The status of SME programs in Nigeria

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Abstract

Small-scale businesses have been playing an important role in the process of industrial and economic development of most nations. In Nigeria, there has been a decisive shift in the industrialization policy from import substitution to small-scale business development. To promote the development of small and medium-scale businesses, the Federal and State Governments in Nigeria have set up programs to provide various services to small-scale businesses. However, recent reports indicate that the programs have not satisfactorily performed their roles. This study is therefore, intended to highlight the roles and constraints of the programs implemented by the Federal and State Governments. An exploratory research method and secondary data were used in this study. The study reveals that the programs were assigned with roles which could have assisted immensely the small-scale business development in Nigeria. However, factors such as lack of infrastructure, inadequate resources, undue political interference, and lack of readiness or preparedness of small and medium scale businesses to partake in and their lack of awareness on how to benefit from the programs have hindered the programs from performing their expected roles. The study recommends that adequate financial, physical and human resources should be provided for the existing programs.

Keywords: Small-Scale Business, Nigerian Government, Development, Programs, SME

Introduction

Before independence, industrialization in Nigeria focused on making Nigeria the producer of primary raw material for British industries and importer of British manufactured goods. From the early 1960s, the Nigerian Government pursued the program of processing raw materials for export and Import Substitution Industries (ISls). After that, the Government pursued the program of ISIs more vigorously than the processing of raw materials for export program. The program of ISIs and export processing did not generate employment opportunities proportionally to the number of accumulating manpower needs of the country.

Therefore, in the mid 1960s, the Federal Government under the military, assumed the position of the dominant financial institution of the nation's development projects; most of which were large, and situated in urban centers (CBN, 1975). In order to address the various problems enumerated above, the Federal and State Governments decided to try an alternative industrialization development strategy of Small and Medium Enterprises (SMEs), especially in the early 1970s. The plan was, if given adequate encouragement, SMEs can perform their expected roles towards the development of the Nigerian economy. SMEs are particularly more conductive to the creation of more jobs per unit of investment than Large-Scale Businesses. As important as they are in the development process, their contribution to Nigeria has been less than adequate, owing to various institutional constraints as well as problems inherent in them.

These problems in turn, restricted them from performing their expected roles towards the development of the Nigerian economy. However, the Government realized that the best way to develop SMEs was to reduce or alleviate the problems facing the sector through its institutionalized programs. This study intends to investigate these programs and their constraints in Nigeria.

Literature Review

There is no single, universally accepted definition of Small and Medium Enterprise (SME), but there is some high level of consensus on the importance of SMEs in economic growth and development. Definitional issues and a paucity of data in some areas make any analysis of SMEs difficult. For example, the role SMEs play in community development often remains obscured by the informal nature of their actions - a phenomenon that is often called "silent corporate social responsibility" (Muñoz, 2001). Recent bodies of research, including a report produced by the United Nations Industrial Organization (UNIDO), show that there is widespread consensus on SMEs as labor-intensive, providing more opportunities for low-skilled workers.

The Nigerian economy is dominated largely by Small and Medium Enterprises (SMEs). A small-scale industry represents about 90 percent of the industrial sector in terms of review against the number of enterprises that contribute 1 percent of GDP (Aruwa, 2007). This is insignificant when compared to countries like Indonesia, Thailand and India where SMEs contribute almost 40 percent of GDP. The Corporate Affairs Commission (CAC) in Nigeria estimated that about 90 percent of all Nigerian businesses in 2001 employed less than 50 people. Similarly, a study conducted by the International Finance Corporation (IFC) during the same period estimated that 96 percent of all businesses in Nigeria are SMEs compared to 53 percent in USA and 65 percent in the European Union (EU) with SMEs in both places accounting for over 50 percent of their respective countries' GDP (HPAC, 2002).

The significance of SMEs in the market economies is global. In the European Economic Area and Switzerland, out of a million enterprises, SMEs account for 99.8 percent. Two thirds of jobs in the regions are in SMEs. The strong performance of the U.S economy in recent years has been driven largely by the creativity of SMEs that accounted for 43 percent of job creation between 1990 and 1997 (US/SBA, 1998). In every country SMEs are a pivotal instrument of economic growth and development. Several studies have confirmed this, including (Ogujiuba & Adeniyi, 2004; Onugu, 2005; Ihua, 2009) data from the Federal office of statistics in Nigeria affirming this when it revealed that about 97 percent of the enterprises in the country are SMEs, and they employed an average of 50 percent of the working population as well as contributing to 50 percent of the country's industrial output. The development plan articulated the need for the Nigerian economy to be self reliant through industrialization, entrepreneurship development, employment generation and development through increasing export trade.

