip service to a practical radical approach and focus on this all-important sector of the economy by the government realistically addressing the identified problems. While SMEs themselves need to change their attitude and habits relating to entrepreneurship development, the governments (Local, State and Federal) need to involve the SMEs in policy formulation and execution for maximum effect. There is also the dire need to introduce entrepreneurial studies in our Universities in addition to emphasizing science, practical and technological studies at all levels of our educational system.

Promoters of SMEs should thus ensure the availability or possession of managerial capacity and acumen before pursuing financial resources for the development of the respective enterprise.

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CHAPTER ONE

INTRODUCTION

A. STATEMENT OF GENERAL PROBLEM

Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organised private sector groups. Year in year out, the governments at federal, state and even local levels through budgetary allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the SME sub-sector of the economy and hence made policies for energizing the same. There have also been fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutions all geared towards making the SME sub-sector vibrant.

Just as it has been a great concern to all and sundry to promote the welfare of SMEs, it has also been a great cause of concern to all, the fact that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMEs. It has been shown that there is a high correlation between the degree of poverty hunger, unemployment, economic well being (standard of living) of the citizens of countries and the degree of vibrancy of the respective country's SMEs. If Nigeria were to achieve an appreciable success towards attaining the Millennium Declaration Goals for 2015, one of the sure ways would be to vigorously pursue the development of its SMEs. Some of the key Millennium Declaration Goals like halving the proportion of people living in extreme poverty, suffering from hunger, without access to safe water, reducing maternal and infant mortality by three-quarts and two thirds respectively and enrolment of all children in primary school by 2015 may indeed be a mirage unless there is a turnaround of our SMEs' fortunes sooner than later. The time is now to do something surgical to the situation of our SMEs given the aggravating level of poverty in Nigeria and the need to meet up with the Millennium Declaration Goals.

The decreasing level of Nigeria's per capita income, which declined from $870 in 1981 to $260 in 1998, and $205 in2004 as well as a low level of agricultural, industrial and infrastructural development (irrigation, road and railway networks) all represent disturbing indices, which also contribute to the dismal performance and contribution of our SMEs.

Dr. Ade Oyedijo, a financial expert in a paper titled "Nigeria's Economy and its Career Promise for the Mature Employee" affirmed that the plights of SMEs in Nigeria have to do with key variables and challenges that characterise the nation's economy. These include but are not limited to a very high unemployment rate, which is expected to increase as a result of the current ongoing public sector reforms, high unemployment rate, high poverty level, disease, hunger, etc. Dr. Oyedijo also mentioned a drastic shift from the production of non-oil traded goods (mostly agricultural) to traded goods while about 95 million Nigerians are reported to be living below the poverty line even as 19 of her citizens are ranked among the 500 wealthiest men in modern capitalist economy as among the characteristics of our nation's economy which aggravate the problems of Nigerian SMEs. He also opined that since independence, the main thrust of Nigeria's development strategies and objectives have been the development of industrialization, education and a selfreliant economy but regretted that the human capital which is expected to support the industrialisation process and propel other sectors to maturity has not exhibited the right mix of knowledge, attitude and skills required to achieve this purpose.

In spite of the fact that SMEs have been regarded as the bulwark for employment generation and technological development in Nigeria, the sector nevertheless has had its own fair share of neglect with concomitant unsavoury impacts on the economy. In a seminar titled “Carer Crisis and Financial Distress- The Way Out”, the General Manager of Enterprise and Financial Support Company Limited, Mr. Oluseyi Oluboba, identified in his paper the following as the main problems of SMEs, which are however not insurmountable: low level of entrepreneurial skills, poor management practices, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortages of skilled manpower, multiplicity of regulatory agencies and overbearing operating environment, societal and attitudinal problems, integrity and transparency problems, restricted market access, lack of skills in international trade; bureaucracy, lack of access to information given that it is costly, time consuming and complicated at times.

The problems and challenges that SMEs contend with are enormous no doubt but it is curious to know that some SMEs are able to overcome them. This gives hope and should provide a basis for optimism that there is a way out. There must be some survival strategies, which are not known to many SME promoters. This research is also intended to explore and unravel some of the key business survival strategies, which have worked for a few thriving SMEs. The benefits of this could be tremendous in that other SMEs facing threats of extermination as well as new and proposed new ones could also borrow a leaf from them.

Many other countries have been able to energize and transform their SME sub-sector to such a vibrant one that they have been able to reduce to the barest minimum their unemployment and poverty level because of the immense contribution of the sub-sector to their economic growth and development.

It is expected that the outcome of this research will go a long way in ensuring a turnaround of Nigeria’s SME sub-sector. The research would come up with a set of recommendations for various stakeholders for implementations. With the concerted efforts of all and sundry including governments at all levels, SME promoters, Agencies and Departments of Governments involved in the SME sub-sector, Non Governmental Organisations (NGOs), Multilateral

Agencies, Banks, Financiers, Investors, etc, it is hoped that the fortunes of SMEs in Nigeria would dramatically improve.

From the above, the key areas of shortcomings of the Nigerian SME sub-sector could be summarised as:

i) Rate of survival: it is said that less than 5% of SMEs survive beyond their first year of existence.

ii) Contribution to Industrial employment: whereas in great and developed economies of Germany, United States of America and even South Korea, SMEs account for as high as 64% of industrial employment, a comparative figure in Nigeria is around 31%, less than half of those in developed countries. The 31% of SME contribution to industrial growth is rather disturbing given the high degree of unemployment rate in Nigeria as well as the poverty level in the country as measured by the following indices and figures on Nigeria's Human Development Indicators: Illiteracy Rate, Infant Mortality Rate, Life expectancy at Birth and GDP Growth Rate as compared with other countries as exhibited in Tables I to VIII from Development Data Group, World Bank. It is expected that these developmental indices will increase with improvement in Nigeria's SME sub-sector's performance, as has been the case with economies whose SMEs have developed and grown steadily over the years.

iii) Contribution to Industrial Production in particular and GDP in general: in spite of the fact that there is hardly any well-documented, reliable and current data, it is rather obvious that the contributions of SMEs to the Nigerian Industrial output in particular and the Gross Domestic Product in general are less than satisfactory. Evidence for this poor performance is buttressed by the fact that most manufacturing enterprises in Nigeria had operated well below capacity in the last two decades. At times the capacity utilization has been as low as thirty percent (30%). Only the multinational businesses had thrived with many SMEs folding up and thus aggravating the unemployment situation in the country and its attendant high crime rate.

The constraints to full industrial capacity utilization have been enumerated to include limited access to financing, high costs of funds and equipment, infrastructural inadequacies, unpredictable and inconsistent government policies, low purchasing power of consumers, low quality of manufactured goods, multiple taxes and levies on manufacturing inputs and manufactured goods, inefficiencies of customs and ports administration, dumping of cheap finished products on the Nigerian market, inadequate legal framework and non patronage of locally produced goods by government and its agencies.

The government in The Nigerian Vision 2010 initiatives had envisioned an environment in which small and medium scale enterprises would contribute about 34% (gross value of manufacturing to GDP ratio) to the national product and generate 60-70% employment with sustainable yearly growth, and a low mortality rate for businesses. The envisioned future for SMEs in Nigeria is that of “a strong and virile small and medium scale enterprise that enjoys strong institutional support, contributing significantly to the Gross National Product (GNP)”.

In his address to the 2004 Annual General Meeting of the Lagos Chamber of Commerce and Industry (LCCI), the President, Chief Olusola Faleye, lamented that the real sector of the economy, comprising manufacturing, solid minerals and agriculture sectors, where most SMEs fall into, continued to experience difficult times during the year. Continuing, he said that the situation arose from the persistent problems of high energy cost, weak consumer demand, policy inconsistency, multiplicity of taxes and levies, institutional bottlenecks, high cost of funds and poor state of infrastructure among others. He cautioned that if something concrete is not done to address these constraints, the real sector of the economy especially the small and medium segment, would continue to experience a sluggish growth if not outright stagnation. The LCCI President also pointed out that the various poverty alleviation measures such as the Poverty Alleviation Programme (PAP), which later became Poverty Reduction Strategy Programme (PRSP) and currently National Poverty Eradication Programme (NAPEP) put in place by the Federal Government have yet to be felt by the masses. He stressed that these programmes do not touch the root of poverty problems in Nigeria as recent estimates put the percentage of Nigerians living in abject poverty at 70%. The LCCI was visibly concerned about the situation because of its wider implications for consumer purchasing power, the state of internal security, crime rate and the social and political stability of the country.

The government, as is evidenced by the following objectives and strategies many of which have been on going for a while, has indeed appreciated the above problems. The objectives hinge on creating a favourable and enabling environment for stimulating growth in the real sector of Nigeria especially the SMEs.

Federal Government Objectives:

The federal government has enunciated several policy thrusts in the year-to-year budget, which were aimed at improving the SME sub sector. Key among these include:

- Restructuring the Nigerian economy to make it market-oriented, private sector led and technology driven
- Reducing unemployment and increasing productivity

- Maintaining price and exchange stability and a healthy balance of payments
- Reducing lending rates and improving savings
- Improving the performance of major infrastructural facilities such as power supply, communications and transportation
- Entrenching probity, transparency and accountability in governance and
- Improving credit delivery and extension services to small and medium scale enterprises

Key Strategies:

Towards realizing the above objectives, the Federal Government had adopted the following key strategies:

- Priority attention to rural and urban water supply nationwide
- Appreciate investments in power generation, implementation of an emergency power programme (EPP), encouragement of establishment of commercial power plant and focusing on transmission, distribution and rural electrification
- Establishment of anti-corruption bodies such as Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC)
- Roads construction and rehabilitation, and the establishment of a road maintenance agency
- Provision of N50 billion for the take off of the Bank of Industry
- Implementation of the Small and Medium Industries Equity Investments Scheme (SMIEIS), which requires banks to set aside 10% of their profits before tax to improve availability of funds to SMEs
- Enactment of the Pension Act, which could be an additional source of funding for SMEs

It is however important to mention that in spite of the above efforts and programmes, not much benefits have been substantially realized from them. This means that a lot more needs to be done including a paradigm shift in the focus and administration or implementation of the policies and programmes.

TABLE 1

Millennium Declaration Goals for 2015

- Halve the proportion of people living in extreme poverty.
- Halve the proportion of people suffering from hunger.
- Halve the proportion of people without access to safe water.
- Enrol all children in primary school. Achieving universal completion of primary schooling.

- Empower women and eliminate gender disparities in primary and secondary education.
- Reduce maternal mortality ratios by three- quarters.
- Reduce infant mortality rates by two-thirds.
- Reduce under-five mortality rates by two-thirds.
- Halt and begin to reverse the spread of HIV/AIDS.
- Provide access for all who want reproductive health service
- Implement national strategies for sustainable development by 2005 to reverse the loss of environmental resources by 2015.

Source: UNDP, Human Development Report 2001, page 22

Table II

Human Development Indicators: Nigeria and Other Countries' Illiteracy Rate, Adult Males and Females (% of Ages 15 and Above)

Country	**1994**		**1995**		**1996**		**1997**		**1998**		**1999**		**2000**	
	M	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**
Nigeria	35.1	54.8	33.8	53.1	32.5	51.2	31.2	49.3	29.9	47.5	28.7	45.8	27.6	44.2
Ghana	25.5	46.5	24.5	45.0	23.5	43.3	22.5	41.6	21.5	40.1	20.6	38.5	19.7	37.1
Cote d'Ivoire	51.5	70.3	50.7	69.3	49.3	67.3	48.1	65.7	47.2	64.3	46.2	62.8	45.1	61.2
South Africa	16.1	17.9	15.8	17.5	15.4	17.0	15.0	16.5	14.6	16.1	14.3	15.8	14.0	15.4
Sub-Saharan Africa	35.9	54.4	35.0	52.9	34.0	51.5	33.0	50.1	32.0	48.7	31.1	47.4	30.2	46.1
Malaysia	11.0	21.5	10.6	20.6	10.1	19.7	9.7	18.8	9.3	18.0	8.9	17.2	8.6	16.5
Thailand	3.8	8.5	3.6	8.0	3.5	7.6	3.3	7.2	3.1	6.8	3.0	6.5	2.8	6.1
Brazil	16.9	17.5	16.5	17.0	16.5	16.5	15.8	16.0	15.5	15.5	15.2	15.1	14.9	14.6
Chile	4.6	5.5	4.8	5.3	4.6	5.1	4.5	5.0	4.4	4.8	4.2	4.6	4.1	4.5
U.K.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Development Data Group, World Bank

TABLE III

Human Development Indicators: Nigeria and Other Countries' Illiteracy Rate, Youth Males and Females (% of Males and Females Age 15-24)

Country	**1994**		**1995**		**1996**		**1997**		**1998**		**1999**		**2000**	
	M	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**	**M**	**F**
Nigeria	15.0	25.9	14.1	23.9	13.3	22.2	12.5	20.6	11.7	19.0	10.9	17.5	10.3	16.1
Ghana	9.3	18.8	8.7	17.4	8.2	16.2	7.7	14.9	7.3	13.8	6.8	12.7	6.4	11.7
Cote d'Ivoire	35.8	51.2	35.0	49.7	33.7	47.4	32.7	45.4	31.8	43.2	30.9	41.9	29.9	40.2
South Africa	10.2	10.4	10.0	10.1	9.7	9.8	9.4	9.5	9.2	9.3	8.9	9.0	8.7	8.7
Sub-Saharan Africa	21.8	33.6	21.0	32.1	20.4	30.8	19.7	29.6	19.1	28.3	18.4	27.2	17.9	26.0
Malaysia	3.9	4.2	3.6	3.7	3.4	3.4	3.2	3.1	3.1	2.8	2.9	2.6	2.7	2.3
Thailand	1.0	2.0	0.9	1.9	0.9	1.9	0.8	1.8	0.7	1.7	0.7	1.7	0.6	1.6
Brazil	11.1	7.5	10.8	7.2	10.4	6.9	10.1	6.5	9.8	6.2	9.5	5.9	9.3	5.7
Chile	1.9	1.4	1.8	1.3	1.7	1.2	1.6	1.2	1.6	1.1	1.5	1.0	1.4	1.0
U.K.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Development Data Group, World Bank

TABLE IV

Human Development Indicators: Nigeria and Other Countries'

Fertility Rate, Total (Births per Woman)

Country	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Nigeria	-	5.5	-	5.3	-	5.2	-
Ghana	-	4.6	-	4.5	-	4.3	-
Cote d'Ivoire	-	5.4	-	5.2	-	4.9	-
South Africa	-	3.1	-	3.0	-	2.9	-
Sub-Saharan Africa	-	5.6	-	5.5	-	5.3	-
Malaysia	-	3.4	-	3.2	-	3.0	-

Thailand	-	2.0	-	1.9	-	1.9	-
Brazil	2.5	2.5	-	2.3	-	2.2	-
Chile	-	2.4	-	2.3	-	2.2	-
U.K.	1.7	1.7	1.7	1.7	-	1.7	-
USA	2.0	2.0	2.0	2.0	2.1	2.1	-

Source: Development Data Group, World Bank

TABLE V

Human Development Indicators: Nigeria and Other Countries'

Infant Mortality Rate (per 1,000 live births)

Country	1994	1995	1996	1997	1998	1999	2000	Average
Nigeria	-	83	-	81	-	83	-	82
Ghana	-	57	-	55	-	57	-	56
Cote d'Ivoire	-	104	-	112	-	111	-	109
South Africa	-	57	-	59	-	62	-	59
Sub-Saharan Africa	-	96	-	93	-	92	-	94
Malaysia	-	12	-	10	8	8	8	9
Thailand	39	31	-	29	-	28	-	29
Brazil	12	37	-	34	-	32	-	36
Chile	6	11	11	11	10	10	-	11
U.K.	8	6	6	6	-	6	-	6
USA	-	8	7	7	7	7	-	7

Source: Development Data Group, World Bank

TABLE VI

Human Development Indicators: Nigeria and Other Countries'

Life Expectancy at Birth, Male and Female (Years)

Country	1994		1995		1996		1997		1998		1999		2000	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Nigeria	-	-	48	51	-	-	-	52	-	-	47	48	-	-
Ghana	-	-	58	61	-	-	-	62	-	-	57	59	-	-

Cote d'Ivoire	-	-	47	48	-	-	-	47	-	-	46	47	-	-
South Africa	-	-	55	61	-	-	-	58	-	-	47	50	-	-
Sub-Saharan Africa	-	-	48	51	-	-	-	50	-	-	46	48	-	-
Malaysia	69	74	69	74	-	-	-	75	70	75	70	75	-	-
Thailand	-	-	67	71	-	-	-	70	-	-	67	71	-	-
Brazil	-	-	63	71	-	-	-	71	-	-	63	71	-	-
Chile	-	-	72	78	-	-	-	78	-	-	73	79	-	-
U.K.	74	79	74	79	79	74	74	80	-	-	75	80	-	-
USA	72	79	73	79	79	73	73	79	-	-	74	80	-	-

Source: Development Data Group, World Bank

FIGURE I

Regional Indicators of Primary and Secondary Education, 1990/91

TABLE VII

Human Development Indicators: Nigeria and Other Countries

GDP Growth Rate

Country	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Nigeria	-	2.5	4.3	2.7	1.8	1.0	2.8
Ghana	3.4	4.0	4.6	4.2	4.7	4.4	4.0
Cote d'Ivoire	2.0	7.1	6.9	6.6	4.5	2.8	-2.0
South Africa	3.2	3.1	4.2	2.5	0.7	1.9	3.1
Sub-Saharan Africa	2.1	3.7	4.8	3.2	2.2	2.4	-
Malaysia	9.2	9.8	10.0	7.3	-7.4	5.8	8.5
Thailand	8.9	9.3	5.9	-1.45	-10.8	4.2	4.3
Brazil	5.9	4.2	2.7	3.2	0.2	0.8	4.5
Chile	5.7	10.6	7.4	7.4	3.9	-1.1	5.4

U.K.	4.4	2.8	2.6	3.5	2.6	2.1	3.0
USA	4.0	2.7	3.6	4.4	4.4	3.6	5.2

Source: Development Data Group, World Bank

A 2004 survey conducted by the Manufacturers Association of Nigeria (MAN) revealed that only about ten percent (10%) of industries run by its members are fully operational. Essentially, this means that 90 percent of the industries are either ailing or have closed down. Given the fact that manufacturing industries are well-known catalysts for real growth and development of any nation, this reality clearly portends a great danger for the Nigerian economy. The acting director-general of the association, Mr. Jide Mike, who disclosed this fact, attributed the cause of this sorry state to such factors as poor infrastructure, multiple taxes imposed on manufacturers in Lagos state by all tiers of government and the difficulty in accessing finance. He noted, “The debris of dilapidated manufacturing concerns across the country is the outcome of years of harsh operating conditions”. Mr. Jide Mike also remarked, “In addition to policy somersault, funding remains a challenge to all stakeholders in the manufacturing sector, the several palliatives, including the Small and Medium Industries Equity Investment Scheme (SMIEIS) and other sector-specific incentives notwithstanding”. He added, “In summary, 30 percent of industries in Nigeria have closed down. About 60 percent are ailing companies and only 10 percent operate at sustainable level”. The acting director-general of MAN emphasized that low capacity utilization has undermined the competitiveness of manufacturing industries, whose fortunes have been worsened by the impact of globalisation. He recalled that at Nigeria’s independence in 1960, the manufacturing sector’s contribution to national Gross Domestic Product (GDP) was 3.8 percent and that despite the discovery of oil, manufacturing contributed as much as 9.9 percent to the GDP from 1975 to 1981 when capacity building was above 70 percent. Mr. Jide Mike however regretted that the story is different today as the manufacturing sector is back at the independence level as it contributed a mere 4.7 percent to GDP in 2003 while industrial capacity utilization dropped to a paltry 48.8 percent in 2003.

The above is indeed not encouraging as it is representative of the fate of the manufacturing sub-sector of the SMEs. It is said that the large manufacturing companies are even better off given that those of them, which have international affiliation do get succour and support from their parent companies or technical partners overseas. The support and services the multinationals get from their parent companies could be driven by the profit repatriation, expansion of their overseas market and other motivations but over all, the Nigerian economy benefits if only through employment generation. President Olusegun Obasanjo in his address on March 01, 2002 at the commissioning of the headquarters of SMEDAN in Abuja also noted that there was a great disconnection between the SMEs and the large companies in Nigeria, pointing out that the multinational companies dominated business in the country even in the area of finished products. Because of these and other debilitating problems, only about 10 percent of SMEs in Nigeria are into manufacturing.

B. BACKGROUND TO THE SUBJECT MATTER

Small and Medium Enterprises (SMEs) as defined by the National Council of Industries refer to business enterprises whose total costs excluding land is not more than two hundred million naira (₦200, 000,000.00) only.

A lot has been said and written about SMEs the world over. It has also formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and Federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives.

International agencies and organisations (World Bank, United Nations Industrial Development Organisation (UNIDO), International Finance Corporation (IFC), United Kingdom Department For International Development (DFID), European Investment Bank (EIB) etc are not only keenly interested in making SMEs robust and vibrant in developing countries but have also heavily invested in them. Locally, the several Non-Governmental Organisations such as Fate foundation, Support and Training Entrepreneurship Programme (STEP), the Nigerian Investment Promotion Commission (NIPC), the Association of Nigerian Development Finance Institutions (ANDFI), as well as individual Development Finance Institutions (DFIs) have been promoting the growth of SMEs in Nigeria through advocacy and capacity-building initiatives, and have continued to canvass for better support structures for operators in the SME sub-sector.

