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## **Smuggling and Performance of Small and Medium Scale Enterprises in Ekiti State, Nigeria**

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**KEYWORDS:** *Smuggling has become a huge global menace which has continued to impact on the activity of locally manufactured good. The study examined the effect of smuggling on performance of small and medium scale enterprises in Ekiti state. The study adopted survey approach in which questionnaire was the research instrument. The study population consists of 395 small scale business owners in Ekiti state. Multi-stage sampling was used to select 350 SMEs owners who participated in the study. Data analysis was done using simple linear regression. The regression test results showed that smuggling activities significantly affect the performance SMEs in Nigeria. It was recommended among others that Government of Nigeria should consider having a clear smuggling policy which should vehemently stand tall against any act of smuggling while offenders should be heavily punished.*

**KEY WORDS:** smuggling, SMEs, economy, economic performance

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### **INTRODUCTION**

The phenomenon of smuggling is not new across the globe and particularly in Nigeria. Smuggling leads to distortions in international trade data and as a result the policies formulated from it. In the modern times, the causes and consequences of smuggling on small and medium scale enterprises have gained much attention of academics, policy makers and media.

The small and medium scale enterprises are known to contribute significantly to the development of any economy. In retrospect, despite the impressive contributions of the sector in various aspects, certain factors have continued to negatively impact on its performance ((Grossman and Shapiro, 1988). Smuggling has inhibited the performance of SMEs in Nigeria and it has increasingly retarded economic performance (Rauch & Evans, 2000). Smuggling is seen as fraud consisting in the movement of goods across a Customs frontier in any clandestine manner (Nairobi

Convention Article 1-(d)). This type of fraud includes unauthorized removal of goods from Customs warehouses, authorized processing plants, free trade zone, internal movement, etc.

People engage in smuggling owing to selfish purpose which includes making extra profit by boycotting the appropriate agency in charge of ascertaining the nature of goods before they are allowed into the country. Smugglers/fraudsters also believe that there are insufficient controls and that they have a good chance of not being detected, and then the environment is right for smuggling, -e.g. remote from the Customs checkpoints. Maintenance of professional integrity among Customs officials is another important element to prevent and detect this type of commercial fraud which has affected the growth of SMEs in the country.

Though smuggling is a global menace but it is more prevalent in Africa while Nigeria appears to be the worst heat in the continent.

As a result of significant price differences and high import duties, undeclared large numbers of consignment are discovered in our country every day. Large volumes of vegetable oil, rice and other foodstuffs illegally make it ways into country to unnecessarily compete with locally manufactured goods.

Inspite of the apparent prevalence of this ugly phenomenon in the country, not much study have been done to empirically investigate the effect of smuggling on the performance of SMEs in Ekiti state and by extension, Nigeria. This present study will fill the gap in literature and provide an empirically proven fact on the subject matter.

## **REVIEW OF LITERATURE**

### **Smuggling**

Smuggling is an illegal method of conducting business. Deflem and Kelly (2001) described it as a clandestine activity which involves the importation and/or exportation of goods by wrong or unlawful means with the objective of evading taxes and any other measures prohibiting or restricting the importation or exportation of such goods. Several of the many and imaginative methods that have been deployed by smugglers have included (i) outright avoidance of official Customs controls across the borders (e.g. on lake, over land on road, rail, airport and often through the bush ways. This form of smuggling is generally associated with highly marketable goods, goods of high tax value, and prohibited or restricted goods); (ii) under declaration of goods(a circumstance where the importer declares less quantity on importation documents than the actual goods being imported); (iii) under valuation of goods (whereby goods are given a lower value than they actually have); (iv) mis-classification of Goods (whereby goods are declared under a different class of imports particularly to attract lower rates of tax with intent to reduce the tax liability); (v) falsification of documents(sometimes documents pertaining to certain goods are tampered with in their particulars with intent to benefit the taxpayer by a reduction in tax); (vi) mis-declaration of country of origin(when a different country is declared as the source of goods instead of the correct country of origin; (vii) short landing transit and/or re-export goods(transit goods are those goods which are destined

to other countries through another country, re-exports are goods which come into the country but subsequently exited. In both cases, smuggling occurs when the goods finally end up on the market in another country, leading to total evasion of taxes and other controls; (viii) concealment (hiding the smuggled goods in another product); (ix) quantity (premised on the tenet that if enough of a particular product is smuggled then realistically some will get through); (x) bribery (get officials to turn the wrong way by paying them); (xi) threats (get officials to turn the other way or else); (xii) subterfuge (bring the product in away from the eyes of the officials); and (xiii) cover (get someone, like a diplomat to bring the goods in under their own cover), among others.

According to Norton (1988), the underlying cause of smuggling is rooted in differential tariffs or price disparities between markets. In which case, smuggling is motivated by risk-taking strategies prompted by a desire to avoid paying taxes or to make money from the sale of clandestinely imported goods. Sheikh (1989) indicated that the many risks associated with smuggling are alluring due to the anticipated monetary gain. Other fingered causes, which are considered largely secondary, include porous border, poor inspection at borders, corruption and presence of informal distribution networks, organized crime, and industry participation.