The Government also realized that the types of assistance needed by SMEs if available from private consulting firms or large industrial enterprises might entail cost beyond its capabilities. Therefore, both Federal and State Governments set up various programs and schemes to provide assistance to SMEs in Nigeria. Incidentally, recent reports indicate that the programs and schemes have not been able to address the problems of SMEs. This study intends to highlight the roles and constraints of these programs.

Statement of the Problem

In the past six decades, many developing countries have realized that the development of small scale businesses can play laudable roles towards the overall development of their countries. This awareness made many developing countries, including Nigeria, have a change of direction of industrial development from large scale to small scale business development from the early 1960's. To promote the development of small scale businesses, the Nigerian Government set up various small- scale business development programs to promote small and medium scale businesses in the country. However, these programs over the years received attention of governments and donor agencies in support of SMEs in the country, but still the programs are not performing their assigned roles. Available evidence shows that there are constraints that prevent SMEs from performing their role (CASSAD, 1992). It has been generally asserted in the Nigerian business circles that small scale businesses have not been able to perform their roles because of the constraints in the government development programs; this gives a gap for this study to investigate. Therefore, there is a need to embark on the study of the SME development programs in order to investigate the existing problems which could have hindered them from playing their expected roles.

Findings

This section of the report highlights the roles and constraints of major programs that Federal and State Governments have put in place for the development and promotion of SMEs in Nigeria. The following are the programs investigated:

1. Industrial Development Centres (IDCs)

The then Eastern Nigeria Ministry of Trade and Industry established in 1962 the first Industrial Development Centre (IDC) in Owerri. The military government took over in April 1970 the operation of the IDC in Owerri and initiated the setting up of other IDCs in other States of the Federation. Primarily, the IDCs aimed at introducing, modern efficient management techniques to SMEs and their owners by rendering technical and managerial services free of charge. The IDCs are expected to render support services for the promotion and development of SMEs in all parts of Nigeria. The main functions of the IDCs as mentioned in the third National Development Plan are as follows: Technical appraisal of loan application, Provision of industrial extension services, Training of entrepreneurs and their staff including management trainees, Applied research into industrial products involving design products for Small Scale Business (SSB), Provision of facilities for training as well as consultative and extension services for proprietors and managers of SME, Helping SME entrepreneurs to purchase and install machinery, and To assist Nigerian States Governments in granting and supervision of small business loans.

Performance of the IDCs has been constrained by inadequate funding, which has been the major stumbling block to the operation of IDCs. Inadequate skilled manpower is another issue; the number of staff was grossly inadequate to offer services that were required by small-scale industries. The IDC staff were not up-to-date with technological changes and appropriate approaches to SME development due to lack of adequate professional training. Inadequate physical facilities at IDC offices is another issue. For example, IDCs lacked adequate technical staff and vehicles required for extension service of delivery. IDCs were handed over to the Small and Medium Enterprises Agency of Nigeria (SMEDAN) in 2009 (Business Day, December, 2009).

2. Small-Scale Industries Credit Schemes (SSICSs)

SSICSs was set up by each State Government in Nigeria in 1971 to give loans to Small Scale Businesses (SSBs) operating in manufacturing, processing or servicing activities with a capital investment not exceeding N150,000 in machinery and equipment only. The loan was to be given for the expansion and modernization of existing SSBs and also for the development of new SSBs of the mechanized type to manufacture relatively sophisticated consumer goods as well as simple producer goods. A special objective of the credit scheme was to encourage a new class of educated and technically qualified entrepreneurs to set up modern small-scale enterprises.

The major constraints that militated against the scheme are loan defaults and loan diversion. A substantial number of the beneficiaries of the scheme diverted loans obtained to support ostentatious expenditure. A lot of the beneficiaries of the scheme formed the habit of not paying back loans when due, even when they had the ability to pay back, which resulted in new loans to other genuine small-scale industries being denied.

3. Nigerian Bank for Commerce and Industry (NBCI)

Nigerian Bank for Commerce and Industry (NBCI) was established in 1973, by Decree No 22 of 1973. One of the objectives of the bank was to improve upon the low success of the Small-Scale Industry Credit Scheme. The Federal Government decided to channel its financial support for SMEs through NBCI. The functions of the NBCI include the provision of loans to indigenous persons, institutions and organizations for medium and long-term investment in industry and commerce at more liberal terms than those of commercial banks. The NBCI had been declining since the early 1990s, until it was matched with Nigerian Industrial and Development Bank in 1999 to form the Bank of Industries.

