

REPOSITIONING SMALL AND MEDIUM ENTERPRISES IN NIGERIAN ECONOMY: ANALYSIS OF ISSUES AND CHALLENGES

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ABSTRACT: *This paper highlighted and discussed issue and challenges on repositioning small and medium enterprises in Nigerian economy. The small and medium scale enterprises are essential element in providing a solid base for a country economic development. The small and medium scale enterprises produce goods and services for both end and intermediate users and also utilize low capital cost for creating jobs especially in a fast growing services sector of the economy. Some of the issues and challenges that militate against the operations of Small and Medium enterprises in Nigeria are; Multiple taxation, poor management, financial problems, inadequate information base, location etc. Government over the years has formulated a number of policies aimed at developing small and medium Enterprises. While most policies actually failed due to poor implementation, others however, succeeded. The following recommendations among others are suggested by the authors; Policies initiated by the government should be funded efficiently. Government and financial institution should develop a holistic approach to schemes initiated by them. Nigerian should encourage locally made goods and government should continue to make SMEs a central focus of industrial policy in order to achieve economic growth and development.*

KEYWORDS: Issues and Challenges, Small and Medium Enterprise, Economy

INTRODUCTION

Small and Medium Enterprise (SME's) have played and will continue to play a remarkable role in the growth, development and industrialization of many economies in the world. In the case of Nigeria, SME's has performed below expectations due to a combination of factors which ranges from the attitude and habits of SME's through economic related factors, inconsistency in the policy of government, and somersaults. In a developing economy like Nigeria, Small and Medium Enterprises (SMEs) play tremendous role in reengineering the socio-economic landscape of the country. The dynamic role of Small and Medium Enterprises (SMEs) in developing countries as engines through which the growth and development objectives of developing countries can be achieved has long been recognized. According to Ismaila (2012), Small and Medium Enterprises Development has continued to be a popular phrase in the business world. This is because the sector serves as a catalyst for employment generation, national growth, poverty reduction and economic development. SMEs world over can boast of being the major employers of labour if compared to the major industries including the multinationals. Okorie and Ibegbulem (2014) supports that SMEs help in the achievement of improvement in rural infrastructure, because SMEs provide opportunity for the development of local skills and technology acquisition through adaptation.

According to SMEDAN (2012), Small and Medium Enterprises in other developing countries have indicated that countries with larger share of SMEs employment have higher economic growth. It is suggested that one of the significant characteristics of a flourishing and growing economy is a booming and blooming SMEs sector. SMEs therefore play an important role in

the development of a country by creating employment for rural and urban growing labor force, providing desirable sustainability and innovation in the economy as a whole. In addition, a large number of people rely on the small and medium enterprises directly or indirectly. Most of the current larger enterprises in Nigeria and indeed in the world originated from small and medium enterprises.

According to Peter (2009), the role of Small and Medium Enterprises (SMEs) in economic development of a nation continues to be in the forefront of policy debates in developing countries. These enterprises largely represent a stage in industrial transition from traditional to modern technology. The variation in transitional nature of this process is reflected in the diversity of these enterprises. Most of the small enterprises use simple skills and machinery as well as local raw materials and technology. SMEs are vital in developing the Nigerian economy for the following reasons: social and political role in local employment creation, balanced resources utilization, income generation, utilization of local technology and raw materials and in helping to promote change in a gradual and peaceful manner.

According to Ogujuiba (2014), governments are often seen making frantic efforts in developing small and medium scale enterprises (SMEs). These enormous efforts are as a result of the activities of these enterprises having significant contribution to the employment generation, manpower development and gross domestic product of the country. In spite of the enormous effort put in by the government through various programmes and policies to revive and establish a relevant foundation for SME's in Nigeria, yet there has been no substantial improvement realized from them.

