

FACTORS INHIBITING THE DEVELOPMENT OF SMALL AND MEDIUM INDUSTRIES IN NIGERIA

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ABSTRACT

This paper identified the barriers confronting the growth and development of SMIs in Nigeria. Structured questionnaire was used to collect data from hundred and fifty SMIs operators. Chi-square techniques and percentage were used for data analysis. Findings show that formal barriers and informal barriers formed the most significant barriers for SMI businesses. The environmental barriers were secondary in significance. The paper recommends among others; that government should provide enabling environment for the SMI to grow and develop as good road, electricity, supply, provision of funds at low interest rate and reduction in tax. Finally, the SMI operators should form support networks among themselves to address mutual needs.

Keywords; Small and medium industries, former barriers, informal barriers, environmental barriers and enabling environment

1.0 INTRODUCTION

Small and medium industries (SMIs) have been widely acknowledged a major driver of economic growth. In most of the developed country, SMIs accounted for 90% of all business enterprises. In China, SMIs we said to be responsible for about 60% of the industrial output and employed about 75% of the workforce in urban centers

In spite of all the efforts and support of the succeeding administrations and government to the developments of SMIs in Nigeria, the SMIs have not played the expected role in the economic growth and development in this country. The manufacturing companies which are sub-section of the SMIs contributed only 6.7% to Gross domestic product (GDP) in 2008 and industrial capacity utilization dropped to 48.8% in the same year.

SMIs is an essential element in shaping the economy of any country and for the federal government to achieving the objective of the Nigerian vision 2020 for SMIs, that is contributing 34% to the national product and generate 60-70% employment and a low mortality rate for business, more attention is needed for the development of SMIs. An increase interest and recognition of SMIs will contribute to economic development, which, according to Olorunshola (2004), includes efficient use of resources; encourage expansion and development of indigenous entrepreneurship and technology as well as income distribution. The contribution and the impact of SMIs to economic development of Nigeria are not noticeable owing to various barriers.

The aim of this paper is to identify the barriers affecting the development of SMIs in Nigeria, the government efforts towards solving

these problems and to proffer solutions toward achieving dynamics and growing SMIs in Nigeria

2.0 LITERATURE REVIEW

2.1 Definitions of SMIs

There is no universally accepted definition of SMIs, because it depends on investment level, the workforce, the technologies and technical method of production and so on, which varies from country to country. In Nigeria, prior to 1992, different agencies define SMIs in various ways. In 1992, the National country on industry came out with a definition of SMIs and to be reviewed every four years in order to bring uniformity to the definition of industrial enterprises. The small scale enterprises were defined as those enterprises with assets above N1 million but not exceeding N10 million, excluding land but including working capital, while medium scale enterprises are those with fixed assets, excluding land but including working capital, of over N10 million but not exceeding N40 million. The definitions were later revised in 2001 with small scale industries as those with a total cost of asset not more than N50 million including working capital but excluding cost of land or with a labour size of between 11 and 100 workers; while medium scale industries are those enterprises with total cost including working capital but excluding cost of land of over N50 million, but not exceeding N200 million or a with a labour size of between 101 and 300. Also, at the bankers committee meeting held on June 19, 2001, SMI was defined as any enterprises with a maximum asset base of N200 million, excluding land but including working capital with the number of

staff employed by the enterprise not less than 10 and more than 300.

2.2 Characteristics of small and medium industries

The SMIs may be conducted in one of the following forms.

1. As a proprietorship – when we have single ownership
2. As a partnership where between 2 and 20 people contribute resources to run an enterprise.
3. As a legal entity having more than 20 people operating as a private limited liability.

According to Adelaja (2003), in any economy where SMIs are encouraged and well developed, certain characteristics are common to SMIs, which includes

1. Personal commitment of the proprietors whose life savings usually form the start-up capital
2. Low limit capital requirement
3. Ease of entry and exit;
4. Availability of business advisory services
5. Availability of less complex technology
6. High content of local inputs in the production process;
7. High potential for employment opportunities, but in Nigeria, the SMIs has the following characteristic which according to Basil (2005) include the following;

1. Labour intensive production processes
2. Concentration of management on Key Man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and charges
5. High mortality rate within the first two years of operation
6. Over - dependence on imported raw materials and spare parts
7. Poor quality outputs
8. Lack of adequate financial records keeping
9. Poor access to vital information's among others

2.3 An Overview of Government Effort in the Development of SIMs in Nigeria

Over the years, the federal government realized the benefits of promoting SMIs in order to achieve the desired goals of creating employments and industrialization. Therefore the Government has taken various steps which include the following.