The major constraints of the bank are liquidity and bad operation. These problems were caused by inadequate financial resources, rampant mismanagement of funds, poor administration and political interference. By the 1990s, the problem escalated to the point that the bank could no more perform its role of making loanable funds available to small and medium scale industries.

4. Credit Guidelines to Financial Institutions

Among several ways in which the Central Bank of Nigeria (CBN) contributes to the development of SMEs is through its influence on bank credit. Specifically, CBN's annual credit guidelines to commercial and merchant banks stipulated a percentage of their total loans and advances be lent to small-scale industries. For instance, CBN directed in 1970, that all banks should grant a minimum of 35 per cent of their loans and advances to indigenous borrowers, largely SSB borrowers. This was constrained by lack of readiness or preparation of SSBs themselves for benefiting from the Credit Guidelines. Such problems are: aversion to ownership dilution, aversion to information disclosure, poor accounting standards, shortage of skills, badly prepared feasibility reports on projects to be embarked upon, and inadequate collateral, as well as lack of awareness by SME owners.

5. National Economic and Reconstruction Fund (NERFUND)

The introduction of a structural adjustment program in 1986 and the devaluation of the Naira created problems for SMEs as they grappled with high production costs and rising cost of imported inputs and increasing interest rates following deregulation (Ikhide and Yinusa, 1998). In order to bridge the perceived gap in bank lending to SMEs, the Federal Government set up the National Economic and Reconstruction fund (NERFUND) through the NERFUND Decree No 2 of 1989. The main focus of NERFUND are: (a) The provision of soft, medium to long-term loans for wholly Nigerian owned SMEs in manufacturing and agro-allied enterprises, mining, quarrying, industrial support services, equipment leasing and other ancillary projects: (b) Provision of medium to long-term loans to participating commercial and merchant banks for lending to SMEs for the promotion and acceleration of productive activities in such enterprises. The interest rate payable on funds from NERFUND was expected to be lower than the market rates.

NERFUND was not able to play its role effectively because of the following constraints: (i). Under-funding by the government. (ii) Lack of readiness or preparedness of SMEs to benefit from the program, aversion to ownership dilution and aversion to information disclosure, inadequate collateral. These problems restricted SME access to NERFUND.

6. Working for Yourself and Entrepreneurship Development Program (WFYP/EDP)

The Nigerian Working For Yourself Program (WFYP) and Entrepreneurship Development Program (EDP) were two programs which merged in 1986 to form the local WFYP/EDP program of the Federal Ministry of Industries. The WFYP/EDP consists of the following steps and arrangement: (i) identification and careful selection of entrepreneur trainees; (ii) training of selected entrepreneur trainees, which involves developing their entrepreneurial capabilities such as confidence, business plan preparation et cetera; (iii) the application of the knowledge acquired in the classroom in the field during which the trainees collect data on the technical viability and economic feasibility of the projects arising from (ii) and (iii). Trainees are expected to develop viable businesses or industrial projects; (v) linking the trainees with the appropriate infrastructure and other related assistance, all of which have inputs into the takeoff of the industrial projects in the shortest possible time: and (v) post training support services.

The programs experienced the following constraints: limited funds for lending to successful loan applicants. These problems were due to the fact that the State Governments were not positively disposed to the programs and thus did not provide adequate funds under the scheme as required by the Federal Ministry of Industries. Unwillingness of Commercial Banks to extend credit to many successful loan applicants whom the banks perceived as high-risks was another problem. Lack of adequate physical, human and financial resources for training, and carrying out post training activities like monitoring and evaluation of the training recipients; and non-readiness of entrepreneurs to partake in the program. Inability of the successful trainees to contribute their own financial quota of cost of projects was another shortfall. Many of the successful trainees were unable to put forward the minimum requirement of 25 percent of the cost of the project.

7. World Bank Assisted Small and Medium Scale Enterprises Loan Scheme

The scheme was introduced by the Central Bank of Nigeria and Federal Ministry of Finance on behalf of the Federal Government of Nigeria in the early 1980s. The objectives of the loan scheme include: (i).Enabling SME entrepreneurs to become more competitive through investment in the rehabilitation and expansion of their enterprises and the establishment of new ones. (ii) Reviving production and improving performance of viable enterprises which are currently facing financial difficulties. The first agreement between the Federal Government of Nigeria and the World Bank was signed in 1984 under the scheme I loan scheme, and was administered by the Nigerian Bank for Commerce and Industries. The SME II loan scheme commenced operation in 1990, by the Central Bank of Nigeria. The SME II loan was disbursed through a number of participating banks, comprising Commercial, Merchant and Development banks. The fund for the SME loan scheme was to be provided by the World Bank, SME entrepreneurs and participating banks. The loan scheme has been suspended since March 1994.