All the massive attention and support given to SMEs relate to the widely acclaimed fact that SMEs are job and wealth creators. In justifying the introduction of SMIEIS in 2003, the then Governor of the Central Bank of Nigeria, Chief Joseph Sanusi said “With a concerted effort and renewed commitment from all stakeholders, this scheme will surely succeed and realize its intended objective of revamping the SMEs as engines of growth in the economy and a veritable tool for the development of indigenous technology, rapid industrialization, generation of employment for our teeming youths and the pivot for sustainable economic development in Nigeria”.[*]

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state. Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as “the engine of growth” and “catalysts for socio-economic transformation of any country.” SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them.

In recognition of the enormous potential roles of SMEs, some of which have been outlined above, various special measures and programmes have been designed and policies enunciated and executed by government to encourage their (SMEs) development and hence make them more vibrant in Nigeria. The highlights of these measures include:

i. Fiscal incentives and protective fiscal policies
ii. Specialized financial institutions and funding schemes for the SMEs
iii. Favourable tariff structure
iv. The SMIEIS funding scheme
v. Selective exemption and preferential treatment in excise duties
vi. Establishment of Export Processing Zones
vii. Selective reservation of items for exclusive manufacture in the SME sub-sector
viii. Government’s full weight and support for NEPAD and AGOA activities and operations

It has however been worrisome that despite the incentives, policies, programmes and support aimed at revamping the SMEs, they have performed rather below expectation in Nigeria. Different people, organisations, and operators have advanced various reasons as to why SMEs have not been able to live up to their billing. While an average operator would always hinge his failure on lack of access to finance, some others think otherwise arguing that inappropriate management skills, difficulty in accessing global market, lack of entrepreneurial skills and know how, poor infrastructure etc are largely responsible.

The Association of Nigerian Development Finance Institutions (ANDFI) in 2004 issued this statement in relation to why SMEs perform poorly in Nigeria:

“Finance is usually considered as the major constraints of SMEs. While this may be true, empirical evidences have shown that finance contributes only about 25 percent to the success of SMEs. Thus, the creation of other appropriate support system and enabling environment are indispensable for the success of SMEs in Nigeria”.

In a Consultant’s Report on Business Support in FCT Number 107, by David Irwin in March 2004 for DFID, it was stated on Page 5, paragraph 3.3 that “Governments all around the world now recognise the important contribution that small firms make to the economy- and many governments have established extensive support arrangement to help people start and grow their businesses. In Nigeria, hitherto, there has been no concerted effort to encourage and support new businesses”. Some others have argued that the bane of SMEs in Nigeria is the lack of long-term loans since most loans in the Nigerian market are short-term while what SMEs require to grow and become really successful is long-term patient capital. The dearth of venture capital financing in Nigeria has also aggravated the situation as venture capital provides long-term patient capital, which allows a small business to grow, as is the case in Ghana and some developed economies.

Other challenges and problems, which frustrate SMEs in Nigeria and make some of them to either die within their first two years of existence or perform below standard even after surviving in their early years abound. The key ones include inadequate infrastructural facilities (road water electricity etc), insecurity of lives and property, inconsistent monetary, fiscal and industrial policies, limited access to markets, multiple taxation and levies, lack of modern technology for processing and preserving products, policy reversals, capacity limitations, data inadequacies, harsh operating environment, fragile ownership base, fragile capital base.

While some of the challenges that SMEs face are induced by the operating environment (government policies, globalisation effects, financial institutions, local government policies, attitude to work etc), other challenges are driven by the inherent characteristics of the SMEs themselves.

C. CHARACTERISTICS OF SMEs IN NIGERIA

A major characteristic of Nigeria’s SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business.

Other common features of Nigeria’s SMEs include the following among others.

1. Labour–intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and bank charges
5. High mortality rate especially within their first two years
6. Over-dependence on imported raw materials and spare parts
7. Poor inter and intra-sectoral linkages - hence they hardly enjoy economies of scale benefits
8. Poor managerial skills due to their inability to pay for skilled labour
9. Poor product quality output

10) Absence of Research and Development

11) Little or no training and development for their staff

12) Poor documentations of policy, strategy, financials, plans, info, systems

13) Low entrepreneurial skills, inadequate educational or technical background

14) Lack of adequate financial record keeping

15) Poor Capital structure, i.e. low capitalisation

16) Poor management of financial resources and inability to distinguish between personal and business finance

17) High production costs due to inadequate infrastructure and wastages.

18) Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage.

19) Lack of access to international market

20) Lack of succession plan

21) Poor access to vital information

D. CHALLENGES OF THE SMEs

Most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity.

Many factors have been identified as to the possible causes or contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right calibre staff, planlessness, cut-throat competition, lack of official patronage of locally produced goods and services, dumping of foreign goods and over-concentration of decision making on one (key) person, usually the owner. Other challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc) unfavourable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistencies, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw materials sourcing problems, competition with cheaper imported products, problems of inter-sectoral linkages given that most large scale firms source some of their raw material outside instead of sub contracting to SMEs, insecurity of people and property, fragile ownership base, lack of requisite skill and experience, thin management, unfavourable monetary policies, lack of preservation, processing and storage technology and facilities, lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources.

Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs, which globally are regarded as the strategic and essential fulcrum for any nation's economic development and growth have performed rather poorly in Nigeria. The reason for this all-important sector's dismal performance have been varied and convoluted depending on who is commenting or whose view is being sought. For sure it has nothing to do with government's appreciation of the vital central role of the sector as evidenced by how well SMEs have been acknowledged and orchestrated in various government's budget, with the imperativeness of SMEs as the bulwark for employment generation, poverty reduction and technological development being highlighted. While many attribute the relatively poor performance of SMEs in Nigeria when compared with the significant roles which SMEs have played in developed economies such as the United Kingdom, Germany and the United States and even developing countries of the world like India to the challenges outlined above, some others hinge the reasons on the fair share of neglect on the sector by the government. The latter group argues that government's appreciation of the SMEs in capacity building has always been restricted to the pages of the budget presentations and submissions at various fora.

Essentially, they argue that poor budget implementations over the years account for the unsavoury impacts of SMEs on the Nigerian economy, which has had a record sluggish growth and declining future as measured by the population of Nigerians becoming literate, having more access to better health care, shelter, food, and other necessities of life such as access to more and better paying jobs as well as declining per capita income. Other parameters usually used to measure the performance of SMEs include percentage of working population employed by the SMEs in a given country or economy, the percentage contribution to the country's GDP, managerial and technical capacity building, percentage of revenue internally generated or percentage of total PAYE accruing to the government from the SMEs employees, years increases in average household income, etc.

This research is intended to critically appraise and analyse the operating environment and circumstances of SMEs in Nigeria with a view to actually identifying why they (SMEs) are not playing the vibrant and vital roles in the Nigerian economy as they (SMEs) do in other economies such as India which has so many similarities with Nigeria in terms of population and other demographic variables. This is even more disturbing if one recalls that Nigeria remains the largest market in the African continent where investment opportunities are beckoning to be exploited.

E. <u>THE OBJECTIVES AND RATIONALE FOR THE RESEARCH</u>

The high degree of poverty and unemployment with their attendant high crime rate in Nigeria has been of great concern to the various governments (federal, state and local) as well as the civil society. All and sundry have been seriously agitated as to what to do in order to reduce the crippling poverty, high level of ignorance, disease, high infant-mortality rate, and the rather embarrassing high unemployment rate in Nigeria. Given the vital and salutary role and contributions, which SMEs play in other developed and developing economies, and considering the on-going reforms by the government of Nigeria, which are primarily aimed at creating wealth, reducing poverty, generating employment, re-orientating values, and stimulating real economic growth, it becomes compelling for the SME sub-sector to be revamped, overhauled and energised towards playing its expected roles. The SMEs remain a veritable vehicle for such an expected complete turnaround in the economy of Nigeria. In order words, if the governments are to realize the lofty objectives of the NEEDS and SEEDS programmes, the SME sub-sector has to be thoroughly revamped and focused on for a while. This is one of the ways that the government can be sure of realizing the objectives of the well-intended reforms and be sure of moving the economy forward to the delight of all stakeholders.

This research is thus intended to identify all the problems, challenges, and constraints militating against the success of SMEs and also make appropriate recommendations for readdressing and eliminating them so that the SMEs could occupy their pride of place in the Nigerian economy and hence play the vital role they are expected to play in the economic growth and development of Nigeria.

The overall objective of this research is to identify ways and means, which will establish and sustain the vibrancy for Nigerian SMEs so that they (SMEs) can play the expected vital role as the engine of growth in our economic development efforts. In order to achieve this, the research will attempt the following:

i. To identify the major problems, challenges and constraints, which have militated against the SMEs from playing the vital role in the Nigerian economic growth and development; many SME promoters are claiming that the government is not doing enough to encourage, stimulate and protect the Nigerian SMEs. Some observers think that the problem is with the promoters and managers of the SMEs adding that they (SME promoters) are not only unbusiness-like in their approach but are also lacking in several aspects of managing or running a profitable business or an enterprise.
ii. To find out the key causes of the low utilization or patronage by SMEs of the Small and Medium Industries Equity Investment Scheme (SMIEIS) fund currently at N28.8billion (as at December31, 2004) representing ten percent (10%) of the profit before tax, which banks have set aside for equity investment in Small and Medium Enterprises. In 1999, the Bankers' Committee in appreciation of the government economic reforms decided to set aside 10% of profit before tax to assist SME development in Nigeria. This noble project has not yielded the desired result as only N9.3billion representing 32.3% has been invested. The latest CBN report, which puts the total pool of funds for SMIEIS at N28.8billion also noted that of the invested funds, printing and publishing took N4.3billion invested in 80 projects

Both banks and SME operators have been accusing and counter-accusing each other as to who is the bad egg in the proposed transaction chain. While SME operators are saying that banks are demanding unattainable conditions and terms for approval, the banks are claiming among other things that SME operators are not presenting bankable projects. The research shall attempt to find out the true position.

iii. To ascertain first hand, the opinions, feelings, and the pulse of some key SME operators as well as professionals in the SME sub-sector of the economy with respect to the unhealthy state of SMEs in Nigeria.

Opinions have been as varied as the number of people one interviews as to why SMEs in Nigeria have not been thriving in spite of all incentives and support (at least on paper) policies and pronouncements by both the federal and state governments. Year in, year out, there have been a lot of emphasis on and budgetary allocations to that sub-sector of the economy.

Many have argued that the SME sub-sector in Nigeria has not been thriving largely due to poor implementation of several government policies as well as frequent policy changes or what they call policy inconsistencies. The poor policy implementation is also said to be deeply rooted in poor corporate governance and unethical practices, which abound in the Nigerian public service. The overwhelming control and management of most business-supporting structures and facilities by government departments and agencies also aggravate the situation.

(iv) To make appropriate recommendations for solving or at least alleviating the identified problems and challenges of the SMEs.

The study will attempt to identify all the challenges and militating factors against the success of SMEs, analyse them and then proceed to make appropriate recommendations towards alleviating them. It is said that a clear and precise definition of a problem represents half the solution – hence, identifying and crystallizing the key problems of the SMEs would lay a solid foundation for mitigating if not solving them outrightly.

(v) To rank the identified bottlenecks or problems militating against the healthy state or wholesome performance of SMEs in Nigeria

F. LIMITATIONS OF THE STUDY

Certain Limitations were encountered in the course of this study. Key among these include:

Unavailability Of Data:

One of the greatest challenges the researcher encountered in this study relates to access to and collection of hard data due to extreme data gaps and paucity. This compelled the researcher to limit the study to Small and Medium Scale Enterprises thus excluding Cottage and Micro Enterprises whose challenges though comparable, could be fundamentally different from those of SMEs. The Cottage and the Micro Enterprises have been acclaimed to have significantly impacted on the grassroots by way of poverty alleviation and reduction. On a quite related note, there also appears of late to be a lot of Non-

Governmental Organizations, Bilateral and Multilateral Agencies and Organizations, which focus their attention on and channel their support and donations towards the Micro and Cottage Enterprises in order to contribute towards poverty reduction.

Research has also proved that Micro and Cottage Enterprises have a better credit rating than the SMEs. In some places Micro Credits have less than one percent (1%) average default rate while the same cannot be said of SMEs.

Time And Funds:

Another limitation of this study relates to time, funds and logistics constraints, which limited the intensity of the spread or area of coverage of the study. Even though SMEs are spread through out the length and breadth of Nigeria though with negligible concentrations in some States and less urban areas, this study focused largely on SMEs in Lagos and its environs where there is a relatively high concentration of about eighty percent (80%) of the SMEs. This notwithstanding, the researcher, in order to ensure fair coverage, applied the 80/20 rule at the national level in the selection of the sample while ensuring that every state and the Federal Capital Territory was represented.

Resistance Of Respondents:

The researcher was also limited by the reluctance of some respondents to complete the questionnaires promptly and those who even failed to complete them at all. This thus limited the number of respondents involved in the study despite the researcher’s efforts and approaches to them explaining the potential benefits of the study to them.

Materials:

Mass literature on SMEs in scattered form abound but published data on categorizing and ranking of problems facing SMEs in Nigeria as well as the contributions of SMEs to our national economic growth and development proved rather difficult to come by. It was easier for the researcher to access data relating to the performer of SMEs in other parts of the world especially the Asian and Western Countries than those pertaining to SMEs in Nigeria. This factor thus limited the depth of discussions in the area of contributions of SMEs in Nigeria to our economic development and growth.

G. <u>DEFINITION OF TERMS</u>

Various bodies, organisations and institutions have defined SMEs differently depending upon their purpose, objective and use.

For this research, the following definitions have been adopted:

i. **Micro Enterprise:** A firm, whose total cost including working capital but excluding cost of land is not more than ten million naira (₦10,000,000) and/or with a labour size of not more than thirty (30) full-time workers and/or a turnover of less than two million naira (₦2,000,000) only.
ii. **Small Enterprise:** An enterprise whose total cost including working capital but excluding cost of land is between ten million naira (₦10,000,000) and one hundred million naira (₦100,000,000) and/or a workforce between eleven (11) and seventy (70) full-time staff and/or with a turnover of not more than ten million naira (₦10,000,000) in a year.
iii. **Medium Enterprise:** A company with total cost including working capital but excluding cost of land of more than one hundred million naira (₦100,000,000) but less than three hundred million naira (₦300,000,000) and/or a staff strength of between seventy-one (71) and two hundred (200) full-time workers and/or with an annual turnover of not more than twenty million naira (₦20,000,000) only.
iv. **Large Enterprise:** Any enterprise whose total cost including working capital but excluding cost of land is above three hundred million naira (₦300,000,000) and/or a labour force of over two hundred (200) workers and/or an annual turnover of more than twenty million naira (₦20,000,000) only.

Other abbreviations, terms and notations used in this study include but are not limited to the following:

(v) **NASME:** Nigerian Association of Small and Medium Enterprises, which is an umbrella association of all SMEs

(vi) **MAN:** Manufacturers Association of Nigeria is the official association of manufacturing companies in Nigeria

(vii) **NACCIMA:** Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture is an association of various Chambers of Commerce in Nigeria

viii. **NASSI:** Nigerian Association of Small Scale Industries is the umbrella association of all the Small Scale Enterprises in Nigeria
ix. **DFIs:** Development Finance Institutions are companies involved in project and development finance such as the Bank of Industry (BOI)
x. **SMEs:** Small and Medium Enterprises are those firms, which satisfy the definitions given above
xi. **SMEDAN:** Small and Medium Enterprises Development Agency of Nigeria

xii. **BOI:** Bank of Industry, which provides medium to long-term loans to enterprises
xiii. **CBN:** Central Bank of Nigeria, the apex bank in Nigeria, which supervises other banks
xiv. **NACRDB:** Nigerian Agricultural Cooperative and Rural Development Bank
xv. **NEEDS:** National Economic Empowerment and Development Strategy
xvi. **SEEDS:** State Economic Empowerment and Development Strategy
xvii. **NDE:** National Directorate of Employment
xviii. **CMD:** Centre for Management Development
xix. **NAPEP:** National Poverty Eradication Programme
xx. **MSME:** Micro, Small and Medium Enterprises
xxi. **NGO:** Non-governmental Organisation
xxii. **LCCI:** Lagos Chamber of Commerce and Industry
xxiii. **NACC:** Nigerian American Chamber of Commerce
xxiv. **SRS:** Simple Random Sampling

CHAPTER TWO

LITERATURE REVIEW

A. INTRODUCTION

Copious literature exists on Small and Medium Enterprises (SMEs) written by various authors and in different languages and for various purposes. This fact underscores the essence, importance and relevance of this sub-sector in the development of any given economy. The experiences of developed economies in relation to the roles played by SMEs buttresses the fact that the relevance of SMEs cannot be overemphasized especially among the Less Developed Countries (LDCs) or rather Developing Countries. In order to highlight the significance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the “engine of growth”. This stems from the fact that almost all countries that have focused on the SMEs sector and ensures its vibrancy have ended up succeeding in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in GDP among other salutary effects.

There is a consensus that if all stakeholders are to show serious commitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness meaningful transformation and prosperity. A dynamic SME sub-sector is vital and imperative for the overall economic development of the country. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large–scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and effective SME sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy's benefits. Employees require new skills and knowledge to improve their performance on the job and to compete with their counterparts in other parts of the world.

Customers on their part tend to enjoy personalized service and attention because of the keen competition, focus and innovation, which characterise the operations of SMEs. Employers or rather SME entrepreneurs on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining good relationship with their financiers (banks and other financial institutions), auditors, regulators and even their competitors. They achieve this by belonging to and participating actively in the activities of appropriate chambers of commerce, trade groups, various fora, exhibitions, etc where ideas, new concepts and knowledge are shared and discussed. The bottom line of all these is that the relevant SME would remain efficient and profitable and hence contribute to the growth and development of the entire economy.

Many International Development Agencies, organisations, and financiers not only appreciate the great roles played by SMEs in poverty alleviation and overall economic development, but also invest a significant percentage of their resources in them (SMEs). A review of World Bank Operations revealed that it invested a whopping $1.597 billion in SMEs in 2004 fiscal year, with Africa getting a sizeable share of over $89 million. This sum was channelled through the four major development arms of the bank: the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). Nigeria, Kenya and Uganda benefited from part of the new joint pilot programme executed by IFC and IDA for SME development in 2004 to the tune of $70million. The 2004 annual review of the IFC's Small Business Activities indicate that the IFC and IDA began SME project development in Nigeria worth $32 million. In Kenya and Uganda, $22 million and $16 million were also respectively invested in similar projects.

In recognition of the crucial role SMEs play in economic growth and development, the Bank of Industry generated over sixty percent (60%) of the entire loans it granted in 2004 to SMEs, the relatively high default rate notwithstanding. The Managing Director of the Bank of Industry, Dr. Lawrence Osa-Afiana also confirmed that twenty nine (29) of the 594 loan applications received by the bank since 2001 received approval adding that N20.8 million or 19.1 percent of the total approved loans went to the SME sub-sector. The Bank of Industry is also intensifying efforts to source cheaper funds from Development Financial Institutions (DFIs) such as the African Development

Bank (ADB), African Export-Import Bank, European Development Bank, etc so as to on-lend to SMEs at concessionary rates and thus maximize their value addition.

SMEs have no doubt been indeed recognized as the main engine of economic growth and development, a major variable for promoting private sector, development and partnership. Various governments, development agencies and experts as well as multilateral institutions do appreciate this fact such that they positively respond to any occasion and situations, which could permit their contributing to or creating opportunities for promoting the lot of SMEs. The SME sub-sector not only contributes significantly to improved living standards but they also bring about substantial local capital formation and achieve high levels of productivity and capability. From a planning perspective, SMEs are increasingly viewed as a major means for achieving equitable and sustainable industrial diversion and dispersal. Employment or job opportunity wise, SMEs account for well over half of the total share of employment, sales and value added in most countries.

One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant and virile SME sub-sector. Given a population of well over 120million people, vast productive and arable land, rich variety of mineral deposits, as well as enormous human and other natural resources, Nigeria should have been a haven for Small and Medium Enterprises with maximum returns as it also has the location advantage as a marketing hub for the West and even East African Countries.

A number of reasons have been adduced as to why the expectations from the SMEs have not been met. If anything, the performance of the SMEs in Nigeria has been rather dismal. First and foremost, the little progress made by the courageous and entrepreneurial efforts of the first generation of indigenous industrialists were almost virtually wiped out by the massive devastation, dislocations and indeed traumatic devaluation, which resulted from the Structural Adjustment Programme (SAP). The underlying policies and good intentions of SAP, which were based on the neo-classical theory of efficient, perfect and competitive markets whose assumptions were unfortunately out of sync with the prevailing circumstances, constraints and operating environment of SMEs in a developing economy like Nigeria. The SAP era thus represented the anti-climax of the thriving, flourishing period for SMEs in Nigeria over the past decade and the economy of the country has been on the decline with no appreciable real growth. People had gradually moved out of the farms into urban areas for lack of agricultural incentives. Even in the urban areas and cities, infrastructure had continued to deteriorate, roads uncared for, water supply was irregular, power outage was a regular phenomenon, and even for people who could afford to use electricity-generating sets, petroleum products to power them might not be available as when needed.