Small and Medium Enterprises

Adidu and Olannye (2006) stated that different countries have different basis of defining small and medium enterprises, some on capital investment, while others define it on the basis of management structure. There are many definitions on small and medium scale enterprises (SMEs) as there are experts on the subject. Akande and Ojukuku (2008) affirmed that a single universally accepted definition of SMEs has not been easy as different countries have different criteria for defining small and medium enterprise. Akande and Ojukuku adding that many countries have defined it in terms of manpower, management structure and capital investment limit. One crucial thing to note about small and medium business enterprise definition is that certain criteria have been used to define what SMEs stands for most especially according to countries, sizes and sectors. The Nigerian industrial policy describes SMEs as those whose total investment is between N100, 000 and N2, 000,000 exclusive of land but including working capital. There are however, some qualitative indicators that are common to most definitions namely; Size of capital, the number of employees, the annual turnover. Adidu and Olannye (2006) stated that in summary, SMEs are those business whose capital investment does not exceed N5million (including land and working capital) or whose turnover are not more than N25million annually. The Small Business Administration (SBA) in the USA measures SMEs as one which posses at least two of the following criteria.

- Managers are also owners
- Owners supply the capital
- Area of operation mainly local
- Small in size within the industry

According to SMEDAN (2012), Small Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees. Medium Enterprises are those enterprises with total assets excluding land and building) are above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total workforce of between 50 and 199 employees. The definition adopts a classification based on dual criteria, employment and assets (excluding land and buildings).

Government Measures in Repositioning Small and Medium Enterprises in Nigeria Economy.

New measures and initiative have been taken at promoting the growth of SMEs in Nigeria. These include:

Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN): The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003, to facilitate the promotion and development of a structured and efficient Small and Medium Enterprises (SMEs) Sector that will enhance sustainable economic development in Nigeria. The Agency is the apex and coordinating institution for all matters relating to starting, resuscitating and growing SMEs in Nigeria. The Agency is also saddled with the responsibility of contributing to the attainment of Vision 20-2020. Policy advocate for improved business operating environment with the overall objective of alleviating poverty, expanding gainful employment opportunities, wealth creation and sustainable economic growth and development.

Campaign for Patronage of Made-in-Nigeria Products: The buy made in Nigeria Products Initiative of the Federal Government is another laudable scheme to stimulate the SMEs sector. The campaign has provided adequate market for made in Nigeria products. The initiative has led to the market and marketing of the products/services of the sector through renewed vigor and aggressive strategy in the packaging and quality of the products. It has provided access to market by enhancing the turnover of the SMEs and making them more competitive.

The Establishment of Small and Medium Enterprises Equity Investment Scheme (SMEEIS): The SMEEIS initiative was in response to the Federal Government's concerns and policy measure towards the aggressive and radical transformation of the subsector through the provision of adequate and cheaper funding. All the commercial banks operating in Nigeria were required to set aside 10 percent of their profit after tax (PAT) for equity investment in small and medium enterprises in Nigeria. However, the scheme did not achieve the desired impact as most SMEs were not interested in the equity participation for fear of losing control of enterprises. Also, most SMEs lack proper bankable business plan, marketing strategy, no sound accounting systems and do not run transactions through the banking system.

Fiscal Incentives: Various fiscal incentives consisting of tax holidays under the pioneer industries scheme, accelerated depreciation, duty draw back scheme, duty exemption and tariff protection for the domestic market are directed essentially at industrial promotion of SMEs.

Development of effective capital markets to allow capital inflows: In the efforts at repositioning the SMEs in Nigeria, the effective development of capital markets is imperative. Capital market complement banking institutions in mobilizing and delivering investment resources particularly in the case of longer-term, large-scale and higher risk investments.

The Introduction of Microfinance Policy, Regulatory and Supervisory Framework for Nigeria: The Government through the Central Bank of Nigeria (CBN) launched the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in 2005. The policy provided the legal and regulatory framework for microfinance banking in Nigeria. The objective is to create a sustainable and credible microfinance banks capable of mobilizing and channel sating funds to the SMEs sub-sector. The policy, however, resulted in the establishment of new microfinance banks and the conversion of some existing community banks to microfinance banks. Today, the microfinance banks have provided the financing widow to address the inadequate access to finance confronting the micro and small enterprises in Nigeria.