The performance of the loan scheme was limited by lack of adequate funds caused by: distress of ten of the twenty participating banks which made it difficult or impossible to service the loans since 1994, insufficient bankable projects by loan applicants, lack of full interest in tapping the fund by the participating banks because of the credit risk exposure especially the exchange risk exposure, and diversion of loans into non-related activities by some loan beneficiaries.

8. Industrial Estates and Layouts

The provision of Industrial Estates dates back to 1958 when the Federal Government in collaboration with the United Nations Industrial Development Organization (UNIDO) built the first Small-Scale Industrial Estate at Yaba, Lagos. Enugu and Anambra States also built one Industrial Estate each in the State capital.

The Third National Development Plan budgeted N60 million as aid to create model Industrial Estates in 12 States of the federation, while the 12 States on their own budgeted N626 million for the establishment and development of these Industrial Estates.

The main constraint of the scheme in recent times is inadequate funding. This problem was due to the following; State Governments were not positively committed to the development of industrial estates. Some Governments earmarked land for Industrial Estates but failed to contribute their counterpart funds for the development of the land. For example, N10 million was voted as the Federal Government's counterpart fund for the development of the estates in 1988, but only N3 million was released. In the 1990-1992 rolling plan, a sum of N5 million was budgeted for the development of industrial estates but nothing was actually released.

9. The Nigerian Industrial Development Bank (NIDB)

Though NIDB which was established in 1964 by the Federal Government aimed at ensuring that credit facilities were provided for medium and large-scale enterprises, it also has the responsibility of funding small-scale businesses with a total capital outlay of not more than N750,000. The bank was in a moribund state in the 1990s before it was merged with Nigerian Bank for Commerce and Industries (NBCI) in 1999.

Following are the major factors, which limited the performance of NIDB over the years: i) Inadequate funding during the introductory stage. Between 1981 and late 1982 the bank enjoyed low interest loans from the Federal Government. The bank also went into the capital market to raise N15 million loans to supplement its foreign currency. Thus from 1983 onwards, until the bank was eventually liquidated it had more constraints and fewer ventures in its operations. ii) Lack of readiness or preparedness of small-scale businesses owners to partake in the program and inadequate collateral. These problems discouraged NIDB to extend loans to many SSBs.

10. Bank of Industries (BOI)

Bank of Industries was set up by the Federal Government in 2000 through the amalgamation of two former Development Financial Institutions - NIDB and NBCI. The Bank has since then been given a mandate by the Federal Government to source funds from multinational agencies outside the country to supplement local investible funds for SMEs. The following are the factors that limited the performance of the Bank: (i). Failure of the Federal Government to release substantial part of the capital base promised to the bank, (ii). Failure of many investors who applied for loans to package bankable loan applications.

11. National Directorate of Employment (NDE)

The National Directorate of Employment was created in 1986 to create job opportunities for Nigerians, especially school dropouts. It has two programs that were of direct relevance to small-scale industries development. These programs are the vocational skills development program and the small-scale enterprises program. The vocational skills development program has the objective of assisting youths to acquire marketable skills that would enable them to be easily absorbed into the workforce. However, those of them who opt out for self-employment would be given tool kits relevant to the apprentices' trade and working capital as loans under the job creation guarantee scheme of the directorate. In the case of the small-scale industries program, unemployed graduates and other young entrepreneurs are encouraged to set up small-scale enterprises with the provision of loan facilities. One main distinguishing feature of the loan scheme is that all participants are required to undergo a two-week training program in entrepreneurship development before they can be eligible for loans. The major obstacles to the full realization of the objectives of the two NDE programs are the shortage of loanable funds and high rate of default by loan beneficiaries.