According to Oladejo (2010), the effects of smuggling are usually significant in an economy. The major impact often include (i) loss of revenue (smuggling is an act of tax evasion which deprives government of revenue for public expenditure); (ii) distortion of market prices (goods which are smuggled into the country are often sold a lot cheaper than goods brought onto market through the right procedures, smuggling therefore deprives traders of free competition); (iii) collapse of local industries (a country achieves better economic growth by developing its own industrial base. Smuggling under-cuts prices of locally manufactured goods and thus destroy the market for local products. As asserted by Oskooee (2003) and Rauch & Evans (2000) the aforementioned effects lead to collapse of local industries); (iv) unemployment (when there is unfair competition in the market, compounded by the collapsing of industries, the labour market (employment base) is eroded, thus professionals, skilled and unskilled personnel remain jobless); (v) undermine firms' investments (which are often substantial in developing well-managed distribution networks; smuggling also corrodes market share and destroys the reputation and profitability of brands-amongst any company's most important assets; and it also facilitates the equally damaging problem of counterfeiting).

To minimize the foregoing negative effects, require very calculated and well-targeted policy responses, especially by the government. One major way by which government can address the causes of smuggling going by indications from the literature is for the government to upscale its anti-smuggling drive so that seizures can add to the cost of smuggling and thus render smuggling uncompetitive. On the strength of the above, we hypothesize that: Smuggling has significant effect on performance of SMEs in Ado-Ekiti, Nigeria.

## METHODOLOGY

This study adopted a descriptive survey research design. It was adjudged to be appropriate because it helped in asking questions from the respondents with the aim to elicit appropriate responses to answer research questions. The study was conducted in Ekiti state while the study population comprised of all small scale Industrialist in all the 16 local government areas of the state. The total number of small scale industries is 395 as at the time of the study. 350 respondents were randomly selected through the aid of multistage cluster sampling technique. Questionnaire was the research instrument while the researchers opted for primary data. Reliability of the questionnaire was established through the test- retest method. This involves the administration of the questionnaire to at least 16 respondents in Ado-Ekiti local government area of Ekiti state. The questionnaire was administered twice within an interval of two weeks. Two sets of responses were correlated using Pearson Moment Correlation to ascertain reliability of the instrument. The data collected was analyzed using simple linear regressions.

## RESULTS AND DISCUSSION

**Table 1: F-calculated for testing the significant of overall hypothesis one**

SV	SS	DF	MS	F-CAL	SIGN
Regression	0.173	1	0.173	114.310	0.0000
Residual	0.006	4	0.001		
Total	0.185	5			

Source: Researcher's computation, 2021

**Table 2: T-calculated for testing the influence of smuggling on SMEs Performance**

Predictor	Unstandardized coefficient		Standardized coefficient	T-cal	Sign
	B	Std.Error			
Smuggling (X)	4.773	0.338	0.884	10.149	0.0000
Constant	2.020	0.065		30.066	0.0000

Source: Researcher's computation, 2021

**Table 3: Coefficient of determination ( $R^2$ ) for verifying the overall influence of Smuggling on SMEs Performance**

R	$R^2$	Adjusted $R^2$	Standard error of the estimate
0.984	0.869	0.861	0.028

Source: Researcher's computation, 2021

The tables 1 to 3 above presented the results of the test statistics computed for the null hypothesis one. In table 1, the p-value of the F-statistics calculated for determining the overall significant of null hypothesis one of 0.010 was less than the critical value of 5%. This revealed that the null

hypothesis which stated that smuggling has no significant influence on SMEs performance in Ekiti state was rejected. It is an indication that smuggling affects both the performance and survival of SMEs. Smuggling inadvertently illegally paves way for contraband and prohibited goods to unduly compete with locally manufactured goods. This finding is consistent with the opinions of Grossman and Shapiro (1988) and Kafchinski, (2009). According to the duo, smuggling has increased profit opportunity and a risk-to-reward balance that favors criminal activity, low security features of SMEs products which have often put SMEs at disadvantage.

### Recommendations

The study had revealed that factors such as pricing, product quality, retailer's relationship and company reputation affected customer's satisfaction of pharmaceutical companies in Lagos State and Nigeria in general. Therefore, based on the conclusions of the finding, the following recommendations were made.

- (i) Government should consider having a clear smuggling policy which should vehemently stand tall against any act of smuggling while offenders should be heavily punished.
- (ii) There should be synergy among amongst domestic manufacturers with a common purpose to instigate legal action against anyone found culpable of the offence of smuggling
- (iii) government and business leaders need to establish the fight against smuggling and counterfeiting as a priority, put more resources and *enhance co-operation* towards finding solutions;

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