The Youth Enterprise with Innovation in Nigeria (You Win) Programme: The Youth Enterprise with Innovation in Nigeria (You Win) Programme is a collaboration of the Ministry of Finance, the Ministry of Communication Technology, and the Ministry of Youth Development that launched an annual Business Plan Competition (BPC) for aspiring young entrepreneurs in Nigeria, in line with the Federal Government's drive to create more jobs for Nigerians. The main objective of the Youth Enterprise with Innovation in Nigeria (You Win) Programme is to generate jobs by encouraging and supporting aspiring entrepreneurial youth in Nigeria to develop and execute business ideas that will lead to job creation. The programme will provide aspiring youth with a platform to show case their business acumen, skills and aspirations to business leaders, investors and mentors in Nigeria. SMEDAN is the monitoring Agency of the programme. The rationale is to stimulate the SMEs sector in accordance with the present administration's economic aspirations in employment generation.

International Collaborative Partnering for Project Development: It is a generally accepted fact that for an economy to grow and develop, and for the industries in such an economy to be globally competitive, the economy should not be a closed system. It must be dynamic and open to external contribution, as no single system is self-sufficient in its entirety (Christopher and Adepoju, 2012). The subject matter of partnership for project development in SMEs business of Nigeria becomes relevant as a way of re-positioning these businesses. The positive history of Asian Tiger, today, could conveniently be traced to the foreign inputs in various forms stocked in those countries enterprises some year ago. As pointed out by Adeleke (2005) one of the major ways to reposition SMEs in Nigeria for global competitiveness is to embark on international partnering for project development. This requires going beyond the shores of the nation to seek out for partners in various forms. The partner's assistance could come inform of investment, technical assistance, supply of raw materials, machinery and other inputs. In fact, the partners could ensure the placement of the finished products on the international market for global competitiveness.

Train to Work (TRATOW) Initiative: The Train to Work Initiative of the Federal Ministry of Trade and Investment is another government effort at promoting SMEs, is targeted at equipping young Nigerians with the skills required to establish and manage small businesses. The SMEs sub-sector has been experiencing some skill gaps necessary to grow the sector. This initiative will close such gaps and lead to the establishment of new enterprises and the expansion of existing ones. The required vocational, entrepreneurial and managerial skills have been provided. It must be emphasized that many SMEs lack proper management capabilities and technical and managerial deficits are the main factors militating against the growth and development of SMEs in Nigeria.

The Establishment of National Economic Reconstruction and Fund (NERFUND): This fund was established to give loans to small enterprises that fulfilled certain conditions through the participating commercial, merchant and development banks. The two billion naira NERFUND Facility. NERFUND is now being repositioned to contribute to the growth and development of the SMEs sector. The NERFUND by all intents and purposes is to plug the finance gap in SMEs development in Nigeria. There is no doubt that if the programme of NERFUND is carefully implemented, it is capable of launching Nigeria into the path of self-sustaining industrial growth.

The Counterpart Funding Scheme of the Bank of Industry (BOI): The Bank of Industry has emerged with various strategies and schemes to provide finance to the SMEs sector in accordance with her mandate. The bank of industry in realization of the importance of finance to the SMEs has provided adequate access to finance to the sector through its various schemes, especially, their counterpart funding scheme with the state government. Some state governments have provided one billion naira to the bank for on-lending to small and medium enterprises in such state. The Bank will then match such fund with additional one billion naira. The scheme has gone a long way in solving the challenge of adequate finance confronting many SMEs in the various states.

Economic Importance of Small and Medium Enterprises (SMEs) in Nigeria

In developing country like Nigeria, the importance of small and medium scale enterprises (SMEs) in the process of social economic development cannot be overlooked.