Instability and high turnover had negatively affected the performance of primary institutions responsible for policy enunciation, monitoring and implementation resulting in distortions in the macroeconomic structure and its attendant low productivity. These and other problems constitute drawbacks to the development of SMEs, which to all intents and purposes provide the critical building blocks for sustainable industrialisation and economic growth. In developing countries like Nigeria, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation. The key roles of SMEs include mobilization of domestic savings for investment, significant contribution to Gross Domestic Product (GDP) and Gross National Income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification.

This can however only be realised with the existence of a responsive and vibrant industrial policy and involving governments overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilization of economic resources.

B. <u>ROLE OF THE SME SUB-SECTOR IN THE ECONOMY</u>

A review of historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion. The Industrial Revolution of 1760-1850 represents a good testimony of the inherent innovative spirit of SMEs, which is increasingly challenged in the present century particularly after winds of economic change cum technological innovations and industrial liberalisation have swept various economies of the world. These challenges notwithstanding, SMEs have remained as much important and relevant economic catalysts in industrialized countries as they are in the developing world. In many developed countries, more than 90% of all enterprises are within the SME sub-sector while 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of the country’s national income. Comparable figures in many other developed countries are even higher.

Studies have indicated that the sustenance of interest in SMEs in the developed economies is due to technological as well as social reasons more so as those economies are currently driven by knowledge, skill and technology as opposed to material and energy-intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms. The social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralised work centres.

Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike. Small domestic markets, inadequate infrastructure, high transportation costs, shortage of capital and foreign exchange, weak currency, lack of access to technology and foreign markets as well as surplus low quality labour are the general characteristics of developing countries and hence are susceptible to being trapped in a technology divide and investment gap. Foreign direct investment and the acquisition of technology are indispensable elements for economic transformation these countries require to achieve sustainable economic growth and poverty alleviation. Although SMEs in developing countries and countries with economies in transition are regarded as the engine of economic growth, they face enormous challenges in attracting investors and accessing modern technology. Other barriers which SMEs in developing economies face include the lack of effective investment and technology promotion policies, inappropriate legal and regulatory frameworks, inadequate capabilities of investment promotion and technology support institutions and the lack of access to potential investors and sources of new technology, limited technical and managerial skills, difficulty in obtaining financing and insufficient knowledge about laws and regulations. Others are inability to achieve economies of scale through integration or linkages, problems of size and relative isolation such as the difficulties in entering into national and global value chains driven by large multinational corporations.

All told, a competitive and resilient industrial sector relies on an appropriate mix of large, medium and small enterprises for optimum performance. SMEs certainly play a major role in creating employment income and value added, accounting for up to ninety percent (90%) of manufacturing enterprises and between forty (40%) to eighty percent (80%) of manufacturing employment. *See Tables VIII & IX*

In developing countries, the role of SMEs is even more important since SMEs often offer the only realistic prospects for creating additional employment and thus reducing poverty and enhancing the quality of lives. A healthy SME sub-sector is a *sine qua non* for inclusive and socially sustainable development even though institutions that provide support services where available are often limited in capacity and coverage in developing economies.

Exports by SMEs usually range between 30 and 50 percent of total industrial exports in developed and developing countries. In tune with the latest developments in the world economy and the attendant globalisation effects, the role of SMEs going forward is bound to be even greater and more pervasive, with a demonstrable impact on the emerging world trading order.

C. <u>SIGNIFICANCE OF THE SME SUB-SECTOR IN THE NIGERIAN ECONOMY</u>

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries. Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, Research and Development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organisations (NGOs).

In recognition of the crucial roles played by SMEs with respect to economic growth and development, succeeding governments in Nigeria had various initiatives aimed at promoting the cause of SMEs in the country. The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs. Some of the support institutions and opportunities created by the government to enable SMEs access funding in the past 30 years include:

1. Small Scale Industries Credit Scheme (SSICS) 1971
2. Nigerian Bank for Commerce and Industries (NBCI) 1973
3. Nigerian Industrial Development Bank (NIDB) 1964
4. SME Apex Unit of Central Bank (1989)
5. National Economic Reconstruction Fund (NERFUND) 1989
6. The African Development Bank/ Export Stimulation Loan (ADB/ESL) 1989
7. Nigerian Export Import Bank (NEXIM)
8. National Directorate of Employment (NDE)
9. Industrial Development Co-ordinating Centre (IDDC)
10. Community Banks
11. People’s Bank
12. Family Economic Advancement Programme (FEAP)
13. State Ministry of Industry SME Schemes
14. Small and Medium Industries Equity Investment Scheme (SMIEIS)
15. Bank of Industry (BOI)
16. Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN)
17. Credit Guarantee Scheme for SMEs (underway)

The above well-intentioned institutions designed to provide succour to SMEs notwithstanding the sub-sector is yet to find its bearing in the murky waters of Nigeria's business environment. These account for the government's recent introduction of the last three support schemes i.e. BOI, SMEDAN and the Credit Guarantee Scheme, discussions on which have reached an advanced stage and the Bankers Committee's decision to institutionalise SMIEIS. It is expected that the Credit Guarantee Scheme would enhance and facilitate easy access to credits by the SMEs while SMIEIS would boost access to equity financing while SMEDAN would provide other needed non-financial support and leverage for the SMEs to thrive

TABLE VIII

CONTRIBUTIONS OF SMEs IN SELECTED ASIAN ECONOMIES

(IN PERCENTAGES)

Industrial characteristics	Malaysia (1985)	Singapore (1990)	Republic of Korea (1991)	India (1994)
Contribution to total number of industrial establishment	92.1	88	97	94
Contribution to total industrial employment	49.4	40	63.5	31
Contribution to total industrial production	46.7	26	44.5	40
Contribution to total industrial value addition	30	23	45.8	35

Source: Confederation of Asia Pacific Chamber of Commerce and Industry-Journal of Commerce and Industry, Volume II, 1994: pages 6-18

₦10 billion SMIEIS Fund out of ₦29billion in the pool of the Small and Medium Industries Equity Investment Scheme Fund has so far been invested in relevant enterprises, according to the Small and Medium Enterprises Development Agency (SMEDA)'s Olufemi Adebiyi, the Director of Industrial Promotion Management and Extension Services (PM & ES).*

TABLE IX

ROLES OF SMEs IN ECONOMIES OF SELECTED COUNTRIES

ECONOMY	SME as % of	YEAR	% Employed By	YEAR

	Industrial Sector		SMEs	
Australia	95%	1991/92	50.6%	1991/92
Philippines	98.7%	1988	50.77%	1993
Canada	99.8%	1992	59.24%	1991
Hong Kong	97.95%	1993	63%	1993
Japan	99.1%	1991	79.2%	1991
Mexico	98.17%	1993	50.77%	1993
USA	99.72%	1990	53.67%	1990
South Korea	99.8%	1992	78.5%	1991

Source: Confederation of Asia Pacific Chamber of Commerce and Industry- Journal of Commerce and Industry, Volume II, 1994: pages 6-18

D. PROBLEMS OF SMEs IN NIGERIA

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled.

A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching:

1. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
5. High cost of packaging appropriate business proposals
6. Uneven competition arising from import tariffs, which at times favour imported finished products

7. Lack of access to appropriate technology as well as near absence of research and development
8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterised by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalisation and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
11. Weakness in organisation, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.
12. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazetted tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
13. Widespread corruption and harassment of SMEs by some agencies of government over unauthorised levies and charges
14. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs
15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:
    i. Lack of equipment, which have to be imported most times at great cost (capital flight) and which would require expatriate skills to be purchased at high costs.
    ii. Lack of process technology, design, patents, etc., which may involve payment of royalties, technology transfer fees, etc. and heavy capital outlay.
    iii. Lack of technical skills in the form of technological and strategic capability
    iv. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.
    v. The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate

mechanism and technology to process, preserve and package the products for export.

16. Lack of initiative and administrative framework or linkage to support and sustain SMEs' development, which to a large extent, is also a reflection of poor technological capability or intellectual resource
17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organisational set-up, transparent operational system, etc on the part of many founders and managers of SMEs in Nigeria. As a fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage *ab initio* for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.
18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterise institutions set up to facilitate SME businesses.

Business Day Survey[3]

A recent survey by Business Day reveals that power supply ranks top on areas SMEs would want improved in the New Year. Other factors identified by those sampled include government policies, infrastructure, and access to funds. Some of those interviewed asserted that the year 2004 was catastrophic as far as power and policy are concerned. Some firms had to close down because of government's decision to ban the importation of some items. A specific case was a carpet-producing company in Ota. Some others observed that the greatest problem confronting the development of entrepreneurship in Nigeria is corruption given that huge sums of stolen funds are taken out of the country instead of being used to develop the country.

E. PROSPECTS OF SMEs IN NIGERIA

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment. These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succour to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs.

It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive. From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualisation, or were not truly and religiously implemented. Our investigations also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases. All the stakeholders in the SME sub-sector should be involved in policy formulations and implementation for them to be effective and yield expected results.

The comfort is that the governments (local, state and federal) are neither relenting nor giving up in their bid to revamp and invigorate the fortunes of SMEs as to enable them play the expected role in Nigeria’s economic growth and development.

This is evidenced by the government’s recent establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers’ Committee’s institutionalisation of the Small and Medium Industries Equity Investment Scheme (SMIEIS), the federal government’s drive and focus on realizing the objective of NEPAD, the government’s endorsement and support of multilateral agencies and loans, and the government’s backing of international development finance facilities such as the European Investment Bank (EIB) facilities and the likes. Other indications relate to the government’s programmes aimed at poverty alleviation and providing succour to those whose jobs could be affected by the current government reforms as well as the proposed establishment of a Credit Guarantee Scheme for loans to SMEs.

Given the crucial role SMEs play in the industrial and economic growth and development of developing countries like Nigeria, the various governments in Nigeria cannot afford to relax in their efforts towards making the SME sub-sector very vibrant and productive.

Aside from the government’s concerted and relentless efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the sub-sector. The capital market driven by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) have been not only expanding its facilities but also working to make it cost effective for SMEs to access funding from the market. Professional groups and associations such as the various Chambers of Commerce, Nigerian Association of Small and Medium Enterprises (NASME), Nigerian Association of Small Scale Industries (NASSI) and the likes are vigorously pursuing, pushing and lobbying the governments for improved welfare and a better and more enabling operating environment.

Given the current awareness of the Nigerian investing public as well as the depth of the Nigerian capital market, it is expected that many SMEs would approach the capital market to raise funds. On a related note, there is a reawakening and new impetus towards the establishment of venture capital companies primarily targeted at developing SMEs. Even some banks are exploring this option towards finding a sure window or vehicle through which they would invest the SMIEIS funds, which they have reserved since the commencement of the scheme.

The on-going reforms being undertaken by the government ministries, inter-ministerial departments, agencies and parastatals are bound to render quite a handful jobless. Certainly one sub-sector, which many of the affected persons may want to venture into would be the SME. Thus, this scenario would make it compelling for the government not to ignore this one of the most important sub-sectors of the Nigerian economy.

At the international front, SMEs in Nigeria have better and much improved operational environment. The current thrust on commercialisation and privatisation of government-owned companies has also opened up new vista for SMEs and entrepreneurs. The effect of globalisation has also had salutary impact on the sub-sector. The liberalization of trade through WTO agreements has provided awareness through which SMEs could access international markets. The African Growth and Opportunities Act (AGOA), which favours and gives incentives to exporters from African countries to the United States of America represents another opportunity. Similarly, NEPAD has provided other growth opportunities for Nigerian SMEs.

On a related note, the federal government has been consistently making overtures to developed countries to come to invest in Nigeria. Efforts in this direction include personal visits by the president, trade missions, trade fairs, exhibitions and other promotional and showcasing activities. The intensified activities of the Nigerian Export Promotion Council (NEPC) and the Nigerian Investment Promotion Council (NIPC) underscore the government efforts in this direction. In the same token, Nigeria, by virtue of its huge economic and investment opportunities, as well as the vase market, has attracted so many foreign trade delegations and missions. In November 2004, a high-powered trade delegation from Thailand's Department of Export Promotion was in Nigeria with a view to strengthening bilateral trade relationships between Nigeria and Thailand. Aside from meeting with some SME operators in Lagos, the delegation led by Charoon Lewechalermvong, a director in the department, also met with leaders of the National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) and representatives of Lagos, Kaduna and Enugu Chambers of Commerce.

The focus of the World Bank's IFC, which emphasizes on SMEs, has remained high in its priority. The same can be said for many other international agencies like the United Nations Industrial Development Organisation (UNIDO), the United Kingdom's Department for International Development (DFID), the United States Agency for International Development (USAID), and the World Bank's International Development Agency (IDA).

Recently (in February 2005), the Institute of Directors (IOD) president, Ms. Bennedikter Molokwu confirmed that the Blair Commission for Africa is to assist the SMEs in Nigeria by creating access to loans and a structure for on-lending through banks. She noted that it is a well-known fact that the African economy is government-driven while SMEs are the veritable engine of growth in developed economies. Molokwu stated that SMEs are the largest employer of labour, providing livelihood for over 80 percent of the African work force especially women and the young. She noted that statistics have it that only about 10% of SMEs in Nigeria are involved in manufacturing while the rest are in agriculture, services and commerce. This fact largely informed the recent (February 2005) modification of the SMIEIS fund, which is no longer limited in its scope.

As regards SMEs challenges in Nigeria, the IOD president had this to say: "Unfortunately, these SMEs over the years, have been bedevilled by several inhibitions, which tend to make their growth perpetually stunted by infrastructural decay, insecurity of lives and property, multiplicity of taxation, lack of access to good and modern technology, lack of research and development as well as good entrepreneurship, difficulties in building coalitions and business linkages among others".

Similarly, during the commissioning of the headquarters of the Small and Medium Enterprises Development Association of Nigeria (SMEDAN) on March 1, 2005, President Olusegun Obasanjo charged the Central Bank of Nigeria (CBN) to ensure the realization of the primary objective of the Small and Medium Industries Equity Investment Scheme (SMIEIS), which is expected to complement the development efforts of the financial institutions like the Bank of Industry (BOI), the Nigeria Agricultural Cooperative and Rural Development

Bank (NACRDB), which provide a medium for long-term financial resources to enterprises in Nigeria. He also noted that the on-going reform of commercial banks by the CBN is expected to boost the flow of funds at competitive interest rates to businesses including the SMEs. The president reminded Nigerians that the present administration has made the development of SMEs a primary focus of its reform programme as stipulated in the National Economic Empowerment and Development Strategy (NEEDS) stressing that “our primary goal is to provide greater access to income-generating opportunities for our people and enhance their capacity to respond to those opportunities” adding that “our economic history and experiences of other countries show us the immense potentials of SMEs to redress poverty growth, wealth creation, employment generation and job creation. Unfortunately, these were largely neglected for many years prior to our coming into office in 1999”. Chief Obasanjo further acknowledged that the increasing hostile operating environment, including the deteriorating state of infrastructure, in the past led many companies to fold up while other operators moved their business activities to the informal sector. He also confirmed that SMEs in Nigeria lack access to business information, markets, finance and even production technology.

President Obasanjo however expressed optimism for the future of SMEs as his administration has instituted a comprehensive economic package of reforms, which have started yielding good results. These are evident in the remarkable improvement in the legal and regulatory environment, especially as regards company registration, taxation, and state of infrastructure (telecommunication in particular).

In furtherance of its efforts towards making the SME sub-sector more vibrant, the government through SMEDAN recently called on G8 to assist in providing an enabling environment for small businesses to thrive in Nigeria. In a paper titled “Developing Africa’s SME Potential: How G8 Can Do More To Help Africa” at a one-day workshop jointly organised by the African Business Roundtable (ABR) and the Tony Blair-driven Commission for Africa in Lagos recently, the Director-General of SMEDAN, Mrs. Modupe Adelaja pointed out that “an improvement in power supply, for example, would have more impact than a concessionary interest rate practise”.[*] She also sought support from the G8 for current attempts by stakeholders to streamline and simplify procedures for business registration and taxation at the three tiers of government adding that these would encourage SMEs to move from informal to formal status. She charged the developed countries of the world to support SME development initiatives on the African continent adding that translating the SME potentials in Africa to productive employment, income generation and wealth creation represent the greatest challenge confronting the continent’s economy today. From the current focus and thrust of SMEDAN, one can affirm that the future of SMEs in Nigeria is bright and hopeful.

The government of Israel in a similar move has pledged to assist the SMEDAN in the area of capacity building for staff and entrepreneurs. Mr. Israel Strolor, the second secretary of the Embassy of Israel in a meeting with officials of SMEDAN in Abuja recently, confirmed this. He disclosed that Israel would be ready to facilitate the training of Nigerians on small and medium enterprises both in Nigeria and in Israel stressing the significant role of knowledge in economic development.[*] The head of personnel and training bureau in Israel, Mr. Boaz Modai also confirmed Israel's readiness to assist in the development of Nigeria's SME sub-sector through its International Cooperation Programmes Department (MOSHAF).

The current thrust of the recently established Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) gives hope, confidence and optimism that going forward, government's attention would continue to be attracted to the SME sub-sector. The Agency is already about concluding a nationwide census/survey of micro, small and medium enterprises (MSMEs), which it commenced in March 2004. Given its challenging mandate of initiating and articulating ideas for micro, small and medium enterprises' policy thrust as well as promoting and facilitating development programmes, instruments and support services to accelerate the development and modernisation of MSMEs, SMEDAN badly needed to have a comprehensive understanding and knowledge of the population of MSMEs in the country, their distribution by sectors such as agriculture, manufacturing, services, trade, construction, mining, technology, etc, and their distribution by rural and urban areas as well as the level of vertical and horizontal linkages within and between various sectors of industry so as to access the level of industrial integration and the incidence of sub-contracting and its potential in giving a flip to industrial development.

The census/survey will also enable SMEDAN to determine and assess the major operating difficulties of MSMEs relating to both market functions (such as demand-pricing factors, supply factors, raw materials, technology infrastructure, etc) and policy environment as it relates to regulatory, incentive and support regimes. The overall benefits of the census/survey would hinge on the expected robust data and information, which SMEDAN would employ as a basis for policy formulation, implementation and intervention, effective developmental planning, vital advice on new investments, grow and profitable areas, raw materials availability as well as available technology, available markets, available sources of funds and assistance.

The survey exercise is also expected to adequately equip and empower SMEDAN to effectively do the following, *inter alia*:

i. Map out effective strategies for revamping and reforming the MSMEs sub-sector through appropriately advising the government on policy formulation and execution.
ii. Recommend the right operators for various incentives and support by government including funding, be it loan, equity and grants.
iii. Offer relevant advisory services to state governments on how best to support and invigorate MSMEs in their domains bearing their peculiarities and circumstances in mind.
iv. Identify viable projects for both local and foreign investors in order to attract foreign investment.
v. Identify viable projects with export potentials and also identify and advise on the appropriate foreign markets in order to boost foreign exchange earnings.
vi. Identify and assess MSMEs critical requirements in the areas of capacity building, skills gap, knowledge, skills and process and liase with the relevant institutions and agencies of government like the National Poverty Eradication Programme (NAPEP), the Centre for Management Development (CMD), the National Directorate of Employment (NDE), etc.
vii. Establish a befitting business support centre for each state in the federation.
viii. Facilitate the promotion and government patronage of quality local products of MSMEs for either local consumption or export or both.

F. A COMPARATIVE ANALYSIS BETWEEN INDIA'S SMALL SCALE INDUSTRIES (SSIs) AND NIGERIA'S SMEs

The magnitude of contributions as well as the impact of SSIs on the economic growth and development of India is highly significant as evidenced by the following figures. The SSIs represent ninety-five percent (95%) of the total industrial units in India, contribute forty-five percent (45%) of the total industrial output, account for eighty percent (80%) of all employment in the industrial sector, and contribute thirty-five percent (35%) each of total exports and value-added by the entire manufacturing sector respectively in India. Between 1990 and 1991, SSI real growth in India recorded between a low of 7.1% in 1993/94 and a high of 11.3% in 1996/97.

As a result of commitment and focus on SSIs and driven by their all important role in the economic development, the government of India had as far back as in 1948 put in place, an effective and efficient industrial policy for developing SSIs such that by the year 2000, India had three (3) million SSIs with a production value of US$ 110billion, export volume of US$ 10billion and staff strength or employment figure of eighteen (18) million.

Even though SMEs' performance in Nigeria shows that technology and fiscal incentives had made little positive impact on the sub-sector given the obvious lapses in implementation modalities as well as the constraining policy and infrastructural environment, recent estimates have put the contribution of SMEs to total industrial employment in Nigeria at seventy percent (70%) and to total manufacturing output at 10 – 15 percent. SMEs in Nigeria have been quite active in promoting the use of local raw materials with many of them also engaged in the processing of local inputs into either intermediate or final products especially agro-allied and solid minerals products. Many SMEs have also successfully adopted imported plant and machinery for local use and thus positioning themselves as veritable tools for promoting technical expertise and development of indigenous entrepreneurship. The Nigerian SMEs are mostly resource-based and dispersed throughout the country (in urban, suburban and rural areas) and hence have to some extent, facilitated the opening up of the rural areas, mitigated rural-urban drift, and significantly contributed to poverty alleviation.

The following represent a brief comparison between Nigeria's SMEs and India's SSIs:

i. Definition:

- Nigeria's SMEs cover enterprises with total cost of N200million excluding land and total employees of between 10 and 300 people

- India's SSIs are defined as units in the manufacturing, processing or preservation of goods with investment in plant and machinery not exceeding Rupees 10million ($210,000).

