

Small and Medium Enterprises in Nigeria: Contributions to Economic Development and Challenges

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Abstract

The role of Small-medium scale enterprises (SMEs) in enhancing economic development in Nigeria has featured prominently in literature. In most developing economies, SMEs make up about 97% of the economy, hence they play a very important and major role in the development of the economy through job creation, poverty alleviation and foreign exchange conservation. They also support innovations by developing indigenous technology, increasing local content of industrial output and economic growth. This sector also suffers several setbacks. This study examines the contributions and challenges of SMEs in Nigeria. It focuses on issues of inadequate financing, unfavorable government regulations, inadequate public infrastructure and weak managerial capacity. This is desk research. It adopts secondary data from textbook, journals and other relevant publications. The study leverages the Resource Based Theory in providing a theoretical foundation for the study. Issues discussed in the study are analyzed using content analytical technique. The study concludes and reiterates the need for the government to create an enabling environment for the development of SMEs in Nigeria. One of such effort is the provision of infrastructures.

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Background to the Study

Small-medium scale enterprises (SMEs) are vital to economic development in Nigeria. "SMEs make up about 97% of the economy, hence they play a very important and major role in the development of the economy through job creation, poverty alleviation and foreign exchange conservation" (Imeokparia and Ediagbonya, 2014). SMEs generates employment, develop indigenous technology, increases local content of industrial output by fostering forward and backward industrial linkages to enhances the general level of economic activity. Ikon and Chukwu (2018) added that, "although SMEs are smaller in size, they are the most important enterprise in the economy due to the fact that when all the individual enterprises are combined, they exceed that of the larger companies". SMEs businesses involves very small micro-firms run by one or two persons and very slow growth or no growth to fast growing medium businesses earning millions of dollars and majority employing as many as 250 employees (Fjose, Grunfeld, and Green, 2010). SMEs are also the link between simple industries to highly developed and complex industries and provide a platform for Africa's take off to development. These industries play an essential role in facilitating development through provision of inputs and services for industries while at the same time providing direct goods and services to consumers. This makes SMEs continuously boost the economy for sustainable growth and development of African countries (Fjose et al., 2010).

Since the second National Development Plan (1970 - 1974) and third National Development (1975 - 1980), the Nigerian government have placed emphasis on the development and proliferation of SMEs for the purpose of using them as veritable engines for economic growth and development. The government went on to establish the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004 by an Act of Parliament, to be a regulatory body that controls the activities of SMEs in the country. SMEDAN was also set up to support the realization of the goals and objectives of SMEs in the country. The agencies have played key role in supporting its mandate. In the past and recent times, the Nigerian Government has established numerous schemes and programs specifically targeted at SMEs e.g. SMEDAN, YouWin, TraderMoni, N-Power, etc. All these efforts combined together form a great step at bridging the gap for SMEs in Nigeria (Invoice NG, 2022). Extant literature shows that, though SMEs have great potentials in enhancing economic development in Nigeria, certain factors undermine this role (Fjose et al., 2010; Ikon and Chukwu, 2018), and this calls for research concern. The study examines the contributions and challenges of SMEs to economic development in Nigeria. It focuses on issues of inadequate financing, unfavorable government regulations, inadequate public infrastructure and weak managerial capacity.

Statement of the Problem

SMEs in Nigeria face numerous challenges ranging from lack of infrastructure, lack of capital, poor management skills and competencies, and inadequate information, and corruption. Ikon and Chukwu (2018) disclosed that "Most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year, while only about five to ten percent survive, thrive and grow to

maturity". These challenges have affected the contributions of SMEs to the Nigerian Industrial output in particular. The effect is evident by the fact that most manufacturing enterprises in Nigeria had operated well below capacity. Capacity utilization for a product can either be low or high; however, most times the capacity utilization has been as low as twenty percent (20%). (Imeokparia and Ediagbonya, 2014). Critical factors that affect the performance of SMEs in Nigeria are inadequate financing, unfavorable government regulations, inadequate public infrastructure and weak managerial capacity. The study will highlight their effects and suggest ways of improving the situation to ensure maximum performance of SMEs in the country.