12. Small and Medium Enterprise Development Agency of Nigeria (SMEDAN)

SMEDAN linked to the Federal Ministry of Industry was formed by an Act of Parliament in 2003. SMEDAN is expected to play the following roles (Adelaja, 2004): (i). Co-ordinate the activities of other agencies of Government, such as Federal Institute of Industrial Research (FIIRO), National Office for Technology Acquisition and Promotion (NOTAP), National Science and Engineering Infrastructure (NASENI), Projects Development Agency (PRODA) etc. to facilitate access of Micro, Small and Medium Enterprises (MSMEs) technology and necessary technical support: (ii). Facilitate access of MSMEs to technology both local and foreign through exhibitions in partnership with relevant institutions. (iii). Keep data/inventory of raw materials by Local Governments/States and disseminate to various MSMEs. (iv). Partner with donor agencies; such as UNIDO, UNDP, World Bank (IFC and IDA) group to give the necessary support that will enhance the skills of MSMEs. (v). Encourage the setting up of product clusters. (vi). Encourage and facilitate the development of Industrial

Parks for MSMEs to have access to infrastructure and business support services etc. (vii). Link MSMEs with large industries in a strategic manner for out-sourcing and sub-contracting for some of the inputs in large industrial production, to facilitate MSMEs active role in the value and supply chain. (viii). Provide both local and foreign market information to MSMEs operators, establish Business Support Centres to provide services to MSMEs in the areas of feasibility studies and development of business plans. (ix). Refer MSMEs to sources of credit. Owing to the relative newness of SMEDAN, it is perhaps too early to make pronouncements about its problems.

Discussion

From the prevailing evidence, it can be seen that the programs set up by the Nigeria Government were assigned several roles towards the development of SMEs in the country. 61.5% of the programs were set up to provide short to medium term loans to SMEs. These were SSICs, NBCI, SSICs, NBCI, NERFUND, World Bank Assisted Small and Medium-Scale Enterprises Loan Scheme, NBCI, BOI and DFIs. If these programs performed their expected roles, the problems of inadequate sources of finance faced by SMEs and borrowing short-term loans to finance long-term investment would have been drastically alleviated. The findings however, indicate that the programs were hindered from performing their roles effectively by loan defaults and loan diversion by the loan beneficiaries, inadequate funding by the governments, rampant mismanagement of loanable funds, poor administration and political interference, lack of readiness or preparedness of SMEs owners. 7.7% of the programs were set up to facilitate access of SSBs to Commercial Bank loans and to make Commercial Banks lend a substantial part of their loanable funds to SSBs. If the program was not hindered from performing its role, the financial problems of SMEs would have been drastically alleviated. The findings, however, indicate that the program was constrained by lack of preparedness or readiness by the SMEs' owners/managers.

This is in line with Fatai's (2011) findings which, state that in Nigeria, most SMEs are folding up or lack competitiveness because they lack the much required financial capacity to prosecute their manufacturing concern as well as face challenges induced by the operating environment such as Government policies, globalization, functions of the nature and character of SMEs themselves. Also, Osotimehin (2012), observes that financial constraints and inadequate management and technical staff hamper the efficient performance of SME programs in Nigeria. Also Dandago and Usman (2011) opined that Government should make available financial and other support mechanisms like the ones envisioned for SMIEIS. The prevailing corrupt tendency in Nigerian society and political interference especially in public institutions have permeated the fabric of society including SME support programs, (Osotimehin, 2012).

15.4% of the programs were set up to develop management and technical skills of the owners and staff of SMEs. These programs were the IDCs, NDE and WFYP/EDP. If these programs were not hindered from performing their roles, the problem of lack of management and technical expertise faced by SSBs which led to use of inappropriate machinery and processes for production and inability to keep necessary records of business, lack of adequate access to product markets, technology, raw materials and credit, among other internal problems, would have been greatly reduced. In addition, the findings indicated that the programs were hampered by some problems: IDCs were faced with the problems of inadequate funding, manpower and physical facilities. WFYP/EDP was hindered from performing its roles by lack of adequate physical, human and financial resources to carry out training and post training activities, and non readiness of entrepreneurs to partake in the program.

Conclusion and Recommendations

The study attempts to access the roles and constraints of SME development programs which the Federal and State Governments of Nigeria have put in place since the 1960s. The results of the study show the following: the programs were assigned roles which could have assisted immensely towards virile development of SMEs in Nigeria. However, the programs had constraints which prevented SMEs from deriving maximum benefits for economic growth and development of the country.

To address the identified constraints of the programs, the study recommends that adequate financial, physical and human resources should be provided for the existing programs. In addition, the Government should conduct regular training that would assist SME owners towards alleviating their own problems which militated against their maximization of benefits from the programs. Finally, the management of the existing programs should not allow politicians to interfere in the execution of their duties and Government should watch against any interference in the activity of such agencies from outside.

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