The difference here hinges on the fact that India has no provision for medium scale enterprises; their focus is on the real sector thus excluding trading and services.

(ii) Credit Dispensation:

- In Nigeria, there are universal banks, development banks, and other special institutions, which provide credit but not at subsidized rates.
- In India, there is a multi-agency system for credit flows; term loans are provided by term lending institutions and working capital is provided by commercial banks.

(iii) Funding Arrangements:

- In Nigeria, no minimum quantum of credits to SMEs is mandatory anymore. In the past, a percentage of total credits used to be mandatory for

SMEs. However, 10% of banks' annual Profit Before Tax (PBT) is mandatory for equity investment in SMEs under the SMIEIS program.

- In India, 40% of total advances go to the priority sector, and 60% of net bank credit to the priority sector goes to SSIs.

(iv) Management of funds invested in SMEs/SSIs:

- In Nigeria, the funds can be managed directly, or through a subsidiary or through a venture capital manager.
- In India, the credits to SSIs are driven need-based limits on liberal terms with level and profitability as key factors and not linked to security or collateral. Flexibility is the watchword with each activity assessed on its own merit.

(v) Structure of Businesses:

- In Nigeria, an SME must be a limited liability company
- In India, an SSI could be a limited liability company, or a partnership or a proprietary firm

(vi) Incentives and support to the SME/SSI sector:

- In Nigeria, it is mandatory for banks to set aside 10% of their annual profit before tax in support of SMEs.

The Bank of Industry (BOI) is expected to provide credits to SMEs but not on soft lending rates. It is only the Nigerian Export Import Bank (NEXIM) that provides soft loans to export oriented SMEs.

- In India, the incentive and support schemes available to SSIs are much more elaborate and include official general and organisational support as well as support by other agencies. The nature and levels of key incentives and support include but are not limited to the following:

(a) General:

- Bank credits to SSIs are on soft lending terms
- There is selective exemption from and preferential treatment in excise duties, sales tax, etc.
- Capital funds are available for the development of the software and IT industry
- Credit guarantees to cover loans to SSIs are available
- There is capital investment and transport subsidy under specific schemes
- Some items are reserved for exclusive manufacture by SSIs

- There is a price and purchase preferential scheme for SSI products
- Marketing and training needs support is provided
- Industrial estates and parks, industrial growth centres, functional export processing zones, integrated infrastructure development centres and cluster development centres are among the infrastructural facilities provided.

(b) Organisational Support (Central Government Network):

- There is a dedicated ministry of SSIs, agro and rural industries
- There is a Small-Scale Industries Board, which facilitates coordination and inter-institutional linkages and advises the government on SSI-related policies.
- There is a Small Industries Development Organisation (SIDO) responsible for evolving an all-India policy and programmes for the development programmes of state governments and providing facilities for upgrading technologies.
- There are Small Industries Services Institutes for the provision of product-cum-process development centres, establishment of regional training centres and effective operationalisation of National Small Industries Corporation (NSIC) Limited and Khadi Village Industries Commission (KVIC).

(c) Sate Government Agencies:

- There are industrial centres at district levels, each focusing on funding SSIs
- There are industrial development corporations at state levels
- There are small industrial development corporations at state levels

(d) Other Agencies:

Other agencies, which contribute in the accelerated development of SSIs in India include apex-level financial institutions, commercial banks, industry-specific associations, specialized training centres, industry-specific export promotion councils, research institutes and active role of NGOs in SSIs.

The new initiatives, which the government of India has also launched to consolidate and accelerate the pace of development of her SSI sub-sector, include the following:

- Operating a Credit Guarantee Scheme to provide collateral for interest-free loans
- Subsidizing capital for upgrading technologies

- Providing subsidies to set up tool rooms by associations in the private sector
- Setting up incubation centres for “sunrise industries”
- Setting up technology transfer centres and banks

In Nigeria, the government has also, in August 2003, set up the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), whose primary responsibilities include:

- To provide such information and data on SMEs as to how many there are, who they are, what they do, etc. so as to assist policy formulation and also to develop linkages
- To develop a compendium of regulations as it affects business
- To set up business support centres in every state of the federation preferably in collaboration with respective state governments
- To set up industrial parks, preferably in partnership with the private sector

The European Commission (EC) has similarly put in place “top-class” services and supports for businesses especially the SMEs. These include among others, the provision of:

- SME-specific training (start-up, growth and development, targeted training e.g. for women, etc.)
- Professional information services (legislation, technical, financial, etc.)
- SME-specific strategic measures (trade missions, cluster promotion, supply chain development, etc.)
- Premises and environment (incubation, technology parks, etc.)
- Finance (grants and subsidies, loans and loan guarantees, equity)
- Reception facilities, basic information and referrals (includes initial diagnosis and signposting)

Other recommendations being considered include client-focus, comprehensive, customized, coordinated, capacity building, connected and consistent quality services for the SMEs.

From the above, one can categorically affirm that the incentives and support given to SSIs by the government of India are quite wholesome and formidable. The package of support and incentives provided by the government of Nigeria can in fact, be said to be insignificant when compared with those of India. It is thus less surprising, the development gap between the SSIs of India and the Nigerian SME sub-sectors and hence the significant role SSIs are playing in the economic growth and development of India. The continuous reinforcement of incentives and support to SSIs by the government of India underscores the high degree of appreciation of the importance of the SSI sub-sector to the future of the Indian economy.

The continuous focus and impetus on SMEs are in fact not limited to developing countries. In developed and great economies like the U.S.A, Germany, Japan, Canada, U.K, Italy, France, China, etc, SMEs have remained the driving force behind them. In the words of Dr. Werner Multer, Federal Minister of Economics and Technology in Germany (2002), "Small and medium-sized companies form the backbone of our economy. Our social market economy simply could not function without such competitive companies". Indeed, SMEs, called "*mittelstand*" in Germany, are playing a decisive role in shaping this powerful economy. For instance, the SMEs, which currently stand at 3.3 million in Germany, are responsible for 57% of gross net output as well as 70% of the workforce and are training 80% of all apprentices. The *mittelstand* companies provide 80% of all available training opportunities and about 1.3 million people are currently in some form of company training hence the SMEs hold the key to the future growth and development of Germany's economy. The men and women who run the *mittelstands* are mature personalities who are over 40 years of age and also own them.

TABLE X

SOME KEY INDICATORS ON THE ROLE OF SMEs

Country	**Year**	**Contribution of SMEs to:**			**Source**
		Number of Establishments	**Industrial Employment**	**Industrial Production**	
Malaysia	1985	92%	49%	47%	1
Singapore	1990	88%	40%	26%	1
South Korea	1991	97%	64%	45%	1
India	1994	94%	31%	40%	1
Germany	1994	99%	64%	52%	2

Sources: (1) Confederation of Asia Pacific Chambers of Commerce and Industry Journal, Volume II, 1994

(2) Institute for Research of SMEs, Bonn

A cursory look at Table X shows the contributions of SMEs to the economies of some South-East Asian countries, India and Germany and hence evidences of the significant roles the SMEs play in those great economies.

In Nigeria, there are relatively few SMEs in the formal sector and many more in the informal sector. While it is difficult to estimate the size of Nigeria's formal sector let alone its informal sector, which provides a wide range of services and goods for the poor and middle classes sharply contrasts with the fragility of the formal sector. The International Labour Organisation (ILO) has attempted to make some estimates of the contributions made to the economy by SMEs, including the informal sector, and believes that they account for over 60 percent of economic activities and over 35 percent of urban employment. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) is however conducting a census of the Nigerian SMEs such and it is hoped that at the end of the exercise, the relevant data on SMEs in Nigeria will be available.

G. RESEARCH QUESTIONS

The main interest of this research and the questions it (this study) intends to answer revolve around finding solutions to the problems militating against the SMEs in Nigeria so that they can improve and stabilize their performance and hence fulfil their expected roles in the economic development of Nigeria. Most developing countries such as Nigeria heavily rely on the vibrancy of their SMEs in solving basic problems of unemployment, poverty, disease, rural-urban migration, etc. The impact of SMEs in this regard has been rather insignificant to the point that if Nigeria is to make progress in its economic growth and development, urgent drastic action needs to be taken regarding improving the lot of her SMEs. It is against this background that this study is using the following specially constructed and directed questions to investigate and hence recommend solutions to the problems of SMEs.

The questions are grouped into four main classes with each focusing on the key stakeholders in the SME sub-sector:

i. Operators/owners of SMEs
ii. Banks that fund or are expected to finance SMEs
iii. Professionals who render various services to SMEs (Accountants, Lawyers, Suppliers, Auditors, etc)
iv. Public and professional groups (Lagos Chamber of Commerce, Nigerian Association of Small and Medium-scale Enterprises (NASME), Nigerian Association of Small Scale Industries (NASSI), etc)

The essence of targeting these groups was to ensure that the study gets a balanced view and responses on the plight of SMEs in Nigeria from all stakeholders. It is only balanced, objective and comprehensive responses, remarks and comments on the vexatious issues of SMEs’ woes and that could enable the study to come up with relevant, fundamental and far-reaching recommendations on ways and strategies for addressing the identified ills and challenges of the SMEs.

Representative questions were constructed and designed to suit the peculiar circumstances of the various respondents and to elicit the most appropriate or best responses from them. The questions were also designed to cover the entire spectrum of factors that are relevant to the optimal performance of the SMEs. Some of the questions are of open-ended nature thus giving the respondents ample opportunity and degree of freedom for originality, objectivity and leverage to 'pour out their hearts' and state all that they desire to express. In other to encourage frankness and objectivity, respondents were encouraged not to put down their names if they so wish. This is because of the fact that some may feel uncomfortable if they write their names as such could elicit some form of reprimand from their bosses if they are not the owners. It was also felt that some may tend to falsify data or information thinking that the data so collected could be used for either tax or other purposes that may not be in the best interest of the respondents. Attempts were made to make the questions direct and brief in order to minimize any ambiguities and also reduce the drudgery usually associated with completing questionnaires to the barest minimum. Broadly, the questions were grouped into two classes: banks on one hand and other stakeholders (operators, owners and services providers to SMEs) on the other.

The areas covered by the questions for the two main categories of respondents include but are not limited to:

(a) For banks:

(i) Quantum of demand for SMIEIS funds

(ii) Number of applications and amounts demanded over the years since inception

(iii) Average success rate of those applications, i.e. the number and amount approved

v. How much the bank has accumulated in its SMIEIS reserve fund and how much it has disbursed
vi. Why many SMEs have not been able to access the SMIEIS fund
vii. Suggestions on what can be done and by who to enhance appreciable utilization of such funds by the SMEs
viii. The roles which CBN or the government should play to improve utilization of the SMIEIS fund
ix. Distribution of the various applications for SMIEIS fund among the various sectors of the economy
x. Problems facing the SMEs

xi. Suggestions on what can be done to improve the lot of SMEs especially as regards the SMIEIS fund utilization and contribution to economic growth and development

(b) For SME operators, owners, associations and key stakeholders:

(i) Nature of the organisation

(ii) Economic sector of operation

(iii) Products range and lines of business

iv. Age of the entity and staff strength
v. Sources of raw materials or finished products as applicable
vi. Organisation's organogram
vii. Frequency of board meetings where applicable
viii. Chain of command and decision-making structure
ix. Academic qualifications of key management
x. Operating systems (accounting, management, manual, etc)
xi. Annual sales or turnover
xii. Sources of plant and machinery, spare parts, raw material inputs, etc
xiii. Key top problems or challenges facing the enterprise
xiv. Expectations from the governments, donor agencies, etc
xv. Funding sources
xvi. Reasons for not being able to access funding from banks
xvii. Knowledge of existence of funding windows in banks (such as SMIEIS) and other specialized institutions
xviii. Who their competitors are
xix. Whether the entity ever attempted to borrow money from a bank and its experience if yes
xx. Relationship with banks
xxi. Whether the company has ever applied for funds under the SMIEIS programme and the outcome
xxii. How the company has been able to fund its operations to date
xxiii. Willingness to accept or open up ownership to allow joint ownership
xxiv. Existence of business plan or strategy or operating procedure manuals
xxv. Degree of record keeping
xxvi. Level of trust and delegation to management team
xxvii. Training opportunities and facilities for staff
xxviii. Succession plan for the enterprise
xxix. Number of professionals (accountants, auditors, etc) employed by the entity
xxx. Suggestions for solving the problems facing SMEs in Nigeria and making them more vibrant and relevant in economic development

CHAPTER THREE

METHODOLOGY

A. RESEARCH METHODS AND APPROACHES USED

A simple random sampling (SRS) was employed in the selection of the sample for the study. A sampling frame of each of all the members of the NASME, Banks, SME sub-groups of the LCCI, and NACC was developed by assigning a number to each member of the four groups. The assigned numbers were well shuffled and a sample drawn from each group one at a time without replacement.

The methodology employed in this research also entailed a combination of questionnaire, personal interview, and library and desk research. The researcher constructed two sets of questionnaires. One set was for universal banks that are expected to fund the SMEs through the SMIEIS programme, conventional loans or specialized loans such as ADB, IFC or other donor-agency related funds. The other set of questionnaires was for SME operators, SME owners, DFIs and professional services providers to SMEs like accounting firms, auditors and legal practitioners, which are members of the NASME, LCCI or NACC.

A pilot survey was conducted in order to ascertain and detect any ambiguities, questions that were not easily understood or poorly constructed and even those that were irrelevant or scary to the respondents. From the responses, remarks and comments received on the pilot survey, the entire questionnaire was refined and improved upon to take care of the observed shortcomings, enhance the validity, and make the questions easier to answer and more response-friendly. The respondents were even given the option of putting down their names or not in order to ensure objectivity and frankness in their responses.

From the pilot survey, desk research and discussions with key operators of SMEs the researcher discovered that there were well over sixty identified problems and challenges facing SMEs. It became also very glaring that many of these problems and challenges were either closely related or essentially meant the same thing but expressed in different words or forms. For example, respondents used various phrases like “irregular electricity supply,” “epileptic electricity supply,” “frequent power outage,” “low voltage” and “frequent load shedding” to express the fact that they experience irregular power supply for their operations. Similarly expressions like “Bad Roads,” “Lack of Good Roads,” “Non existence of Access Roads,” and “Construction of own access roads” were employed by respondents to state problems they encounter with relation to accessing their factory premises. These and other problems relating to the availability of water for use in their (SMEs) factories were all grouped under "Infrastructure" in the questionnaire.

Along the same line of reasoning, problems relating to non-empowerment of staff, concentration of power in the owner/chairman, lack of business plan or corporate strategy, no budgets, no organisation structure or defined lines of command, no training or development of staff, poorly educated work force, lack of motivated staff, interference by family members, non-separation of family finances from business finances, lack of goal setting, lack of measurement criteria for measuring performance and rewarding the same, poor communication, loose or inconsistent policies, pilfering, lack of entrepreneurial skills and drive, lack of trust or reliability on staff and all other human related problems in the management of SMEs were all grouped under "Management Problems."

Given the avalanche of closely related identified challenges and problems of the SMEs the researcher decided to collate, streamline and group them into ten major problem areas such that any identified or expressed challenge would certainly fit into one of the ten headings. Aside from ease of analysis he also felt that this approach would enhance and facilitate quick responses from the respondents.

The ten key major problem areas identified include the following:

1. Infrastructure
2. Management problems
3. Access to Finance
4. Inconsistent Government Policies & Bureaucracy
5. Environment related problems (factors)
6. Multiplicity of Taxes and Levies
7. Unfair Competition and dumping
8. Marketing related Problems
9. Lack of Access to Modern Technology
10. Non availability of raw materials

Each of these problems was elaborately defined and explained in the questionnaire as follows:

NOTE/EXPLANATION:

i. Infrastructure relates to poor or non-existence of access road, water, electric power, low voltage, load shedding, epileptic or irregular power supply, etc.
ii. Management relates to poor leadership, family interference, no training, no succession plan, no strategic plan, no

management meeting, record keeping, power concentration, no empowerment, lack of entrepreneurial skills, poorly educated workforce, lack of motivated staff, no business plan, etc.

iii. Access to Finance/Capital – covers lack of support by banks, no collateral, no money to pay for feasibility study, high interest rate, banks involvement in management of SME, non-availability of long term capital, no financial plan, etc.
iv. Policy Inconsistencies & bureaucracy – CAC delays, too many government agencies at the ports, midway policy reversals by government, etc
v. Environmental factors – Area boys menace, harassment by Local Government officials, insecurity of lives and property, under the table payments, bribery & corruption
vi. Multiple Taxes & Levies – includes unauthorized levies and taxes, tax clearance certificates.
vii. Access to Modern Technology includes lack of current information, no preservation or storage facilitate for fresh fruits, foods, poor quality products, modern processing facilities, etc.
viii. Unfair Competition – includes dumping of fake, sub-standard goods, unfavourable tariff structure for finished goods, smuggling.
ix. Marketing Problems – relates to non patronage of locally produced goods by government agencies and departments, Nigerians preference for imported goods, credit sales, lack of subsidy and incentives, lack of access to export market and market information.
x. Non-availability of raw materials locally – high dependence on imported raw materials, foreign exchange costs.

The respondents were requested to rank these problem areas in the questionnaire by ticking one (1) to the problem areas (he/she) considered the least challenging.

The respondents were coded and their responses were keyed into the computer and analysed using Statistical Package for Social Sciences (SPSS) analytical package or tool.

LIBRARY AND DESK RESEARCH:

The researcher visited some libraries in order to read up some materials on SMEs' roles, contributions and place in economic development and growth of many countries, both developed and developing. Many books, publications, journals, magazines, International Labour Organisations (ILO) and United Nations Development Programme (UNDP) reports and newspapers were massively read, relied on and utilized in the course of this research especially during the literature review. These sources helped a great deal in providing relevant information and data regarding developments in the SME sub-sector. These also aided the researcher in constructing the questionnaire. The libraries of Trade Associations and Chambers of Commerce as well as that of International Labour Organisation were particularly helpful. The researcher's ability to access the directory of members of the LCCI, NACC, and Nigerian Association of Small and Medium Scale Enterprises (NASME) was made possible by the secretariats of these Associations. In order to get to the root of the problems of the SMEs, the researcher had to register his company, Options Consult Limited, as a member of both the Lagos Chamber of Commerce and Industry (LCCI) and NASME. This move helped a great deal in accessing relevant information and data for this study as well as in facilitating the distribution and collection of the questionnaires. The researcher also had unlimited access to the secretariat and members of the Nigerian-American Chamber of Commerce (NACC) of which the company he is a partner in, Leadership Paradigm Powerhouse Ltd, is a member.

B. JUSTIFICATION OF THE METHODS

The use of SRS method in the selection of participant SMEs used in the study was a sure way to reduce bias to the barest minimum. This approach was also used in order to ensure that the sample used in the study was a true and fair representative of the population of SMEs in Nigeria.

The relatively precise and concise questions in the questionnaires employed in the study were carefully crafted in order to reduce boredom, fatigue and demand on the target participants so that they do not exhaust their energy, time and effort in answering the questions. The researcher believed that this approach is bound to elicit the best responses from the participants in terms of objectivity, frankness, originality, pointedness on key issues and promptness of response. The rationale for using two forms of questionnaires was to cater for the peculiarities, differences and viewpoints between the two main groups of respondents, (banks on one hand and SME owners/operators on the other hand) in terms of functions, operations, perspectives and roles as regards the SME sub-sector's challenges, problems and operations.

The open-endedness of some questions in the questionnaires provided ample opportunity and leverage for respondents who wished to elaborate or write at length on some pertinent issues relating to the SMEs. This further served as a means of validating some earlier answered questions and the respondent's consistency also. A few questions were also constructed in order to confirm the validity of the answers to some questions stated earlier in the questionnaire.

The personal interviews represented excellent media for close interaction and rapport between the researcher and the respondents, which enabled the former to elicit more pertinent information and data, which the questionnaire neither captured nor provided for. The personal interviews in addition provided a source of presenting the researcher to the search light of the respondents' personality, composure and psychology and vice versa. This interaction was deeply appreciated by many respondents who lamented that this type of study was long overdue as the government had most of the time paid lip service to the SME sub-sector. It created a lot of excitement and interest in many of the respondents.

The personal interviews also afforded the researcher the flexibility to cater for and appreciate the peculiarities and uniqueness of some of the respondents especially the non-operators of SMEs like the DFIs through asking them pertinent questions and listening to their own perspectives and views on the subject. The answers obtained from personal interviews also aided the researcher in validating responses. The primary data for this study were thus collected using the questionnaires and personal interviews.

The researcher relied on library and desk research, study of various books, magazines, journals, reports, newspapers and publications on the subject matter and related topics for the secondary data. Vast literature (in scattered form) exists on the subject matter even though the researcher was not able to identify or locate any past formal similar study on the subject matter. This notwithstanding, copious literature exists which facilitated the researcher's literature review.

The combination of the questionnaire and personal interviews complemented by desk research significantly contributed in ensuring that the researcher got to the root of the challenges and draw backs of the SMEs in Nigeria. The piloting of the questionnaires proved very useful in the crafting of a comprehensive, easy to understand and respond-to final version that was used in the research. The wholesome responses from the majority of the participants were encouraging and made the data collection simple. The enthusiasm, which many respondents exhibited during the personal interviews was also motivating and certainly could be a pointer to the fact that the SMEs have been longing for succour, help and relief from the government.