Objectives of the Study

The study seeks to,

1. Examine the contributions of SMEs to economic development in Nigeria
2. Assess the challenges faced by SMEs in Nigeria
3. Identify prospects to address the challenges of SMEs in Nigeria

Methodology

The study adopts secondary data. These are those data obtained from relevant reviewed literature which for the purpose of this search include textbook and journals management and financing of small and medium scale enterprises and other relevant publications. The literature was examined using content analysis.

Theoretical Foundation

The study leverages the resource-based theory. The theory is associated with the work of Penrose (1959). The proponent argued that resource possessed, deployed and used effectively would give more results than other industrial structure employed. He therefore advocates for the advantage resources have for industrialization. Papp and Luftman (1995) described the thesis of the theory as having distinctive competency in the development of small scales businesses. Such provision, they believe, creates viable economic opportunities for the sustainable competitive advantage of the firm resource performance of the firm (Wernerfelt, 1984). The contributions of the resource-based theory provide small and medium scale businesses opportunities that can lead to competitive advantages in Nigeria. Access to economic resources allows the enterprises to achieve business objectives efficiently. Access to economic resources is therefore be seen as an important criterion in establishing small scale businesses and Nigeria, and elsewhere in the world.

Conceptualizing Small and Medium Enterprises

The Federal Ministry of Commerce and Industry (2015) defined SMEs as firms with a total investment (excluding cost of land but including capital) of up to 750,000 Naira, and paid employment of up to fifty persons. According to the National Council of Industries, SMEs are business enterprises whose total cost excluding land is not more than two million naira (N2, 000,000) only. SMEDAN (2017) defined SMEs based on the following criteria: small scale enterprises are businesses with ten to forty-nine people with an annual

turnover of five to forty-nine million naira, while a medium scale enterprise has fifty to one hundred and ninety-nine employees with a year turnover of fifty to four hundred and ninety-nine million Naira. These definitions also differ with that of Khan and Dalu (2015) who opine that small and medium scale enterprises have long been catalysts for both industrial growth and economic growth of nation for both in developed and developing countries, and they play an important role for employment generation, facilitator of economic recovery and national development

The Central Bank of Nigeria Monetary Policy circular No. 22 of 1988 defined small scale enterprises as an organization whose investments (including land and working capital, do not exceed = 5m). In 1989 Nigerian Industrial Policy defined small scale industries as those with total investment of between N100,000 and N2 million, excluding land but including working capital. Micro and cottage industries Were similarly defined as those with investments not exceeding N1,000,000 excluding land but including working capital. Also, the decree establishing the National Economic Reconstruction Fund (NERFUND) in 1989, defined SMEs as these with fixed asset other than land but exceeding cost of investment project not exceeding N10 million. Currently, under SMEs, and SME is defined as an enterprise with an asset base not exceeding N200 million excluding land and working capital; and with a staff strength of not less than 10 and not more than 300. All these are the various definitions put forward by the different local institutions. The SME department of the World Bank Group prescribes the following definition:

Micro Enterprise

Employees: 10 or less
Total Asset: N100,000 or less
Turnover: N100,000 or less

Small Enterprise

Employees: 10 - 50
Total Asset: N100,000 to N3 million
Turn over: N100,000 to N3 million

Medium Enterprise

Employees: 50 - 300
Total Asset: N3 million to N5 million
Turn over: N3 million to N5 million