Elimination of Some Deficit in the Balance of Payment: The small and medium enterprises (SMEs) are very important to the economy in the sense that large percentage of production inputs are sourced locally thus, reducing the pressure on the limited foreign exchange earnings, helping to eliminate some of the deficit in the balance of payment.

Poverty Alleviation: Small and medium enterprises help to reduce poverty and inequality in the rural Nigeria. According to Okon and Edet (2016), the nature of small and medium enterprise allows the employment of both skilled and unskilled labour force. It enhances the earning capacity of citizens thereby reducing poverty and inequality gaps. This is an important role in any economic development process in rural Nigeria.

Improvement of Rural Infrastructure and the Living Standard of the People: According to Okpara and Wynn (2007), when small and medium enterprises are cited in rural areas, it helps to improve rural infrastructure and the living standard of the people. SMEs help to attract electricity, road, and telecommunications facilities to the host communities and also create linkage businesses that can improve earning power of rural dwellers.

Employment Generation: In developing countries like Nigeria, the contribution of SME's towards employment generation is significant because SMEs; tend to use more labour intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution and provide livelihood opportunities through simple, value adding processing activities in agriculturally based economies.

Technological Acquisition: According to Okon and Edet (2016), Small and medium enterprises provide opportunities for the development of local skills and technology acquisition through adaptation. The "Aba Made" syndrome is a clear manifestation of such technological acquisition that gives impetus to rapid rural development in the economy.

Challenges of Small and Medium Scale Enterprises (SMEs) in Nigeria

- 1. Multiple Taxation:** High incidence of multiplicity of regulating agencies, taxes and levies that result in high cost of doing business and discourage SMEs operators. This is due to the absence of a harmonized tax regime which would enable business owners to build in recognized and approved levies.
- 2. Socio-Cultural Problems:** Most Nigerian SMEs operators do not have the investment culture of ploughing back profits. Bala (2002) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some SMEs operators may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against locally made substitutes.
- 3. Financial Problems:** In Nigeria, most small and medium enterprises (SMEs) are folding up or lack competitiveness because they lack the much require financial capacity to prosecute its manufacturing concern. Most of these enterprises cannot access loan on a long and short term basis. In a World Bank report in 2001, it was reported that almost 50 percent of Micro, 39 and 37 percent of the small and medium scale firm are financially constrained in Nigeria as oppose to 25 percent of the very large firm (World Bank, 2001). The implication of this shows that small and medium scale enterprises (SMEs) are either discriminated against or cannot access funds at the credit market.
- 4.** Exorbitant interest rates charged by banks and other financial institutions on loans granted to SMEs. This is a big disincentive to seeking financial support from these institutions and thereby stifling the growth of these SMEs.
- 5. Restricted Market Access:** Insufficient demand for the products of the small and medium enterprises (SMEs) also imposes constraint on their growth. Although many small and medium scale enterprises (SMEs) produce some inputs for the large enterprises, the non-standardization of their products, the problem of quality assurance as well generally low purchasing power, arising from consumers' dwindling real incomes, effectively restrict markets. This is further compounded by the absence of knowledge about the existence fringe markets by the small and medium scale enterprises.
- 6. Lack of Raw Materials:** In some small and medium enterprises (SMEs), raw materials are source externally such enterprises are fixed to sourcing of exchanging to get these needed raw materials foreign. The fluctuation of foreign exchange may therefore make it difficult to plan and that may precipitate some stock and things will destabilize the set up.
- 7. Poor Management Expertise:** According to Ibrahim (2011), the accounting system of most SMEs scale industries lack standards and does not make room for the assessment of performances. This creates opportunity for mismanagement, which subsequently may lead to enterprises failure.
- 8. Lack of Continuity:** Most of SMEs are sole proprietorships and such establishments often cease to function as soon as the owner loses interest or dies. This raises the risk of financing such establishment.