There were however a few participants who though interested in the study confessed that they did not have the time to respond promptly. For this group the researcher had to invest his time and efforts to be able to collect back the completed questionnaires.

C. INSTRUMENTS/TOOLS USED

The instruments used in the collection and gathering of data include questionnaires, personal interviews, and library and desk research while the Statistical Package for Social Sciences (SPSS) was used in the analysis of the data collected.

(i) QUESTIONNAIRES:

A carefully crafted but wide-ranging questionnaire aimed at eliciting right responses was constructed and piloted in order to detect any ambiguities or inherent problems. From the comments and remarks from the pilot questionnaire respondents, the entire questionnaire was revamped and improved on. While some questions were open-ended a few were in a “Yes” or “No” answer format. One set of the questionnaire designed for SME operators, owners, services providers and professionals in the SME sub-sector had 76 questions to which the participants responded. The questionnaire was designed to capture detailed profile of the respondents in addition to what they consider as the major problems (in order of intensity, beginning with the worst) of SMEs. The questionnaire also provided for inputs on the respondents expectations from the government as well as what should be done to alleviate the challenges confronting the SMEs. Many questions focused on issues relating to leadership and management of their respective SMEs (both in depth, qualification and experience) including succession plan, decision-making process, managerial capacity, as well as strategic thinking and business planning among others.

The second set of questionnaires was for banks alone. The rationale for this special 16 questions questionnaire for banks hinged on the fact that banks are not only being indicted by a group of SME operators but are also being accused of not having the requisite skills to manage the SMEs and ensure efficient and effective utilization of the SMIEIS funds by the SMEs. The set of questionnaires for the banks were targeted at eliciting from the banks, their own perspectives and explanation as to why there is low patronage of the SMIEIS funds by the SMEs as well as what the banks think should be done to enhance and boost utilization of the SMIEIS funds and hence revitalize the very important SME sub-sector. The questions in the banks’ questionnaire like those in the one for the SME operators, owners and other stakeholders, were similarly structured to elicit maximum objective responses and comments, which would also form the bedrock for the recommendations in this study. The researcher believed that a judicious combination of the inputs from both the banks and the SME operators and owners would lead to a fuller appreciation of the problems of the SMEs and hence on how best to resolving them than examining only one of them. The questionnaire also sought to know how much the respective bank has invested under the SMIEIS scheme and the sectoral distribution of the same among the various industrial sectors.

(ii) PERSONAL INTERVIEWS:

In order to complement the responses from the respondents to the questionnaires, the researcher also conducted face-to-face interviews with some of them together with other SME stakeholders, largely SME consultants, DFIs, banks and professional services providers to SMEs (Auditors, Accountants, etc). As was the case with the questionnaires, the interviews were basically focused on the reasons why the Nigerian SMEs have performed below expectations and hence have failed to significantly contribute to the country's economic growth and development. Their views and opinions were also elicited on the following: How the SME sub-sector can be resuscitated and energized, what had caused the lack-lustre performance of the SMIEIS funds utilization, how the utilization of the SMIEIS funds can be enhanced, what they felt were the major challenges of SMEs in Nigeria, their overall recommendations on the way forward, what they expect banks to do to partner with SMEs for sustainable growth, and what they think and want the government to do to assist the SMEs. The respondents were given ample time and latitude to talk freely and frankly without any inhibition or prodding.

(iii) STATISTICAL TOOL USED:

The Statistical Package for Social Sciences (SPSS) was used in the analysis of the data collected in this research as the researcher deemed it the most appropriate given its versatility and considering the nature of the data collected.

The SPSS has the incredible capabilities and flexibilities of analysing huge data within seconds and generating an unlimited gamut of simple and sophisticated statistical results including simple frequency distribution tables, polygons, graphs, pie charts, percentages, cumulative frequencies, binomial and other distributions.

The Package has the capabilities of executing such high-level analysis as analysis of variance (ANOVA), chi-square tests, multivariate analysis, correlation and regression analysis, tests of statistical hypotheses, time series analysis, estimations, confidence interval estimation, comparison of several means, goodness of fit tests and analysis of contingency table, etc. Considering that the data collected are largely categorical in form, the chosen SPSS package the researcher considered was very ideal for use in the data processing and analysis.

D. RESEARCH POPULATION AND SAMPLE SIZE

Given the nation-wide spread of the SMEs and the potential salutary impact a vibrant SME sub-sector is expected to have on the national economic growth and development, absolute care and effort were exercised in the selection of the population and sample for this study. The researcher adopted the 89 banks and all the active SMEs registered with the following Associations and Chambers of Commerce whose membership have a national spread and a strength of 1,500 as the underlying population for this study:

1) National Association of Small and Medium Scale Enterprises (NASME) with nominal membership strength of over three thousand but with only about five hundred and eleven (511) active members.

2) Lagos Chamber of Commerce & Industry (LCCI) – Small and Medium Enterprises and Distributive Group with about five hundred (500) in membership strength

3) Nigerian American Chamber of Commerce (NACC) – SME group of four hundred (400) members.

The registered and active membership strength of these Associations and Chambers of Commerce and the banks stood at 1500 as at December 2004 as per the figures collected from the various secretariats of these Bodies. In order to give a fair and equal opportunity to each of these SMEs being selected in the study the researcher used a simple Random Sampling method of selection.

A sample size of three hundred (300) SMEs was selected and used for the study excluding eleven (11) banks that were also selected via SRS procedure. In order to cater for those selected respondents who may for one reason or the other, fail to complete and return their questionnaires, a total of three hundred and thirty (330) SMEs were chosen as respondents and questionnaires sent to them. The first 300 completed and returned questionnaires were eventually used for the study. Some respondents returned theirs close to the completion of the study and a few never did.

E. SAMPLING PROCEDURES EMPLOYED

A simple random sampling was employed in selecting the sample of the 330 SMEs and 19 banks used in the study. Each of the four groups that made up the population of this study was handled separately in selecting the sample from each group.

All the registered and active SMEs with NASME, LCCI, NACC and the 80 banks (which had participated in the SMIEIS Scheme as at December 2004) were respectively used as the sampling frame for each of the four groups. Each member was assigned a number: one (1) to five hundred and eleven (511) for NASME members, one (1) to five hundred (500) for LCCI, SME sub-sector members, one (1) to four hundred (400) for NACC, SME sub-group members and one (1) to eighty (80) for banks. For each of the four groups the numbers were put in a bag and thoroughly shuffled and a sample randomly selected by picking one at a time without replacement as follows: For 511 NASME members, a sample of 118 was selected, for the 400 NACC SME members, a sample of 96 was selected, for the 500 LCCI SME members, a sample of 116 was selected, while a sample of 19 banks was selected out of the 80 banks. Hence a total of randomly selected three hundred and thirty (330) SMEs and nineteen (19) banks constituted the sample used in this study. About nine banks had not been in a position to participate in the SMIEIS Scheme as at December 2004 hence the population of banks used for this study was eighty (80).

Questionnaires were administered on the entire 330-size sample through personal delivery and through the secretariat of the respective Associations at their regular meetings, committee meetings and individually. The respective secretariats assisted the researcher a lot in following up with respondents to collect the completed questionnaires from their members.

The researcher had to employ telephone calls, personal visits and interviews to follow up on the respondents to ensure that they complete the questionnaires, and drop them at their Association's secretariat. The researcher also had to go to pick up the completed questionnaires for those respondents who opted for that choice.

The responses to the questionnaires were complemented with personal interviews the researcher conducted with some selected key SME operators, some banks and officials of the SME Associations and Chambers of Commerce. These together with the library and desk research enabled the researcher to fully appreciate some of the responses to the questions in the questionnaires as well as some comments and remarks made on them.

Each personal interview also provided an opportunity for the researcher to be exposed to some other perspectives and ramifications of the problems and challenges of the SMEs in Nigeria, which the questionnaires did not capture but which cause a lot of havoc on the survival and growth of this all-important sub-sector of the Nigerian economy.

Those interviewed personally included the big banks that were not included in the sample, key officials of the SME Associations and other strategic SMEs such as the DFIs and professional services providers.

F. JUSTIFICATION FOR SAMPLE SELECTION PROCEDURE/ SAMPLE SIZE AND FOR USING THE SAMPLE SELECTED

The Simple Random Sampling (SRS) method used in the selection of the sample for the study was aimed at giving every SME in the target population an equal chance of being selected. The essence of drawing the sample from the four groups, NASME, LCCI, NACC and the banks was primarily to ensure adequate spread and representation of all the organised, informed, articulate and vocal SMEs in the country. Secondly the groups represent the cream of the SMEs who are exposed to what happens in other countries as it relates to SMEs. Thirdly and most importantly the population from which the sample was drawn is quite representative of SMEs, in the country given the national spread of NASME, LCCI, NACC and the wide customer base and the experiences of banks that deal with SMEs. The researcher was also motivated to use this sample because of the fact that the government not only listens to the groups from which it was drawn but also requests for their inputs into such important issues as the annual budgets and key policies. The researcher believes that the responses, comments and remarks of the SMEs represented in the sample will therefore reflect the true position of all the SMEs in the country.

In order to ensure the realization of this objective the researcher had to broaden the respondents in both number, depth of experience and strategic position in the industry through the SMEs and related parties, which he personally interviewed. In this wise, the researcher interviewed the leaders of the various SME Associations who were not captured in the sample. He also interviewed many Development Financial Institutions (DFIs) in various parts of the country especially in states, which were not represented in the sample selected. Considering that many DFIs are often involved in articulating a project idea or concept, translating it into a form of feasibility study and developing a business plan for its implementation, sourcing appropriate finance for its execution, sourcing technical partners or needed plant and machineries, identifying raw material sources and other critical inputs including key personnel, sourcing investors and/or even managing the project until they identify capable and suitable hands, the researcher believes that the DFIs are in a vantage position to articulate the key draw backs and challenges of SMEs in Nigeria. This was evident in the responses of the DFIs that the researcher interviewed.

The sample size of 300 SMEs was also considered adequate for the study given its spread, representativeness, percentage of the population (20%), as well as the over fifty seven (57) personal interviews. Technically, three hundred and fifty seven (357) respondents were employed in this research.

The researcher had to interview twelve (12) executives of the various associations of SMEs, fifteen (15) senior executives of banks drawn from the top ten banks in Nigeria, ten (10) DFIs and twenty (20) professional services providers to SMEs some of whom are members of the Professional Practice Group (PPG) of LCCI.

G. STATEMENT OF HYPOTHESES

In order to enable the researcher confirm the greatest drawback for SMEs in Nigeria and fully appreciate their respective relevant significance, he had to postulate the following hypotheses:

(i) H_0: Access to finance/Capital does not represent the greatest problem confronting SMEs in Nigeria.

H_1: Management represents the greatest problem facing SMEs in Nigeria.

(ii) H_0: Management does not represent the greatest problem facing the manufacturing sub-sector of SMEs in Nigeria

H_1: Infrastructure represents the greatest problem facing the Manufacturing sub-sector of SMEs in Nigeria

(iii) H_0: The top three greatest problems facing SMEs in Nigeria are Management, Access to Finance/Capital and infrastructure in descending order of intensity

H_1: The top three greatest problems facing SMEs in Nigeria in descending order of intensity are not Management, Access to Finance/Capital and Infrastructure

(iv) H_0: The top five problems facing SMEs in Nigeria in descending order of intensity are Management, Access to Finance/Capital, Infrastructure, Government Policy Inconsistencies and Bureaucracy, and Environmental Factors.

H_1: The top five problems confronting SMEs in Nigeria in descending order of intensity are not Management, Access to Finance/Capital, Infrastructure, Government Policy Inconsistencies and Bureaucracy, and Environmental Factors.

(v) H_0: The top ten problems which SMEs face in Nigeria in their descending order of intensity are Management Problems, Access to Finance/Capital, Infrastructure, Government Policy inconsistencies and Bureaucracy, Environmental Factors, Multiple Taxes and Levies, Access to Modern Technology, Unfair Competition, Marketing Problems and Non-availability of Raw Materials locally.

H_1: The top ten problems which SMEs face in Nigeria in their descending order of intensity are not Management Problems, Access to Finance/Capital, Infrastructure, Government Policy inconsistencies and Bureaucracy, Environmental Factors, Multiple Taxes and Levies, Access to Modern

Technology, Unfair Competition, Marketing Problems and Non-availability of Raw Materials locally.

(vi) H_0: The nature or kind of an SME (Manufacturing, Services, Trading, Tourism & Leisure, etc) largely determines the financing sources for its operations

H_1: The nature or kind of an SME does not determine the financing sources for its operations.

(vii) H_0: The Legal form of an SME (Private Limited Liability, Partnership, Sole Proprietorship etc) largely determines the dominant management style employed in the respective SME.

H_1: The Legal form of an SME does not largely determine the dominant management style employed in the respective SME.

H. STATISTICAL TECHNIQUES USED IN THE ANALYSIS

The statistical techniques used in the analysis of the data for this research include frequency distribution, the standard deviation, the distribution of means, analysis of variance (ANOVA), Pearson chi-square, pie chart, histogram, contingency table, etc. The Statistical Package for Social Sciences (SPSS) was used in the analysis of the data.

The chi-square test statistic and the distribution of means were used in the testing of the hypotheses. The justification for the use of chi-square distribution, with k-1 degrees of freedom, where k is the number of categories, is driven by the fact that the responses fall into categorical data. This is to say that once a respondent states that infrastructural problem is his greatest drawback he cannot again claim that access to finance is his greatest challenge. Similarly, those who rated managerial capacity as their greatest problem could not at the same time rate access to finance or any other factor for that matter as their greatest challenge.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The responses of the 300 participants to the seventy-seven (77) questions stated in the questionnaire were keyed into the system and the statistical package for social sciences (SPSS) applied on the data.

As expected almost an uncountable number of results, indices, frequency distributions, chi-square correlations, contingency tables, P-values, test-statistics, etc were generated with several interactions.

Top on the list of information and data generated were frequency tables numbering about ninety (90) representing the distribution of responses to each of the questions and sub-questions.

Key among these frequency distribution tables is the ranking of the various key problems confronting the SMEs in the country.

Table XII shows the distribution of the forms of the three hundred (300) respondent SMEs that participated in the study while table XIII shows the distribution of the kind or type of activities or operations of the SMEs involved in the study.

Table XIV to XXIV depict the distribution of the rankings of the ten key problem areas as to which represents the greatest or worst problem on a scale of one to ten with scale one (1) representing the most dreaded or worst of all the problems, followed by a ranking of 2 and up to the rank of ten (10) for the least of all the problems.

TABLE XI

Frequency Table of Forms of Participant SMEs

Form	Frequency	Percent (%)	Cumulative Percent (%)
Private Limited Liability company	253	84.3	84.3
Public Limited Liability Company	5	1.7	86.0
Partnership	8	2.7	88.7
Sole Proprietorship	20	6.7	95.3
Family Owned	11	3.7	99.0
Others	3	1.0	100.0
Total	**300**	**100.0**	

As can be seen from table XII the bulk of the respondents, specifically 253 out of 300 are private limited liability companies while only 5 are publicly limited companies (PLCs). The private limited companies represented 84.3% of the entire participants while public limited companies accounted for only 1.7%. Partnership and sole proprietorship companies among the respondents were eight and twenty representing 2.7% and 6.7% respectively. Eleven, representing 3.7% of them were family owned business while a mere 1% or three were Non-government Organizations and the likes.

Table XII

Distribution Of Nature/Kind Of Participant SMEs

Nature	**Frequency**	**Percent (%)**	**Cumulative Percent (%)**
Manufacturing	80	26.7	26.7
Tourism & Leisure	13	4.3	31
Services	87	29.0	60.0
Solid Minerals	5	1.7	61.7
Educational	7	0.7	62.3
Construction	12	4.0	66.3
Export	5	1.7	73.7
Agro Allied	17	5.7	73.7
Trading	57	19.0	92.7
Information Technology	5	1.7	94.3
Others	17	5.7	100.0
Total	**300**	**100.0**	

While it is true that the respondents were fairly spread across a wide range of sectors, more than ten sectors in the economy the bulk of them came from thus: Services, 87 or 29.0%, Manufacturing, 80 or 26.7% and Trading, 57 or 19.0%. These three sectors accounted for seventy five (75%) percent of the 300 respondents. Leisure and Tourism, 13 or 4.3%, Construction, 12 or 4.0%, Agro-Allied, 17 or 5.7% and others not categorized (17 or 5.7%) together account for almost twenty percent (20%) of the 300 respondents. From all intents and purposes, key sectors in the economy were represented in the sample.

Table XIII

Distribution of Rankings of Infrastructural Problems by Participant SMEs

Rank	**Frequency**	**Percent (%)**	**Cumulative Percent (%)**
1	80	26.6	26.6
2	77	25.7	52.3
3	132	44.0	96.3
4	9	3.0	99.3

6	2	0.7	100.0
Total	**300**	**100.0**	

It is pertinent to note again that the ranking was defined as follows: A ranking of one (1) signifies the worst or greatest of all the problems facing SMEs, a ranking of two (2) represents the next worst problem and continues in that reducing order till ten (10) standing for the least of all the ten key problems under study. It then follows that the higher the ranking of a particular problem the lower or less in intensity of that particular problem. Hence a problem with a ranking of two (2) is a worse problem with a ranking of three (3) and vice versa.

Table XIII thus shows that eighty (80) or 26.6% of the 300 respondents rated infrastructure as their worst problems while seventy seven (77) or 25.7% rated it as their number two worst problem while yet another 132 or 44% of the respondents ranked infrastructure as their third worst problems. Only two (0.7%) and nine (3.0%) respondents ranked infrastructural problems as their sixth and fourth rated problems respectively.

Figure II graphically illustrates the respondents' ranking of infrastructure as a key problem of SMEs in Nigeria. This figure complements Table XIII in appreciating the gravity of infrastructural problems of SMEs. As can be seen, the majority regard infrastructure as their third worst problem.

Table XIV

Distribution Of Rankings Of Management Problems By Participant SMEs

Rank	Frequency	Percent (%)	Cumulative Percent (%)
1	122	40.7	40.7
2	170	56.6	97.3
3	8	2.7	100.0
Total	**300**	**100.0**	

As is evidenced from Table XIV all the 300 participants ranked management problems as either the number 1, 2 or 3 greatest problem confronting them. One hundred and twenty two (122) or 40.7% rated management as their greatest problem while one hundred and seventy (170) or 56.6% and eight (8) or 2.7% ranked the same as number 2 and 3 greatest problems respectively. Management problem emerged the only problem, which all the respondents ranked within the top three among all the challenges facing SMEs in Nigeria. This speaks volumes with respect to what havoc managerial capacity is wrecking on SMEs in Nigeria. The situation becomes even more significant with a closer look at Table XIV, which reveals that 97.3% or 292

SMEs ranked managerial problems as either number 1 or 2 among all the key problems facing them. The very low range of 2 among the ranking of the managerial problem also depicts the consistency, near unanimity and validity of the management problems as the greatest problem facing SMEs in Nigeria.

Figure III also vividly illustrates the gravity of management problems. The bar graph shows the concentration of the rating of management problems as the first or second worst problem.

Table XV

Distribution of Rankings of Access to Finance/Capital Problem by Participant SMEs

Rank	Frequency	Percent (%)	Cumulative Percent (%)
1	97	32.3	32.3
2	46	15.3	47.6
3	149	49.7	97.3
4	5	1.7	99.0
5	3	1.0	100.0
Total	**300**	**100.0**	

Table XV shows that 97 or 32.3%, 46 or 15.3% and 149 or 49.7% of the 300 respondents ranked Access to Financing/Capital as their worst, second worst and third worst problem among the ten key problems facing SMEs in Nigeria. As is revealed by the table under review, 97.3% or 292 out of the 300 respondents confirmed that access to finance/capital represented the worst three challenges facing them as SMEs operating in Nigeria.

The graphical representation shown in figure IV clearly complements the appreciation and understanding of the significance of access to finance/capital as a key problem of the SMEs. Only negligible percentages of the respondents ranked this factor as their fourth and fifth worst problem

Table XVI

Distribution of Ranking of Government Policy Inconsistency and Bureaucracy Problems by Participant SMEs

Rank	Frequency	Percent (%)	Cumulative Percent (%)
3	13	4.3	4.3
4	217	72.3	76.6

5	29	9.7	86.3
6	24	8.0	94.3
7	9	3.0	97.3
9	6	2.0	99.3
10	2	0.7	100.0
Total	**300**	**100.0**	

Table XVI reveals that the distribution of the rankings of problems relating to government policy inconsistency and bureaucracy is highly concentrated as the number four worst problem among the ten key problems of SMEs as 217 or 72.3% of the respondents rated this factor as their fourth in descending order of intensity. While 13 or 4.3% rated policy inconsistencies and bureaucracy as their third worst problem, only two or 0.7% ranked the same as their tenth or least problem.

Figure V clearly shows the seeming unanimity of convergence of ranking policy inconsistency and government bureaucracy as the fourth worst problem for the respondent SMEs. The majority of those who did not rate this factor as problem number four, rated it as either the fifth or sixth problem among all the ten key problems.