The Nigerian Industrial Development Bank (NIDB) regards small scale enterprises as those project cost, i.e., investment and working capital not exceeding N750, 000 and medium scale enterprises as those with project cost ranging between N750,000 and N3 million. The Center of Industrial Research and Development (CIRD) at the Obafemi Awolowo University, Ile-Ife defines small scale enterprises as those with total assets in capital not exceeding N250,000 and employing not more than 50 full time workers. From the various definitions one will notice that emphasis has often been placed on certain

financial ceilings in capital investment. The frequency of formation (and death) of small-scale enterprises are usually explained by the desires of the owner-manager to own his personal business. Thus, the small-scale enterprises being the lengthened shadow of its owner reflect his or her strength as well as weaknesses. Thus; the small-scale enterprises entrepreneur begins to its unique animation, abilities, work experience, advantages and attitudes. In tum, the performance of the small scale is determined by the personality characteristics of the owners, viz responsibility, vigour, initiative, persistence and health thinking ability, human relation ability, communication ability and technical knowledge. Government in both industrialized and developing countries provide a wide variety of programmes to assist small and medium scale enterprises.

According to SMEDAN National Survey of 2021, there are about seventeen thousand, three hundred and twenty-one (17,321) SMEs in F.C.T., Abuja as shown below:

Table 1: Population Size of SMEs in F.C.T, Abuja

Economic Sector	Sole Proprietorship	Partnership	Private Limited Liability Company	Cooperative	Faith Based Org.	Total
Manufacturing	124	79	271	194	51	719
Mining and Quarrying	253	59	286	169	64	831
Accommodation and Food Services	482	105	358	315	159	1419
Agriculture	226	43	266	295	147	977
Wholesale/Retail trade	505	77	291	299	168	1340
Construction	254	89	279	285	105	1012
Transport and Storage	302	47	293	313	63	1018
Financial Intermediation	355	48	365	157	105	1030
Real Estate, Renting, Business Activities	451	111	378	265	151	1356
Information and Communication	385	100	353	153	57	1048
Education	554	33	351	167	153	1258
Administrative and Support Activities	452	119	341	241	42	1195
Health and Social Works	405	69	276	139	141	1030
Arts, Entertainment and Recreation	401	55	354	211	51	1072
Other Services Activities	256	93	368	187	159	1063
Water Supply, Sewerage, Waste Management and Remediation Act	250	71	323	235	64	943
TOTAL	5655	1198	5153	3625	1690	17,321

Source: SMEDAN National Survey of 2021

This table shows the vast nature of SMEs in the country. The distribution covers almost all sectors of the economy. It shows its central importance of SMEs in determining economic trend and development of the economy of the Federal Capital Territory, Nigeria.

Small and Medium Enterprises in Nigeria: Contributions to Economic Development and Challenges

Extant literature has portrayed the significance of SMEs in economic development in Nigeria. According to Ogbuanu, Kabuoh, and Okwu (2014), the manufacturing SMEs contributes to the sustained increases in gross domestic product, sustained more than 7 per cent share in employment for greater part of the 2002-2012 period and maintained increasing shares in GDP. Ilegbinosa and Jumbo (2015) disclosed that finance available to SMEs provides a positive relationship with economic growth while interest rate and inflation rate showed a negative and positive influence on economic growth respectively.

Etuk, Etuk and Michael (2014) acknowledge that, SMEs, if fully developed have been identified as being beneficial in alleviating poverty through wealth and job creation. This sector can benefit any government that develops it to the extent that it has the capacity to grow a country's GDP, generate taxes and other revenue, as well as assist in bringing stability in the polity of a country. The corporate world can also gain from the specialised goods and services of SMEs and the healthy market competitiveness it promotes, thus giving way for a strong private driven economic sector, with entrepreneurs springing up.

Nigeria ranked 131 out of 189 countries regarding the ease of doing business. As a result, 80% of new small businesses fail in 3 years (Ikon and Chukwu, 2018). This is not to say that there aren't business succeeding. But not enough business owners are well equipped for the challenges ahead and so, a lot of the business enterprises either pack up completely or remain redundant without growing. This paper will highlight four basic challenges, which are inadequate financing, unfavorable government regulations, inadequate public infrastructure and weak managerial capacity.

a. Inadequate Financing

Funds, money, adequate financing is the soul of business. Access to financing has been made even more difficult with a greater percentage of our population still being unbanked (Taiwo, Ayodeji and Yusuf (2012). With a growing population of about 200 million people, over 73.2 million adults in Nigeria, an equivalent of 40.6% of the total adult population are financially excluded. In other words, over 40% of households and adults in Nigeria don't have a formal bank account (Nairametrics, 2021). The underfunding of small-scale enterprises has led government to formulate measures aimed at assisting this sector. Notwithstanding, the level of access is not significant compared to the number of SMEs that exit in the country. This affects the prospects of business development and expansion in Nigeria.