9. **Inadequate Information Base:** Peter (2009) SMEs are usually characterized by poor records keeping and this usually starves them of necessary information required for planning and management purpose. This usually affects the project realization in this sector.
10. **Inconsistency in Government policies:** The inability of government to execute favourable fiscal policies and policies inconsistencies has undermined the capacity of small and medium enterprises (SMEs). As Thomas (2010), identifies, inconsistencies in government policies is a major problem affecting small and medium scale enterprises (SMEs). Ogujiuba (2004) also factored in the problem to inappropriate time or delay in budget implementation as factor constraining investment and trade decision. In most cases, the process of approving budget at the legislative level is usually delay due to executive and legislative face-off most time and even when the budget is approved the executive implementation of such is also very slow due to administrative bottlenecks. Thus, delaying investing decision of small and medium enterprises (SMEs), particularly on tariff and taxes measures in trade decisions. Factors such as this have made the investment environment to be unpredictable and uncertain for small and medium enterprises (SMEs). In some cases, high incidence of government regulatory agencies, taxes and levies by different levels of government have resulted into high cost of running small and medium enterprises. As Onugu (2006) posits, this is due to the absence of harmonized and gazette tax regime which would enable manufacturers to build in a recognized and approved levies of tax payable.
11. **Location/Economic Problems:** Market stores are dominated by absentee landlords who charge exorbitant rates. According to Ibrahim (2011), the ownership of market stores by politicians is crowding real small-scale operators out of the market. Osamwonyi (2005) the high rents charged by store owners on good locations have forced real small-scale operators into the streets or at best into accessible places.
12. **Difficulties encountered in obtaining credit facilities:** The reluctance of banks to extend credits to SME's can be traceable to inadequate documentation of business proposal, lack of appropriate collaterals, high cost of administration, as well as high interest rates and fixed charges on loans.

CONCLUSION

Small and Medium Enterprises play a crucial role in revitalization process of the economy. It is universally accepted and acknowledged that SMEs serve as effective instruments of employment creation as well as economic growth, which eventually lead to alleviation of poverty of a nation. SMEs contribution to the mainstream economic activities will help address the economic ills in the country. Governments are often seen making frantic efforts in developing small and medium scale enterprises (SMEs). These enormous efforts are as a result of the activities of these enterprises having significant contribution to the employment generation, manpower development and gross domestic product of the country. In spite of the enormous effort put in by the government through various programmes and policies to revive and establish a relevant foundation for SME's in Nigeria, yet there has been no substantial improvement realized from them in Nigeria. SMEs face challenges from increased competition, the ability to adapt to rapidly changing market demand, technological change, and capacity constraints relating to knowledge, innovation, and creativity.

RECOMMENDATIONS

1. **Establishment of SMEs funding agency:** Government should set up an agency that will assess the working capital requirement of SMEs and make such funds available to them at a very low interest rate with long term repayment period.
2. **Public/Private sector partnership in infrastructural provision:** Government should partner with the private sector in the provision of efficient public utilities (power supply, water supply, good transport/communication facilities etc.) to ensure uninterrupted supply of these public utilities.
3. **Capacity building for SMEs operators:** Government should liaise with the chamber of commerce and other non-governmental agencies in the organization of regular training programmes/seminars for potential and actual SME operators, where they should be educated on how to plan, organize, direct and control their businesses.
4. **Provision of tax incentives for SMEs operators:** Government should abolish multiple taxation of SMEs operator. The use of private revenue contractors/task force in the assessment/collection of taxes from SME operators should be discouraged.
5. The government should set up a monitoring mechanism to facilitate and ensure strict compliance by financial institutions towards adequate financing of SMEs.
6. Incentives should be given in the form of tax holidays and awards to SMEs that excel in using the capital market as an avenue of external funding.
7. Institutions of learning such as Polytechnics, colleges of Education and Universities should incorporated the policies of SMEs into the school programmes and made it compulsory course so as to acquaint students with the relevant knowledge and skills of various business.
8. Governments should pay a serious attention to fight the scourge of corruption plaguing all facets of Nigerian lives and provide a level playing field for SMEs.

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