Table XVII

Distribution of Rankings of Environmental Factors/Problems by Participant SMEs

Rank	Frequency	Percent (%)	Cumulative Percent (%)
2	7	2.3	2.3
4	32	10.7	13.0
5	196	65.3	78.3
6	58	19.3	97.7
7	4	1.3	99.0
8	1	0.3	99.3
10	2	0.7	100.0
Total	**300**	**100.0**	

Environmental factors related problems were largely considered and rated as the fifth worst problem among the ten key problems given that 196 or 65.3% of the 300 respondents ranked this factor as fifth. Aside from 58 or 19.3% and 32 or 10.7% respondents which ranked environmental factors related problems as sixth and fourth respectively, negligible percentages of the respondents, 7 or

2.3%, 4 or 1.3% and 2 or 0.7% respectively ranked the same factor as the second, seventh or tenth worst problems.

Figure VI clearly and vividly illustrates the distribution of the ratings of the environmental factors as a problem for SMEs in Nigeria. The bar graph clearly shows this factor as an overwhelming fifth worst problem for the SMEs.

Table XVIII

Distribution of Rankings of Multiple Taxes and Levies Problems by Participant SMEs

Rank	Frequency	Percentage (%)	Cumulative Percentage (%)
4	27	9.0	9.0
5	68	22.7	31.7
6	198	66.0	97.7
7	5	1.7	99.3
10	2	0.7	100.0
Total	**300**	**100.0**	

The ranking of multiple taxes and levies on a scale of one to ten with one as the worst problem and ten as the least by the 300 respondents showed that 97.7% or 293 rated it between the fourth and sixth worst problem. While 198 or 66.0% ranked the factor as the sixth worst problem, 68 or 22.7 ranked it as the fifth worst problem and 27 or 9.0% ranked it as their fourth worst problem.

Table XIX

Distribution of Rankings of Access to Modern Technology Problems by Participant SMEs

Ranks	Frequency	Percentage (%)	Cumulative percentage (%)
4	8	2.7	2.7
5	1	0.3	3.0
6	7	2.3	5.3
7	173	57.7	63.0
8	34	11.3	74.3
9	55	18.3	92.3
10	22	7.3	100.0
Total	**300**	**100.0**	

As table XIX shows, none of the 300 participant SMEs rated access to modern technology among their first greatest problems. Rather only 16 or 5.3% of the lot ranked access to modern technology as between the fourth and sixth greatest problems. The bulk of the respondents, 173 representing 57.7% ranked this factor as the seventh worst problem on a scale of one to ten in descending order of magnitude of intensity. One hundred and eleven or 36.9% of the 300 respondents rated access to modern technology as among their three least problems i.e. eight, ninth and tenth rankings.

Table XX

Distribution of Rankings of Unfair competition Problems by Participant SMEs

Rank	Frequency	Percentage (%)	Cumulative Percentage (%)
2	3	1.0	1.0
5	1	0.4	1.4
6	6	2.0	3.4
7	52	17.3	20.7
8	195	65.0	85.7
9	33	11.0	96.7
10	10	3.3	100.0
Total	**300**	**100.0**	

The distribution of the rankings of unfair competition as one of the key problems of SMEs in Nigeria showed a range of 8. While 3 or 1.0% of the respondents ranked unfair competition as their second worst problem, 10 representing 3.3% ranked the same as their least (tenth) worst problem. The preponderance (195 or 65.0%) of the 300 respondents rated unfair competition as their eighth worst problem.

Table XXI

Distribution of Rankings of Marketing Problems by Participant SMEs

Ranks	Frequency	Percentage (%)	Commutative percentage (%)
1	2	0.7	0.7
6	5	1.6	2.3
7	51	17.0	19.3
8	65	21.0	41.0
9	177	59.0	100.0
Total	**300**	**100.0**	

The distribution of the rankings of marketing as one of the key problems of SMEs in Nigeria revealed a wide range of 8 with two or 0.7% of the respondents ranking it as their first greatest problem and 77 or 59.0% ranking the same as their ninth greatest problem. The preponderance, 293 or 97.7% of the respondents ranked marketing problems as between their seventh and ninth greatest challenge.

Table XXII

Distribution of Rankings of Non-Availability of Raw Materials Locally Problems by Participant SMEs

Rank	Frequency	Percent (%)	Cumulative Percent (%)
9	28	9.3	9.3
10	272	90.7	100.0
Total	**300**	**100.0**	

A cursory look at Table XXII confirms that the distribution of the rankings of non-availability of raw materials locally as one of the major problems of SMEs in Nigeria has the smallest range of one (1). Most, 272 or 90.7% of the respondents ranked this factor as their least (tenth worst) problem while the rest 28 or 9.3% ranked it as their ninth worst problem. The availability of raw materials locally does not constitute an overwhelming problem for SMEs in Nigeria.

Table XXIII

Distribution of Means of the Overall Rankings of the Ten Key Problem Areas Facing SMEs in Nigeria.

S/N	Problem Area	N	Mean	Min. ranking	Max. Ranking	Standard Deviation
01	Management problems	300	1.62	1	3	0.54
02	Access to Finance/Capital	300	2.24	1	5	0.96
03	Infrastructure	300	2.26	1	6	0.94
04	Govt. Policy Inconsistency & Bureaucracy	300	4.41	1	10	1.21
05	Environmental factors	300	5.09	2	10	0.87
06	Multiple Taxes and Levies	300	5.64	4	10	0.76
07	Access to Modern Tech.	300	7.59	4	10	1.20
08	Unfair Competition	300	7.89	2	10	0.94

09	Marketing Problems	300	8.34	1	9	1.02
10	Non-availability of Raw Materials locally	300	9.91	9	10	0.29

Table XXIII represents the most critical distribution of all the findings in this study as it reveals the rankings of all the ten key problem areas, which challenge SMEs in Nigeria using the mean ranking as the determining factor or variable. The table also shows the distribution of how widely spread the rankings are as well as their variability by way of standard variation.

Management problems have the lowest ranking mean of 1.62 with lowest ranking and hence greatest problem of one (1) and highest ranking and hence least problem of three (3) with one of the smallest standard deviations of 0.54.

Table XXIII vividly shows the relative positions of ten major problem areas facing SMEs in Nigeria in the following order of their descending intensity: management problems, access to finance/capital, infrastructural problems, government policy inconsistencies and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing related problems and non-availability of raw materials locally.

The above figure VII graphically shows the distribution of the means of the rankings of the problem areas of the SMEs by the three hundred respondents. Given that the rankings are in the inverse ratio to the intensity of the problems the figure clearly shows that management represents the greatest among all the problem areas since it has the lowest mean of 1.62. Next to the management problems are access to finance/capital and infrastructural problems with means of 2.24 and 2.26 respectively. These three problem areas stand out in terms of intensity or gravity as the next greatest problem area, government policy inconsistency and bureaucracy has a mean of 4.41, which is close to twice the mean of access to finance/capital and thrice of the mean of management problems. The figure also clearly shows the relative positions of the gravities of the other problem areas identified in the study in descending order as follows: Environmental Factors, Multiple Taxes and Levies, Access to Modern Technology, Unfair Competition, Marketing Problems and Non-availability of Raw Material Locally with mean ranking scores of 5.09, 5.64, 7.59, 7.89, 8.34 and 9.91 respectively.

The pie chart representation of the ten key problem areas of SMEs in Nigeria as identified by the three hundred (300) respondents is shown in figure VIII.

As shown in figure VII, the pie chart also clearly shows that Management related problems stand out as the greatest challenge facing the SMEs in Nigeria.

The pie chart succinctly depicts the relative intensities of the various key problem areas confronting SMEs in Nigeria according to the responses of the participant SMEs through the respective areas of the sectors of the circle that represent the various problem areas.

Once again it is pertinent to note that the smaller the area of the sector of the circle representing each problem area, the greater the intensity and gravity of the respective problem area. For example, management problems, which are represented by 3% or 10.80^{o} of the circle stands out as the greatest among the problem areas confronting the SMEs, studied.

Along the same reasoning the rankings of the problem areas in descending order of intensity as shown in the pie chart are as follows:

TABLE XXIV

Ranking of Problem Areas of SMEs

Problem Area	**Percentage (%) of Circle**	**Relevant Degree (^{o}) representing the problem area**	**Rank**
Management	3	10.8	1
Access to Finance	4	14.4	2
Infrastructure	4	14.4	3
Policy Inconsistency	8	28.8	4
Environmental Factors	9	32.4	5
Multiple Taxes & Levies	10	36.0	6
Access To Modern Technology	14	50.4	7
Unfair Competition	14	50.4	8
Marketing Problems	15	54.0	9
Non-availability of Raw Materials Locally	19	68.4	10
Total	**100**	**360.0**	

The above tabular representation and interpretation of the pie chart clearly depicts the relative gravities of the problem areas. Management with a rank of one (1) representing the greatest problem occupies 3% of the sector of the circle and 10.8^o of the circle while Access to Finance/Capital with a rank of two (2) representing the second greatest problem area has a sectoral area of 4% and 14.4^o. The third greatest problem area, infrastructural problems, closely follows access to finance/capital with 4% in sectoral area and 14.4^o of the pie chart circle.

The rankings of the rest of the problem areas as depicted by the chart remain consistent with those of the bar chart representation in figure VII. The rankings show that the problems facing SMEs in Nigeria in their increasing order of gravity (starting with the least rank) are: Non-availability of raw materials locally, Marketing problems, Unfair competition, Access to modern technology, Multiple taxes and levies, Environmental factors, Government policy inconsistencies and bureaucracy, Infrastructural problems, Access to finance/capital and Management problems.

CHAPTER FIVE

DISCUSSION OF THE RESULTS

A. INTRODUCTION

The cardinal driving fulcrum around which the researcher's efforts revolved all through the course of this study has remained the theme "Small and Medium Enterprises in Nigeria: Problems and Prospects". This propelled and guided the researcher in his efforts in the literature review, the construction of the questionnaires as well as in the selection of the population and sample for the study. This accounts for why the questionnaire was geared at eliciting the entire gamut of problems confronting the SMEs and their fortunes and expectations going forward.

The data presented and analysed are drawn from the answers of the respondents on whom the questionnaires were administered. The SMEs that were employed in this study cut across the strata of virtually all the legal forms of companies, ranging from sole proprietorships through family businesses, partnerships up to public limited liability companies. In terms of nature or kind of operations, the respondents also spanned various forms of economic activities including services, trading, educational, construction, leisure and tourism, agro-allied, information and telecommunications as well as solid minerals.

The majority of the respondents incidentally showed a lot of interest and swiftly completed the questionnaires and returned them, thus indicating that many SMEs have been groaning under heavy problems and have been looking out for a 'saviour' or respite. Hence they embraced this study and thus expect that the outcome would positively impact on their (SME's) fortunes.

The spread of the respondents, though highly concentrated in Lagos and its surroundings, largely covered all the 36 states and Abuja. Next in concentration to Lagos was the Southeast region in terms of the distribution of the respondent SMEs. The beauty of it all derives from the fact that all the states and Abuja as well as various sectors of the economy were covered in the study.

The personal interviews conducted by the researcher largely captured key and articulate SME practitioners, industry leaders within the SME sub-sector, professional services providers and consultants as well as executives of associations of SMEs.

With over 120 million people and its inherent vast market, vast productive farmlands, rich variety of mineral deposits and other resources, Nigeria should have been a haven for small and medium scale enterprises. This specially endowed country in terms of human and natural resources unfortunately has an SME sub-sector that has been characterised by an avalanche of problems ranging from lack of basic infrastructure to lack of modern technological facilities for processing and preservation of its richly endowed resources of assorted fruits and cash crops.

The efforts of successive past administrations towards building a virile and thriving SME sector have been largely vitiated by the instability of both the administrations themselves and their policies. This has negatively impacted on the performance of primary institutions responsible for policy enunciation, policy implementation and monitoring resulting in distortions in the macroeconomic structure, low productivity, economic rent, high inflation, increased poverty, low purchasing power, low savings, low investment, utter reliance on government for provision of virtually every amenity, high crime rate, insecurity, extortions and other vices.

From the responses to the questionnaires and the personal interviews, ten key broad problem areas militating against SMEs in Nigeria crystallized in the following decreasing order of intensity:

i. Management problems
ii. Access to finance/capital
iii. Infrastructural problems
iv. Government policy inconsistency and bureaucracy
v. Environmental factor related problems
vi. Multiple taxes and levies
vii. Access to modern technology problems
viii. Unfair competition
ix. Marketing related problems
x. Non-availability of raw materials locally

These problems manifest and are indicated in various forms, dimensions and configurations according to the respondents. Other problems relate to government fiscal policy measures especially in the areas of tax administration, which has remained weak resulting in massive tax evasion, extortions, illegal levies, low compliance, corruption at the ports, inefficient duty drawbacks and refund of taxes.

The SME sector in Nigeria is highly labour intensive, employing about eighty (80) percent of the nation's labour force. The sector remains a veritable source for the mobilization of small domestic savings and is widely spread across the length and breadth of the country though with concentration in the major and urban cities like Lagos, Aba, Kano, Onitsha, Nnewi and Port Harcourt.

The SME sector promotes indigenous technology and enhances the dispersal of economic activities and hence poverty reduction.

The federal and state governments have done a lot in the past to stimulate the growth and development of the SME sector through the establishment of institutions and programmes that aid SMEs. Despite these laudable efforts and those by the donor agencies, the contribution of the sector to the economic development of Nigeria has remained rather low.

B. <u>WHY SMEs IN NIGERIA HAVE PERFORMED BELOW STANDARD</u>

The major reasons identified as responsible for this include the following *inter alia*:

- Inconsistency in, poor formulation and poor implementation of policies
- Poor managerial capacity, low skills and lack of adequate knowledge
- Problems with access to credit and poor incentives administration
- Poor account keeping habits, weak financials and marketing planning
- Lack of mutual trust among SMEs' business partners
- Lack of infrastructure, which significantly increases the cost of doing business
- Poor and low consumer purchasing power
- Poor linkages among vibrant SMEs, large-scale enterprises and the rest of the domestic sector of the economy generally
- Policy incentives are tilted in favour of large scale industries
- Poor access to information and to markets for SME products and services
- Poor access to modern technology
- Over-dependence on imported raw materials and industrial inputs
- Non-patronage of SMEs' products by government departments and agencies

- Low level of education, training and technological knowledge on the part of SME operators
- Poor or non-existence of preservation and storage facilities
- Poor implementation or non-existence of either strategic plans or business plans
- No strategic focus including no succession plans
- Lack of enabling environment (political, legislative, macroeconomic, inconsistent policies, bureaucratic obstacles, etc.)
- Lack of venture capital
- Poor quality of products and presence of fake, adulterated, illicit and poorly copied products in the markets. These cheaper products compete with the SMEs’ products.
- Lack of integrity, which erodes confidence and trust, thereby increasing the cost of doing business
- Policies are made without consulting the institutions directly affected such that inconsistencies often exist in their interpretations
- Poor co-ordination of government policies as well as frequent changes in the policies. Every new government tends to come up with its own policies and objectives.

An in-depth examination of the responses revealed that SMEs involved in manufacturing/assembling ventures rated poor infrastructure as their greatest challenge. Worst among the infrastructural problems facing the SMEs relates to electrical energy supply, which is rather hydra-headed. In some cases it is non-existence in which case the entrepreneur has to provide his own energy supply. In other cases it is either epileptic in supply with incessant outages with the attendant damages to equipment or the voltage supplied is too low as to support the plant and machinery in use for the respective operation. The increase in production cost emanating from inadequate electric power supply to SMEs is said to be enormous. These costs relate to loss in output due to down time as a result of power outages, cost of fixing damaged equipment resulting from outages, poor quality of products as a result of bumpy production process, the high cost of fuel to operate own generating plants, costs of maintaining and servicing these generating sets. Respondents regretted the frustration they encounter daily from power outages adding that the plant and equipment they use, especially the locally fabricated ones, can hardly absorb the shocks they are routinely subjected to. This impact reduces the efficiency and the life span of these machines.

The power problem affects virtually all businesses, even the small enterprises such as tailoring, barbing salon shops, television (TV) and radio mechanics and repairers, hair dressing salons, welders, various repair workshops, etc as they all depend on electrical energy supply. For these businesses to ensure regular and continuous operations, they must of necessity provide their own stand by electricity generating plant. In some cases depending on the location, the intended ‘stand by’ transforms to the main supply source due to incessant outages. The damages caused by the power outages are not limited to plant and equipment as at times they involve loss of life, and property, injury to personal bodies workshop tools and equipment, etc.

The above findings are collaborated by the recent World Bank’s World Development Report 2005, which states that the problem of business losses due to inefficient electricity supplies is especially severe in Nigeria and cites a survey that shows that small firms lost 24 percent of their output to outages, medium firms 14 percent and large firms 17 percent. In fact, the United Nations Economic Commission for Africa’s Economic Report on Africa 2004 ranks Nigeria 28th out of 30 African countries in its Infrastructure Index.

According to the African Energy, currently, only 10 percent of rural households and approximately 40 percent of Nigeria’s total population have access to electricity.

Many of the results and findings in this research generally appear consistent with prevailing views, feelings, and knowledge save for the following critical revelations:

i. Funding or access to capital does not represent the most critical factor for establishing and running a successful business enterprise generally and an SME in particular. Funding remains a necessary but not a sufficient condition for a viable SME development.
ii. This research revealed that managerial problems that manifested in several ways including lack of capacity, lack of clear vision, lack of basic skills, lack of transparency, lack of adequate control, lack of business plan and business strategy, lack of accountability, lack of proper record keeping, lack of business acumen *inter alia* represent the greatest challenge militating against SMEs in Nigeria. This finding is contrary to the generally perceived belief and notion that access to funding represents the main problem of SMEs in Nigeria.

Recent happenings whereby some retired public servants who were paid their gratuities and pensions did not know how best to deploy them lend credence to this finding. The Nigerian educational system, which is largely geared toward producing “white collar” job seekers as opposed to preparing students for entrepreneurial development significantly contributes to the poor performance of SMEs in Nigeria and also accounts for why many Nigerians generally do not have entrepreneurial spirit and knowledge.

In order to drive home the point regarding our rather poor, non-functional, outdated and deteriorating educational system, some respondents suggested the introduction of the use of vernacular in the teaching of science and technology in our primary and secondary schools. This would enable pupils to start imbibing the import and use of science and technology quite early in life such that they would grow with them.

A group of respondents also suggested the introduction of a mandatory entrepreneurial skill development course in our universities. This would ensure that our university graduates would be equipped and prepared to become entrepreneurs upon graduation is they choose to. This, apart from reducing the number of unemployed graduates looking for paid jobs, will result in some of the young graduates becoming employers by going into one business or the other. The idea if implemented would be a win-win for all the students, their families and the larger Nigerian economy as it is bound to positively impact on the GDP growth.

The management problems among SMEs in Nigeria manifested in the following areas according to the findings in this research. 153 out of the 300 respondents, representing 51% held management meetings occasionally while 78 or 26% of the respondents never held any management meetings, only 18 or 6% held management meetings regularly (weekly), and only 57 or 19% of the respondents had ever held a management retreat.

The organisation structure of most of the respondent SMEs was two-tiered viz: management and junior staff with no middle management at all. Decision-making is almost 100% concentrated on the owner/chairman/chief executive who rarely delegates to subordinates due to lack of trust.

As regards engaging the services of external consultants, 42 or 14 percent of the respondents confirmed that they had done so while the remaining 258 or 86% never did. 88 respondents representing 29.3% of the respondents have a Board of Directors while the remaining 212 or 70.7% do not have.

A reasonable number, 156 or 52% of the respondents do annual budgets while 146 or 48% do not do any budgets.

Only 6, representing 2% of the 300 respondents ever held an Annual General Meeting (AGM).

Only 11 or 3.7% among the respondents had a member of their Board and or management team who had an MBA degree as the highest qualification.

Aside from the inability to offer collateral, high interest rates as well as the inability to package or pay for a business proposal account for why many SMEs do not approach banks for a credit facility. These also are largely responsible for the banks' inability to approve many loan requests for the SMEs. Other contributory factors include poor documentation and record keeping, no succession plan, no articulated focus, vision and mission, no coherent business strategy, etc. In many cases, success is left in the hands of ‘chance’ strategy instead of being planned and executed. Some SMEs that do not do annual budgets simply live by the day. Poor educational background contributes significantly to the sorry state of affairs of many SMEs in Nigeria.

The above partly explains why only a few SMEs have been able to access the SMIEIS fund. Other reasons for the low success rate of the SMIEIS programme include:

1. Novel nature of equity investment that requires skills different from what the banks are familiar with.
2. Inability of some banks to put in place necessary structures to effectively administer and manage the equity investment scheme.
3. Dearth of attractive and viable projects to invest in
4. Resistance from business owners who are reluctant to dilute their shareholding
5. Lack of transparency and accountability on the part of SME operators on the way and manner they run their business.
6. Lack of faith and confidence in the scheme as some operators felt it would expose them to paying more taxes and levies to government
7. Accepting SMIEIS funds would compel operators to accept discipline in running the affairs of the respective SME by virtue of sharing control.
8. Reluctance to embrace a paradigm shift in managing SMEs i.e. reluctance to partner or “Go it alone syndrome.”
9. Inability to properly package a business proposal.
10. Fear of domination by bank directors with obvious intimidating financial muscle.
11. Fear of being edged out or trifling their rights and/or authority.
12. Some SME promoters prefer loanable funds instead of equity as they see their investment as family business.
13. Some SME promoters regard the SMIEIS Scheme as a cheap way for banks to reap where they did not sow given what they (the promoters) have done over the years to build up their companies to their present stage
14. Lack of bankable feasibility reports i.e. submission of feasibility studies of unprofitable ventures – Banks are not charitable organizations and hence need to invest in profitable ventures
15. Over-concentration risk i.e. everything about a given SME revolving around one individual such that the day the man drops dead every record of the company perishes with him.
16. Some SME promoters allege that Banks have perfected ways and sinister strategies for diverting the SMIEIS funds to their preferences instead of to deserving SMEs such that there can hardly be success with the scheme.