B. Unfavorable Government Regulations

The growth potentials of most SMEs are affected by regular high and multiple taxes and

tariffs. Nuwagaba and Nzewi (2013) revealed that MSEs' growth potential is negatively affected by high taxes. They acknowledged that, this affects savings and investment. In most states and local governments, there are different levies from different agencies of the government targeted at small business owners. Though these regulations and levies are put in place to check and maintain order in the business space, it has become so much for small business owners. Various harsh macroeconomic conditions like unstable exchange rate, inflation, and hike in the price of fuel are also contributing factors to the many challenges small business owners face frequently.

C. Inadequate Public Infrastructure

The poor state of public infrastructure in Nigeria poses a serious threat to the growth and development of small and medium scale enterprises. Small business owners are faced with a number of these infrastructural challenges ranging from inadequate power supply to poor transportation infrastructure, insecurity, and access to potable water. But of the many challenges, lack of stable electricity is the most common amongst business owners in Nigeria. The state of electricity has hindered the growth of small businesses with an interest in manufacturing and production, killing a lot of industries, mini-factories, and other businesses. In Nigeria, a lot of small business owners have opted to provide themselves with alternative infrastructures. But the cost of providing parallel infrastructural support for the business is higher, contributing to high operational expenses. Besides, some commercial banks in Nigeria have alluded to the fact that these challenges have made SME financing a high-risk venture for them, hence while it is difficult for small business owners to access financing from them.

D. Weak Managerial Capacity

Small-medium scale enterprises requires a high technical input and the cost of this technical inputs and the cost of this technical expertise is usually high. Most small business lacks basic managerial skills and this negatively affects their operations. Their business lacks proper structure and without this structure investors and banks find it difficult to access a business's creditworthiness to provide the venture capital or loan needed to support the business venture.

Conclusion and Suggestions for Improved Performance

The paper has reiterated the role of SMEs in economic development in Nigeria. SMEs contributes a significant quota to economic development in Nigeria. However, the study highlights that its performance is hindered inadequate financing, unfavorable government regulations, inadequate public infrastructure and weak managerial capacity, among other things. To improve its performance, the study suggests,

1. Funding, easy access to more funding is required in the development and survival of SMEs in Nigeria. The Nigerian government, through its enabling institutions and the agencies must ensure that SMEs have access to grants, loans and other financial opportunities without unnecessary collaterals.
2. The government must create enabling environment for business development and sustainability in Nigeria through efficient macro-economic environment.

- They must simplify the process of acquiring licenses, certifications and reduce excessive taxation to encourage the growth of small businesses. This must be complemented with a safe and secured business environment.
3. The need to create public infrastructures cannot be over stressed. The power(electricity) situation in Nigeria must be addressed, so as to close infrastructure gaps and weak macroeconomic performance. The turn-around time at the ports, congestion on the roads, are all imperative causes of business failures in the country and cannot be controlled by entrepreneurs and SME operators. Consequently, it poses a big risk to businesses unless the government intervenes decisively and gives the needed policy responses. This is the big prayer of all SMEs and entrepreneurs in the country, and the Nigerian government must give it the apt attention it deserves and not lip services.
 4. Small business owners must invest in capacity building, especially in managerial techniques, innovations and technology. They can invest more in platforms and digital solutions that will help get their products or services seen by more of their target market. There are various e-commerce platforms that small business owners can leverage to increase their sales. They should also invest in digital marketing tools like websites and social media channels to improve their visibility.

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