TABLE XXV: CHI-SQUARE TESTS

Problem Area	**Calculated $\lambda^2_{0.05}$ Value**	**Observed $\lambda^2_{0.05}$ Value**	**df**	**Asymp Sig**
Management	48.290	18.307	10	0.000
Access to capital/ finance	39.509	31.410	20	0.006
Policy inconsistencies	128.767	43.773	40	0.000
Environmental factors	122.319	43.773	70	0.000
Infrastructure	88.913	43.773	60	0.009

TABLE XXVI: CHI-SQUARE TESTS

Factor/Variable	**Calculated $\lambda^2_{0.05}$ Value**	**Observed $\lambda^2_{0.05}$ Value**	**df**	**Asymp Sig**
Highest qualification of management team	131.889	43.773	40	0.000
Financing sources	83.254	43.773	40	0.000
Awareness of SMIEIS	21.895	31.410	20	0.346
Awareness of other funding avenues	17.538	18.307	10	0.618
Existence of business plan	46.598	31.410	20	0.001
Record keeping	78.980	31.410	20	0.000
Amenable to joint ownership	46.598	31.410	20	0.001
Financing as a setback	81.777	43.773	40	0.000
Wanting to borrow money	27.875	18.307	10	0.002
Holding management retreat	132.975	43.773	40	0.000

C. PROOF OF HYPOTHESES

Using the rankings of the problems of SMEs by the respondents as inputs into the statistical package for social sciences and executing various commands including frequency distributions, analysis of variances, test of difference of means, correlations and chi-square tests of significance at 0.05 level, the outputs displayed in tables XI to XXVI were obtained among others. The proofs of the various hypotheses formulated in this research are based on the resultant findings.

Hypothesis (i)

Ho: Access to finance/capital does not represent the greatest problem confronting SMEs in Nigeria

H_1: Management represents the greatest problem facing SMEs in Nigeria

From table XXIII, management problems had the lowest mean ranking of 1.62 with minimum and maximum rankings of 1 and 3 respectively and with a standard deviation of 0.54. Given that none of the other problem areas had a lower mean ranking, it follows that management thus represents the greatest problem of SMEs in Nigeria.

Since access to finance/capital had a mean ranking of 2.24 with minimum and maximum ranking of 1 and 5 respectively and with a standard deviation of 0.96, it follows that it (access to finance/capital) is a lesser problem to SMEs than management problems, which had a mean ranking of 1.62 and a standard deviation of 0.54.

It is pertinent to note that the mean rankings are inversely proportional to the intensity or gravity of the respective problems.

Hence the null hypothesis that access to finance/capital does not represent the greatest problem confronting SMEs in Nigeria is accepted at 0.05 level of significance.

The chi-square test shows that management problems are significant at 0.05 level given a calculated chi-square value of 48.290 as against observed value of 18.307.

Hypothesis (ii)

Ho: Management does not represent the greatest problem facing the manufacturing sub-sector of SMEs in Nigeria

H_1: Infrastructure represents the greatest problem facing the manufacturing sub-sector of SMEs in Nigeria

The hypothesis that infrastructure represents the greatest problem facing the manufacturing sub-sector of SMEs in Nigeria is upheld from the findings of this research. This is proved by the data in table XII, which shows that all the respondent manufacturing SMEs were 80 in number and table XIII, which shows that all the 80 respondent manufacturing SMEs ranked infrastructure as their number one (1) greatest problem.

The chi-square (λ^2) test confirms that the problem of infrastructure is significant given that the calculated λ^2 value of 88.913 is greater than the observed value of 43.773 at 0.05 level of significance. Hence the null hypothesis (ii) is accepted at 0.05 level of significance.

Hypothesis (iii)

Ho: The top three greatest problems facing SMEs in Nigeria are management, access to finance/capital and infrastructure in descending order of intensity

H_1: The top three greatest problems facing SMEs in Nigeria in descending order of intensity are not management, access to finance/capital and infrastructure

Table XXIII shows that management, access to finance/capital and infrastructure had the three lowest mean ranking values of 1.62, 2.24, and 2.26 respectively. Given that the absolute mean ranking value is inversely proportional to the intensity of the relevant problem area, it follows that management, access to finance/capital and infrastructure represent the top three greatest problems facing SMEs in Nigeria. The fourth lowest mean ranking value is policy inconsistencies and government bureaucracy with a distant mean value of 4.41. The null hypothesis (iii) is thus accepted at 0.05 level of significance.

As indicated in table XXIII, their calculated chi-square values are all greater than the observed values at 0.05 level of significance.

Hypothesis (iv)

Ho: The top five problems facing SMEs in Nigeria in descending order of intensity are management, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, and environmental factors related problems

H_1: The top five problems confronting SMEs in Nigeria in descending order of intensity are not management, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, and environmental factors related problems

From table XXIII, it can be seen that the respective mean values of the rankings of management, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, and environmental factors related problems are 1.62, 2.24, 2.26, 4.41, and 5.09 respectively. Since these represent the top five lowest mean values of the rankings, it follows that management, access to finance/capital, infrastructure, government policy inconsistencies, and environmental factors related problems are the top five problems facing SMEs in Nigeria in descending order of intensity.

The null hypothesis (iv) is thus accepted at 0.05 level of significance. The chi-square tests statistic also show that their calculated values are respectively higher than their observed values as can be seen in table XXIII.

Hypothesis (v)

Ho: The top ten problems, which SMEs face in Nigeria in their descending order of intensity are management, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems, and the non-availability of raw materials locally.

H_1: The top ten problems, which SMEs face in Nigeria in their descending order of intensity are not management, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems, and the non-availability of raw materials locally.

A cursory look at table XXIII reveals that the respective mean values of the rankings of the above ten problems are 1.62, 2.24, 2.26, 4.41, 5.09, 5.64, 7.59, 7.89, 8.34, 9.91 with standard deviations of 0.54, 0.96, 0.94, 1.21, 0.87, 0.76, 1.20, 0.94, 1.02 and 0.29 respectively.

Given that the lower the mean value of the ranking, the higher the intensity of the problem, it follows that the top ten problems facing SMEs in Nigeria in their descending order of intensity are management problems, access to finance/capital, infrastructure, government policy inconsistencies and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems, and the non-availability of raw materials locally.

The null hypothesis (v) is thus accepted at 0.05 level of significance. The calculated chi-square statistics for all the above problem areas are higher than their observed values at 0.05 level of significance as shown in table XXIV.

The bar chart representation of the top ten problem areas in fig VII as well as the pie chart representation of the top ten problem areas of SMEs in Nigeria in fig VIII also vividly show their respective rankings in accordance with hypothesis (v). In the case of the bar chart, the shorter the length of the bar, the higher the intensity of the respective problem, which the bar represents. For the pie chart, the smaller the sector of the sector or the smaller the angle subtended at the centre of the circle by the sector of the circle, the higher the intensity of the respective problem, which the sector of the circle represents.

Hypothesis (vi)

Ho: The nature or kind of an SME (manufacturing, services, trading, tourism and leisure, etc.) largely determines the financing sources for its operations

H_1: The nature or kind of an SME does not determine the financing sources for its operations

The responses of the participant SMEs to the questions relating to the sources of funding for their operations were subjected to chi-square test. The calculated shi-square statistic of 83.254 was higher than the observed value of 43.773 at 40 degrees of freedom. The value of the test is 0.000, which lies between 0.000 and 0.050, hence the null hypothesis is accepted at 0.05 level of significance.

This result is profoundly manifested among the SMEs as proprietors, friends and families largely finance many trading and services organisation including consultancy services whereas manufacturing ventures are co-financed by banks and entrepreneurs themselves. The shareholding structures of manufacturing firms are also broader based than trading and services providers.

Hypothesis (vii)

Ho: The legal form of an SME (private limited liability, partnership, sole proprietorship, etc.) largely determines the dominant management style employed in the respective SME

H_1: The legal form of an SME does not largely determine the dominant management style employed in the respective SME

The chi-square test was executed on the responses of the participant SMEs regarding their management style including decision-making process, empowerment, delegation, concentration of power, etc at 0.05 level of significance. The calculated chi-square statistic was 48.290 as opposed to the observed value of 18.307. Thus the null hypothesis that the legal form of an SME largely determines the dominant management style employed in the respective SME is accepted at 0.05 level of significance.

The responses confirmed that the broader the shareholding, the more liberal, broader and more accommodating the management is. On the contrary, the more ownership is concentrated in one person, so is the power and hence the attendant management style tends to be more dictatorial.

The research also revealed that ownership structure and legal form of an SME tend to have an impact on the breadth and depth of management including having a Board of Directors. The more the number of shareholders in an SME, the higher the probability of such an SME having a Board of Directors, and a broader management team.

It was also found from the study that the broader the management team, the higher the chances of a befitting management style like proper delegation, clear chain of command, succession plan, empowerment and accountability, formal conditions of service, annual leave for staff, some form of training, appraisal system, staff medical facilities, formal organisation structure, etc. Many of the respondent SMEs had no such things in place; many were largely informal and unstructured with no proper organisation structure or conditions of service.

CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

A. SUMMARY OF FINDINGS

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. From a planning standpoint, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth and dispersal. In most countries, including the developed countries like Japan, USA, UK, etc, SMEs account for well over half of the total share of employment, sales, value added and hence contribution to GDP.

A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. With over 120 million people, vast productive and arable farmland, rich variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs. Unfortunately, SMEs have not played the significant and crucial role they are expected to play in Nigeria's economic growth, development and industrialization.

It is difficult to fathom out the reason why the SMEs would not lead Nigeria to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards.

The findings of this research point to two main causative factors as to why Nigerian SMEs are performing below standard. One is ‘internal’ and relates to our attitudes, habits and way of thinking and doing things while the other relates to our environment including our educational system, culture, government, lack-lustre approach to policy enunciation and poor implementation among others. The solution to the problems of Nigerian SMEs can only be realized if both the leaders and the citizens concertedly work together. The government has to take the lead by extending the current reforms to the educational and industrial sectors especially as regards policy formulation and implementation, ports reforms, transportation sector reforms, revamping the infrastructural facilities, value reorientation and reduction of bribery and corruption to the barest minimum if not total eradication. Given efficient and effective execution of all these as well as the political will and good leadership and good followership, the SME sector will certainly be an effective tool for a rapid industrialization of the Nigerian economy.

Small and Medium Enterprises (SMEs) in Nigeria are largely not properly structured, are informal, labour intensive, have centralized or concentrated management, are basically involved in trading activities and disorganised as a result of low-level capacity in management, marketing and technical know-how as well as low level knowledge of legal and regulatory practices, policies and accounting practices.

The SME sector in Nigeria is replete with a multitude of problems some of which are intrinsic to it while others such as the lack of an enabling environment in terms of poor or non-existent infrastructure like bad roads, water, power, and access to finance are largely external.

Past successive governments in Nigeria have attempted to address the problems of SMEs, which is a pointer to the fact that the government has all along appreciated the crucial role and significance of SMEs as the ‘soul’ of economic growth and development and hence industrialization. SMEs represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and the stemming of rural-urban migration. To a large extent, Nigeria’s ability to realize the Millennium Development Goals (MDG) hinges on her ability to revamp and reinvigorate the SME sector.

In the past forty years or so, the government had established various support institutions specially structured to provide succour and to assist SMEs to contend with some of the hurdles along their growth path. Some of these specialized institutions include the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the National Economic Reconstruction Fund (NERFUND), the Nigerian Export-Import Bank (NEXIM), the National Directorate of Employment (NDE), Industrial Development Coordinating Centre (IDCC), Peoples Bank, Community Banks, Construction Bank, Family Economic Advancement Programme (FEAP), State Ministries of Industry SME schemes, the Nigerian Agricultural and Cooperative Development Bank (NACDB), etc, etc.

These support institutions and other incentives created by the government notwithstanding, policy instability and reversals in addition to high turnover and frequent changes in government have impacted negatively on the performance of the primary institutions responsible for policy formulation, monitoring and implementation resulting in distortions in the macro-economic structure, low productivity and dismal performance of SMEs.

Other major problems which have contributed to the poor performance of SMEs include: limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, street urchins' harassments, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth, weak demand for products arising from low and dwindling consumer purchasing power, incidence of multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business and poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.

As a result of the plethora of poor managerial cum low entrepreneurial skills, SMEs in Nigeria have not been able to maximally benefit from the equity participation investment scheme (SMIEIS) instituted by the Bankers Committee since 2001. As at July 31, 2004, only about 30% of the N30 billion in that fund has been accessed by deserving SMEs. Many of the SMEs that applied for the SMIEIS fund did not even have a well-articulated business plan, not to talk of vision, mission, focus, management profile, financial projections and the rest of the pre-requisites for embarking on an enterprise development.

B. CONCLUSIONS

Contrary to the generally believed notion or assumption, this research found out that access to finance or capital is not the greatest problem facing SMEs in Nigeria. The greatest or worst problem confronting SMEs in Nigeria is managerial capacity. Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development. If one has the entire funds in the world and does not have the capacity to manage that fund and does not have the necessary information as to what he/she should do, the money would go down the drain.

The top ten key problem areas facing SMEs generally in Nigeria in descending order of intensity include management problems, access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and the non-availability of raw materials locally.

The mortality rate among SMEs in Nigeria is very high within their first five years of existence. The reasons for the high mortality rate include the following among others: Many prospective entrepreneurs do not have a clear vision and mission of what they intend to do. Many of the SMEs are not business specific and hence have no focus and are easily blown away by the wind.

They tend to emulate or copy other successful SMEs without any planning of their own. Many fail to plan well and waste a lot of resources on brochures and other non-essentials as a result of no focussed and logical procedure or articulated plan of actions. Other mistakes by start up SMEs include placing advertisements without quality and commensurate goods and services to match, promoting themselves (promoters) instead of the business per se, promoting the business in the wrong environment, quitting at experiencing a slight setback or disappointment, not researching the market well ahead of commencement, not being original and stopping marketing too soon.

The rate of growth of SMEs in Nigeria is stunted due to the following key reasons: lack of entrepreneurial spirit and drive, fear of failure of the enterprise, fear of starvation for a few months after quitting a paid job, inability to produce or pay for a feasibility study or business plan, mind set that “it will not work” or “I won’t succeed” and the likes.

Capacity building especially in terms of business knowledge, self confidence, skills and attitude, acquisition and development of entrepreneurial spirit and right business motivation and ability to set goals are imperatives for entrepreneurial success.

Infrastructure has remained the greatest problem of the manufacturing sub-sector of SMEs in Nigeria. Power supply poses the greatest challenge as most of them have turned to generating sets for regular power supply at a debilitating cost. Many also have to contend with constructing their own road network and providing their own water system also at huge costs.

Many SMEs in Nigeria are not aware of the existence of SMEDAN, the various sources of funds for SME development, the incentives available for them, the legal and regulatory requirements, how to source funds from banks or even the basic procedure for promoting an enterprise.

Majority of SME promoters are averse to going into partnership schemes and also to equity participation by banks under the SMIEIS programme. The 'me' syndrome as opposed to 'us' has remained a major bottleneck and setback for SMEs in Nigeria. This widely spread phenomenon is driven by the innate mistrust and selfishness on the part of the SME promoters most of whom do not even trust their staff with the result that delegation of duties and giving of responsibilities to subordinates are at the lowest level.

Many of the SMEs do not keep records for fear of tax obligations and also in a bid to conceal their performance from competition or even staff. Other shortcomings of Nigerian SMEs include interpersonal skills, inability to carry along people working with them to bring their desire to pass, team-playing skills, proper communication, planning skills, goal setting skills, negotiation and decision making capabilities, management of finance, managing customers, managing marketers, managing employees, and future growth. Many of the SMEs surveyed neither have strategic plan nor succession plan.

Many SME promoters in Nigeria are also negatively affected by the following killing attitudes: short-term orientation, shallow thinking and quick-fix expectations and poor corporate governance.

With the dismantling of trade barriers as part of globalisation, SMEs in developing countries are facing intense competition from industries of other countries, which have enabling environment for production, distribution and marketing. The environment in which SMEs in Europe, South East Asia and America operate provides stable power and water supply, standard road and rail network, efficient water and air transport system, advanced technology, modern communication facilities, efficient and responsive financial system and above all good governance. Unless Nigeria puts its policies right, many SMEs may not survive this global competitive drive.

There are however some opportunity windows which discerning Nigerian SME promoters can leverage on and take advantage of to grow. The liberalization of trade through WTO Agreements has provided awareness through which SMEs could access international markets. Another opportunity is the African Growth Opportunity Act (AGOA), which favours exports from African countries to the United States of America. Currently many SMEs in Nigeria are yet to tap into this opportunity.

C. RECOMMENDATIONS

Driven by the findings in this research, SMEs in Nigeria have a long way to go for the sector to be relevant, focused, productive enough, and play the crucial role it is expected to in relation to contributing to the growth and development of the economy of Nigeria.

The challenges and problems of the SMEs in Nigeria are hydra-headed and hence can only be effectively tackled by a multi-dimensional and concerted approach by all stakeholders i.e. the governments (Federal, State and Local) and their agencies and parastatals, banks, regulatory authorities, tax authorities, SMEs (owners and management), the employees of SMEs, multilateral and bilateral agencies and donors.

It behoves the government to create an enabling environment that is appreciably devoid of corruption and bureaucracy, and at the same time, motivating and entrepreneurally friendly. It has to be a two-pronged approach for the government efforts to be effective in recreating a conducive environment in which SMEs can thrive and blossom. It has to be an environment full of opportunities and incentives which would sufficiently attract investors and would-be entrepreneurs including young school leavers who would be motivated enough to opt to be employers instead of looking for paid jobs.

For the government to succeed in reinventing the future of SMEs, it has to extend the current reforms to our educational system to make it more functional, relevant and need-oriented and driven. The thrust and emphasis should be on modern technology, practical technological and entrepreneurial studies aimed at producing entrepreneurs. This implies a change in our culture, value system and orientation as well as Nigerians' overall attitude, ethics and appreciation of the need for every Nigerian to contribute in making our country better than we met it.

The transformation of our educational system has to start from primary through secondary and tertiary emphasizing the cultural reorientation and focus on technological studies through all the stages. Where possible, the technological and entrepreneurial studies can be thought in the indigenous or local dialect to ensure full understanding and appreciation by the pupils and students. This method is bound to enhance fast and full integration of the new values into the culture of these young impressionable Nigerians.

A change in our value system, which would place high premium and recognition on entrepreneurial acumen, honesty, diligence, and ability to contribute to the society through invention or creation of employment opportunities for others, demonstration of quality leadership and the likes should concurrently be introduced into our educational system with the above technological thrust.

In the same vein, morality, civics and war against corruption should also be introduced at the primary, secondary and tertiary levels of our education alongside entrepreneurial and technological studies. Corruption should be viewed as a canker worm, which eats deep into the fabrics of any progressive nation and certainly destroys the value system as well as economic growth and development. Civic studies should also be vigorously pursued in our educational system, as it will help the fight against corruption.

The existing agencies TCPC, EFCC, NAFDAC, SON, CAC etc. should not only continue but also be invigorated to more aggressively pursue their respective mandates in ensuring a better and more conducive and enabling environment for investors and entrepreneurial pursuits.

There is the urgent and dire need for the government to revamp the SME sector of the economy in order to redress the growing unemployment rate in the country, reduce poverty level, enhance standard of living and stimulate economic growth and development.

In order to substantially realize the above, the following actions are compelling on the part of the government:

The government through its agency, the SMEDAN, should speedily establish Enterprise Development Agencies in every state of the federation and Small Business Development Centres in every local government.

The government as a matter of urgency, should prioritise the SME sector giving it devoted practical and visible attention with a view to making it virile, vibrant, focused and productive. The era of 'lip service' attention to the sector should be done away with. Nigeria cannot develop without a vibrant SME sub-sector, and so should do all within its arsenal to reverse the situation. The SMEDAN should readily and freely assist prospective entrepreneurs or existing enterprises to have access to necessary information relating to business opportunities, modern technology, raw materials, markets, plant and machinery, goods and services etc which would enable them to reduce their operating cost and be more efficient and competitive. For this to be feasible, effective and functional, SMEDAN should establish Business Information Centres (BICs) and Business Support Centres (BSCs) in partnership with States and Local Governments at every state capital and local government headquarters. The BSCs should offer advisory and mentoring services to entrepreneurs and also provide them with business plans or profiles of industrial projects ideally suited to the callers circumstance, conditions, endowment, skills and knowledge level and exposure. The ongoing reforms in the public service should be extended to the SME sector if the intended laudable objectives of the reforms are to be fully realized and the impact reflected in the Nigerian economic front.

There is need to restructure and strengthen policy in favour of a rapid growth and development of SMEs so that they could serve as the hub for industrial transformation. SMEs are expected to champion local sourcing of raw materials and export drive if the environment is enabling enough.

Entrepreneurs and prospective entrepreneurs should appreciate that funding is not the most important element in the successful development of an enterprise. Funding is necessary but not a sufficient condition for success in enterprise development. SME promoters should not be thinking only about money but should be prepared to learn so that they can enhance their capacity to sustain their enterprises.

The Federal Government in partnership with State Governments and the Private sector should establish industrial parks and clusters in every State of the federation. These will provide shared facilities for SMEs in similar or complimentary lines of business.

The following represent key recommendations for making SMEs in Nigeria virile and vibrant through the creation of an enabling environment for optimum performance:

i. The federal government should establish Industrial Development Centres (IDCs) in every state of the federation, revamp old ones, and make all of them functional.
ii. It should establish Industrial Parks (IP) in all the 774 Local Government Areas in the Country
iii. The government should establish SME clusters in relevant sectors in areas that have comparative advantage for such sectors such as Auto Parts Cluster in Nnewi, Leather Products Cluster in Kano, Apple Processing Cluster in Plateau, Export Clusters for Cocoa in Ondo, Cashew Crushing Plant in Oghe, etc.
iv. The government through the Central Bank of Nigeria should establish the much-awaited National Credit Guarantee Scheme for SMEs, which should guarantee at least 80 percent of loans needed by small and medium enterprises in Nigeria.
v. The government should tackle accelerated development and upgrade of rural/urban road and rail network, water and air transport system and other infrastructural facilities head on and review tariff in favour of local manufacturers especially the SMEs.
vi. The government should as a matter of urgency effect appropriate reforms in the customs as well as in the ports operations to reduce the number of agencies involved and make the clearing of goods more efficient.
vii. It (the government) should continue to vigorously tackle corruption and bribery and institutionalise transparency, accountability and due process in the conduct of government business.

viii. There should be a renewed emphasis on science and technical education and the introduction of entrepreneurial studies in all the Nigerian Universities. Entrepreneurial studies should be compulsory and taught up to the four hundred level in the Universities. Quite relatedly, the dichotomy between technical education/qualification such as the Higher National Diploma (HND) and Bachelors Degree should be abolished. In fact, those with requisite technical and functional educational qualification should be given an edge or incentive in the labour market. This would excite talented people to go into technical areas and develop themselves.

ix. If SMEs are to increase their investments substantially, the question of risk capital for the sector becomes of utmost importance especially in the long term. The government should therefore stimulate the development of Venture Capital Market for SMEs through the provision of specific tax incentives for venture capitalists.

x. The government should establish a National Rehabilitation Fund to provide resuscitating funds to viable but ailing SMEs.

xi. The government should reduce the tax rate for SMEs to zero percent (0%) within their first three years of life and then to 20% from the fourth year and beyond. SMEs located in rural areas should enjoy 10% tax rate from their forth year of operation.

xii. The government should provide special and appropriate grants and tax incentives to SMEs, which provide their own basic infrastructure like Power, Road and water. This will help to reduce the respective SMEs' cost of production and make them more competitive.

xiii. SMEDAN should be given the responsibility of initiating, in liaison and consultation with SMEs, trade and professional associations such as NASME, SMI, Chambers of Commerce, formulating and coordinating policies, incentives and support for SMEs promotion and development in Nigeria. It (SMEDAN) should also provide managerial and technical advice, information and training services at subsidized rates to existing and prospective entrepreneurs. SMEDAN should strengthen the ties between SMEs and larger enterprises as well as government institutions especially in the area of patronage of locally manufactured goods and services.

xiv. SMEDAN should through its business development services provide support in the areas of capacity building and skills upgrade, identification of sources of funds with attractive interest rates, electronic and printed information on raw materials, markets equipment sources, regulatory, legal and tax matters, developing financial records etc.

xv. Government should institutionalise the policy of all its ministries, agencies and departments buying only made-in-Nigeria goods and services except where such is not made or manufactured locally.

xvi. In order to strengthen capacity and enhance confidence, prospective SME promoters should appreciate the benefits of and embrace partnership and equity participation in business execution.

xvii. In order to complement governments efforts and realize the objective of revamping SMEs in Nigeria, SME promoters and entrepreneurs should brace up to the challenges posed by the environment. The SMEs should maintain quality in their goods and services and ensure quality control in all production activities at all levels.

xviii. SMEs should honour payment obligations to banks, government or other grant/loan agencies.

xix. SMEs should provide needed statistics and information to relevant agencies whose contributions are vital to creating and sustaining an enabling environment.

xx. SMEs should inculcate the habit of training and developing their management and staff in order to build capacity for meeting the challenges of the time and embrace and take advantage of developments in information and telecommunications technology and other technological areas.

xxi. The government in partnership with the private (PPP) sector should set up industrial clusters in appropriate locations (to be identified by SMEDAN), which have comparative advantages. These clusters should have common sharing facilities for SMEs in the same or similar lines of business. For example a roaster plant can be set up in a major cashew producing area for the processing of cashew nuts and the production of cashew oil. The same could be said for a refining plant for the production and processing of vegetable or groundnut oil, shea butter, ginger processing, etc. Export processing villages, community based projects, common storage facilities should be established through a private-public partnership in strategic locations for maximum output of goods and services by SMEs.

xxii. The Raw Materials Research and Development Council (RMRDC) should be involved in sourcing appropriate equipment and other facilities for the recommended facilities to be commonly shared.

xxiii. The SMEDAN should establish in every local government within the IDCs, an Education Department to be responsible for public enlightenment, training and education of entrepreneurs (prospective and existing) on relevant skills and developments in technology, markets, research findings and assist them with appropriate linkages to large scale producers, markets, services, sources of raw materials, plant and machines and spares.

xxiv. SMEDAN should assist SMEs in providing effective marketing and distribution channels for SME products to penetrate sub-regional and global markets.

xxv. SMEDAN should ensure linkages between SMEs and large-scale industries and firms to encourage patronage rather than competition and also ensure that SMEs enjoy economies of scale of production.

xxvi. At the national level, the government should establish a National Entrepreneurial Institute to train, develop and promote entrepreneurship and offer consultancy services to businesses especially the SMEs.

xxvii. Prospective SME promoters should imbibe the spirit of "if it were without gallops it would be worthless" as a driving force to succeed when confronted with setbacks. The belief that "you become what you say, think or what you want to become" should guide our prospective entrepreneurs.

xxviii. The government should establish a Consortium comprising Banks, Research Institutes, NASME and entrepreneurs (members), and Universities to be responsible for promoting SME related researches, making available the results of such researches to SMEs and facilitating their demonstration, adoption and commercialisation. This will ensure the development of indigenous technology that is relevant to the circumstances of our SMEs.

xxix. The government should establish fiscal incentives and support such as tax rebate for SMEs which have demonstrated capabilities in local sourcing of raw materials, value addition to commodities for export as well as other business ethics and good corporate governance which government may wish to promote.

xxx. Government should come up with a new pragmatic and realistic industrial policy that will address the current globalisation challenges as well as the emergent domestic challenges and problems in order to make the Nigerian SMEs globally competitive.

A new Industrial Policy for Nigeria has also become imperative in the light of the current reforms the government has embarked on.

xxxi. The government should set up an inter-ministerial body to coordinate all matters relating to SMEs. This body should comprise all relevant Ministries (Finance, Industry, National Planning, Commerce, Science & Technology, CBN, NASME, MAN, NACCIMA, NASSI, BOI and Committee of NAS) and be chaired by SMEDAN.

xxxii. Policy makers should endeavour to understand the nature, problems and needs of SMEs before enunciating policies for the sub-sector. In this regard, policy makers should consult with relevant stakeholders before enacting such policies that affect them.

xxxiii. Above all, the government should have the political will to effectively and efficiently implement the above recommended measures in order to achieve the desired results for as long as the status quo remains we cannot achieve or expect any improvement in the crucial SME sector. If we want a change in the status quo as it relates to our SMEs, we must change the way and manner we manage affairs relating to SMEs.

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APPENDIX I

QUESTIONNAIRE FOR BANKS ON SMEs UTILIZATION OF SMIEIS FUNDS

C/O School of Postgraduate Studies

St. Clements University

Australia.

December 2004.

Dear Respondent,

This is a public survey questionnaire which is aimed at identifying and collecting data about the problems, concerns and issues that affect the operations and performance of our Small and Medium Enterprises (SMEs). Your kind and objective response will significantly contribute towards reducing if not totally removing the problems militating against this all-important sub-sector of our economy.

In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as honestly and objectively as possible.

1. Name of Bank ……………………………………………………………………

2. Address of Bank…………………………………………………………………

……………………………………………………………………………………

3. How much have you in your SMIEIS Reserve Fund:…………………………….

4. How much have you approved out of your SMIEIS Reserve Funds ₦…………….

5. How much have you disbursed to date to SMEs from your SMIEIS Funds:

Year 2002 ………………….. ₦ ……………………..

Year 2003 ………………… ₦ ……………………..

Year 2004 ………………….. ₦ ……………………..

Total ₦

6. How many applications for SMIEIS Funds have you received to date:

Year	**Number of Applications**	**Amount ₦**
2002.	………….	………………
2003.	………….	………………
2004.	…………..	……………….

7. What is the Average success rate of applicants for SMIEIS Funds in your Bank? ………………………………………………………………………………

8. How does the demand for SMIEIS Funds compare with the demand for loans in your bank?……………………………………………………………………

……………………………………………………………………………………..

9. How would you rate the performance of the beneficiaries of the SMIEIS Funds so far:

(i) Excellent (ii) Good (iii) Fair (iv) Bad

10. Why have many SMEs not been able to access SMIEIS Funds? …………………..

………………………………………………………………………………………

……………………………………………………………………………………………

11. What do you think can be done to stimulate and enhance appreciable utilization of SMIEIS Funds:
    (i)……………………………………………………………………

(ii) ……………………………………………………………………

(iii)…………………………………………………………………..

(iv) …………………………………………………………………..

(v)……………………………………………………………………

(vi) ……………………………………………………………………

12. Do you think the Government or CBN should play any role in question ten above?

Yes No

13. What specific roles should the Government or CBN play if answer to question eleven above is yes:
    ……………………………………………………………………………

…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………

14. What is the distribution of your applicants for SMIEIS Funds among the various sectors of the economy: (Use absolute numbers or figures)

    i. Manufacturing

    ii. Services
    iii. Energy
    iv. Educational
    v. Construction
    vi. Tourism and Leisure
    vii. Solid Minerals
    viii. Agro-allied
    ix. Information & Communication Technology
    x. Others (please specify)……………………….

15. Any Suggestions on what you think can be done to improve the lot of SMEs as far as SMIEIS Fund is concerned? …………………………………………………

……………………………………………………………………………………………
…………………………………………………………………………………..

16. What can be done to improve the performance of SME s in Nigeria generally to enable them play a major role in economic development? ………………………

……………………………………………………………………………………………
……………………………………………………………………………………………
………………………………………………………………………………

Thank you for your time and patience.

APPENDIX II

QUESTIONNAIRE ON SMALL AND MEDIUM ENTERPRISES (SME)

C/O School of Postgraduate Studies

St. Clements University

Australia

December 2004.

Dear Respondent,

This is a public survey questionnaire which is aimed at identifying and collecting data about the problems, concerns and issues that affect the operations and performance of our Small and Medium Scale Enterprises (SMEs). Your kind and objective response will significantly contribute towards reducing if not totally removing the problems militating against this all-important sub-sector of our economy.

In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as honestly and objectively as possible.

1. Name of organization/Enterprise:…………………………………………………..

2. Address:…………………………………………………………………………
…………………………………………………………………………………
…..
3. Date of Incorporation/Registration:………………………………………………
4. Nature of Organization. Please tick as appropriate

Private Limited Company

Public Limited Company

Partnership

Sole Proprietor

Family Owned Business

Others (please specify)

5. Nature/Kind of organization (please tick as appropriate)

Manufacturing Tourism & Leisure

Services Solid Minerals

Educational Construction

Mining Export

Agro-allied Trading

Information Technology &Telecommunication Others (please specify)
………………………………………………………………………………………

………………………………………………………………………………………..

6. Major Product Lines:

(1): ……………………………………………………………………………………..

(2): ……………………………………………………………………………………..

(3): ……………………………………………………………………………………

(4): ……………………………………………………………………………………..

7. For how long has your company been in operations (please tick as appropriate)

Less than five (5) years

Between 5 and 10 years

Between 11 and 15 years

Between 16 and 20 years

Over 20 years

8. How many people are employed by your company:

9. How many of them are junior staff   Intermediate level staff

Management staff

10. Your company deals in:

    i. Finished Goods

    ii. Raw materials

    iii. Semi processed goods (intermediate)

    iv. All of the above

    v. None of the above   (Explain)…………………………………

11. Sources of your Products or Raw Materials if a Manufacturing Company:
    A. Locally: (i)…………… (ii)…………….. (iii) ……………..
    B. Imported (i)…………..(ii) …………….(iii) ………………

12. How often does your company hold management meetings?

None at all Occasionally Weekly Irregular as situation demands (Please tick one)

13. Has your company ever held a management retreat or strategy session? Yes No

14. Do you do Annual Budgets? Yes No

15. Have you ever engaged external consultants services? Yes   No

16. Does your company provide for or pay for medical facilities for your staff? Yes No

17. Does your staff go on annual vacations? Yes   No

18. Does your company have Board of Directors: Yes No

19. If the answer to question 18 is yes, how many people are in the Board of your company? (i) ………… (ii) Not applicable

20. What is the highest qualification among the members of the Board? ……………

21. How many Board members have at least OND?

22. How often does this Board sit to discuss the progress of your Company

(i)Quarterly   (ii)Biannually   (iii) Annually

23. Who is the highest decision maker in your company:

(i) Executive Chairman (ii) MD/CEO

(iii) Chairman   (iv) General Manager

v. Owner/Manager   (vi) Others (please specify) ………………………………………………………………………..

…………………………………………………………………………

24. How many years experience does the highest decision maker have on the job?

Years months

25. What percentage shareholding does the key decision maker have in the company?

%

26. Has your company ever held an AGM? Yes No

27.What is the highest academic qualification of the members of your Management Team (i) MBA (ii) B.Sc. (iii) HND (iv) OND (v) others

28. How many years of practical experience does the most qualified management team have in your line of business? Years month

29. Does your company have a Company Secretary? Yes No

30. If yes is s/he part time or Full time (please tick one)

31. What are the qualifications of your Company Secretary?

(i)………… (ii)………… (iii)……………..

32. Does your company have External Auditors? Yes No (tick one)

33. Does your company have Internal Auditors? Yes No

34. What is the highest qualification of the Head of Internal Audit? …………………...

35. How many years of practical experience does the Head of Audit have? …………….

36. Your company's annual sales are:

i. Less than N50m
ii. Between N51 – N101m
iii. Between N102 – 152m
iv. Between N153 – N203m
v. Between N204 – N254m
vi. Between N255 – N305m
vii. Between N306 – N356m
viii. Between N357 – N407m
ix. Between N408 – N458m
x. Between N459 – N509m

xi. Between N510 – N560m

xii. Between N561 – N611m

xiii. Above N612m

37. The Machines and Plants in your company were:

(i) Locally fabricated: Yes No

(ii) Imported: Yes No

38. The Spares and Parts you use in servicing your machines are:

(i) Locally sourced Yes No

(ii) Imported Yes No

39. Please rank the following problems, which affect SMEs in Nigeria. Tick one (1) against the greatest problem and ten (10) against the least problem.

PROBLEM AREA RANK (Note: See overleaf for explanations)

1

10

2

9

6

8

7

5

4

3

i) Infrastructure

ii) Management Problems

iii) Access to Finance/Capital

iv) Policy inconsistencies and

government bureaucracy

v) Environmental Factors

vi) Multiple Taxes & Levies

vii) Access to Modern Technology

viii) Unfair Competition

ix) Marketing Problems

x) Non availability of

Raw Materials Locally

*** Note: See overleaf for explanations**

NOTE/EXPLANATION

i) Infrastructure relates to poor or non-existence of road, water, electric power etc

ii) Management relates to poor leadership, family interference, no training, no succession plan, no strategic plan, no management meeting, record keeping, power concentration, no empowerment, lack of entrepreneurial skills, poorly educated workforce, lack of motivated staff, no business plan etc.

iii) Access to Finance/Capital – covers lack of support by banks, no collateral, no money to pay for feasibility study, high interest rate, banks involvement in management of SME, non availability of long term capital etc.

iv) Policy Inconsistencies & bureaucracy – CAC delays, too many government agencies at the ports, midway policy reversals by government etc

v) Environmental – Area boys menace, harassment by Local Government Officials, Insecurity of lives and property, under the table payments, bribery & corruption

vi) Multiple Taxes & Levies – includes unauthorized levies and taxes, tax clearance certificates.

vii) Access to Modern Technology includes lack of current information, no preservation or storage facilitate for fresh fruits, foods, poor quality products etc.

viii) Unfair Competition – includes dumping of fake, sub-standard goods, unfavourable tariff structure for finished goods, smuggling.

ix) Marketing Problems – relates to non patronage of locally produced goods by government agencies and departments, Nigerians preference for imported goods, credit sales, lack of subsidy and incentives, lack of access to export market and market information.

x) Non-availability of raw materials locally – high dependence on imported raw materials, foreign exchange costs.

40. If you had your way what would you like to be done to solve or alleviate the problems stated in question 39 above?
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………

41. List what you would like the government (Federal, State & L.G.A) to do which will help solve the problems of SMEs: (You can use additional paper if space provided is not enough)……………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
……………………

42. Who are your competitors starting with the greatest and down to the least?

1. ……………………………………………………….
2. ……………………………………………………….

3. ……………………………………………………….
4. ………………………………………………………
5. ………………………………………………………

43. Has your company ever applied to borrow money from a Bank Yes No

44. If not why not? (i) You do not like Bank Loan   (ii) Interest Rate too high

(iii) No collateral to pledge (iv) Others…………………………

45. Have you ever been refused or denied to borrow money from a bank
Yes No

46. What was the main reason your Bankers refused offering you loan?

(i) To avoid Bank Problem (ii) No Security to pledge

(iii) Too small equity base   (iv) Lack of experienced Board & Management   (v) Others (Please specify) …………………….. ………………………………………………………………………………

47. What was the highest amount your company ever borrowed from a Bank: ₦…………

48. What collateral or security did you pledge if any?

(i)……………….

(ii)………………

(iii)………………

49. Have you ever had problem repaying a Bank loan? Yes No

50. If yes what created the problem? …………………………………………………

……

51. Is financing really a set back to the growth of your organization? Yes No

52. If yes, explain
…………………………………………………………………………..

53. How have you been financing the operations of the organization?

(i)Personal funds/ savings (ii) SMIEIS Funds (iii) Bank loans

(iv) Family funds (v) Friends support (vi) Others (Please specify) ……………………………………………………………………………… ………………………………………………………………………………………… ………….

(You can tick more than one please)

54. Does your organization have a good business relationship with your bankers?

Yes No

55. Are you aware of the SMIEIS Funds /Program Yes No

56. If yes, have you ever applied for it? Yes No

57. If Yes was the SMIEIS Fund approved for your company? Yes No

58. If No why was your application not approved? (i) No business plan

(ii) No Audited Accounts (iii)You did not want the bank to participate in the management of the company. (iv) Not enough experience to manage the huge funds to be injected (v) Others (Specify)…………………………..

………………………………………………………………………………………….

58. Are you aware of the existence of other avenues of funding your business (e.g.)

Partnership, Equipment Leasing, loans from Bank of Industry) Yes No

59. If given the opportunity, would you accept a joint ownership with person(s) or organization that are willing to fund the business Yes No

60. If no, why not ………………………………………………………..

61. Does your organization have an existing business plan? Yes No

62. Does your company have a mission and vision statements Yes No

63. If no, why not …………………………………………………………….

64. Don’t you think having a business plan for the organization will enhance the performance of your organization Yes No

65. Does your organization have a record keeping/accounting system?

Yes   No

66. Who is responsible for recruiting management team personnel? ……………………..

67. Do you have full confidence in your management team? Yes No

68. Do they have the freedom to take important decisions on matters affecting the organization without having to wait for you? Yes No

69. How often do you send your staff especially the senior management team for refresher course, management development or other training program?……………………………………………………………………………… ………………………………………………………………………………………… …..

70. Do you have any other skills development program for your staff? (Please explain) ………………………………………………………………………………………… .

71. Do you have professionals handling key positions like: marketing, accounting/finance in your organization? Yes No

72. What is the highest qualification of the Head of marketing in your company? ……………………………………………………………………….

73. What is the highest qualification of the Head of Administration and Finance in your organization? ………………………………………………………………………………

74. Is your Head of Accounts a Chartered Accountant? Yes   No

75. Do you have an established plan on who takes over from you or any of the directors in time of retirement or incapacitation? Yes No

76. If No don't you think this might create a conflict/power tussle when you are no longer there to run the business? Yes No

77. Any suggestion on what can be done to solve the problems militating against the performance of SMEs in Nigeria.
…………………………………………………………….

………………………………………………………………………………………………
………………………………………………………………………………………………
……

Thanks for your time and patience.

AFTER COMPLETION, PLEASE RETURN TO

MR. BASIL ONUGU

LEADERSHIP PARADIGM POWERHOUSE LTD,

SUITE 4F, PRINCE'S COURT, 37 AHMED ONIBUDO STREET,

VICTORIA ISLAND, LAGOS

* ***Financial Standard Newspaper of March 22, 2004, page 18***

* ***Business Day, January 17, 2005***

[3] ***Page 2B of Small Business Journal, Business Day Newspaper issue of Monday, December 20, 2004 titled "Areas SMEs desire improvement in 2005"***

* ***Financial Standard, February 7, 2005, page 21***