1. Funding and setting up industrial areas and estates to reduce overhead cost.
2. Providing local finance through its

agencies, that is the Central Bank of Nigeria, Federal Ministry of Industries (small scale industry credit scheme), Niger Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI).

3. Facilitating and guaranteeing external finance through institutions to provide funds to assist SMIs.

4. Establishment of National Directorate of Employment (NDE), which help in setting up a new SMIs.

5. Establishment of National Economic Reconstruction Fund (NERFUND) to provide medium and long term funds to businesses especially those establishments in rural areas.

6. Provision of technical training and advisory services through the industrial development centers, Industrial Training Fund (ITF), Institute of industrial research, (FITRO), Project Development Agency (PRODA)

7. Establishment of second Tier security market in 1985 to assist SMIs in raising funds from the capital market

8. Bank's equity holding in companies

The government amended the banking Act of 1969 in its budget of 1988 to allow bank to hold equity shares in non-banking related enterprises. The policy is to increase availability of equity Capital to SMIs

In spite of all these steps taken by the government, the performance of the SMIs is woeful. The SMIs which contributes about 70% of the total industrial labour accounts for only 10-15% of the total manufacturing output, also the Agricultural sector which engages over 60% of the nation's labour force produces only 10-15% of total manufacturing output, also the Agricultural sector which engages over 60% of the nation's labour force produces only 64% of the gross domestic product.

The past effort have not yielded the expected result because of the following reasons stated by Oyekanmami (2004)

1. Dominance of public-sector ownership corruptions etc
2. Poor loan processing and credit administration procedures
3. Use of public rather than private resources – High agency cost

2.4 An Appraisal of Government policy

An appraisal of government policies and programmes show that industrial development centre did not perform very well; the centre was not; adequately equipped and

funded. Small Scale Credit scheme (SSICS) was largely not successful because, it lacks the executive capacity to appraise, supervise and monitor projects. As a result many unviable projects were funded, which led to non-payment of loan, and the loan was expected to be revolved; had to be stopped. The NIBD which was the major provider of credit to the SMIs gave N96.5 million between 1973 and 1989 to execute 797 projects. The bank also finances 126 projects under the World Bank Loan scheme I. Many of the projects were cancelled because the projects sponsors failure to contribute their counterpart funding, NIDB play a major roles in funding the SMIs. The NIBD provide loan of N174.6 million to 17 sub-sections of the SMIs between 1980 and 1988. But their activities fluctuate since the establishment of NERFUND and SME II loan scheme. NERFUND Approved 373 project up to 1994 and funds were provided for 200 projects, also the agency committed US\$ 80.0 million and N333 million to these projects. The agency has fully financed about 70% of the projects, while 21 of them have fully amortized the total value of the loan

Although the Agency has recorded success in providing loan for the development of SMIs. The agency also faced a number of problems such as poor loan recovery rate, the demand for the loan fall sharply after 1990, because of an increase in foreign exchange risk which was borne by the borrower.

The Central Bank is playing a major role in funding SMIs. The central bank provides N113.4 million, N1454.3 million, N5 900 million, N20, 400 million and N42, 302. 1 million as loan and advances to SMIs in 1980,1986,1990,1992, and 1996 respectively. The SME apex office approved a total of 211 projects at a cost of US \$132.8 million was disbursed to establish 85 new SMIs and for the expansion and modernization of 102 existing ones. The total number of company listed on second tier market SSM has risen to 16,19 and 20 in 1990,1991, and 1995 respectively, while 4 SMIs have moved to the main list of the market

The small and medium industries equity investment scheme was established to provide capital base for the development of SMIs. As at the end of May, 2003; a total of 81 banks had set aside N14.6 billion under the scheme but only N4.3 billion was invested in 80 industrial projects and 75% of these investments were in the service sector instead

of manufacturing sectors, Lagos been a commercial centre was given 75% of the project out of 80 projects executed.

2.5 The Hindrances Confronting the SMIs

Previous studies of SMIs have been identified multitude of barriers affecting SMIs development in Nigeria. In the studies conducted by the World Bank in 2004 on the 200 private enterprises, it was discovered that High taxes rates were ranked is a very severe constraint as well as financial constraint.

A study conducted by Basil (2005) stated that problem of business loses was due to inefficient electricity supplies, He went further, that 24% of their outputs were lost to this outrage. The United Nations Economic Commission for African Economic Report on Africa countries in its Infrastructure Index (2007), noted that, only 10% of rural household and approximately 40% of Nigeria's total population have access to electricity.

The Barriers to development of SMIs are numerous which according to Olorunshola (2005) ranges from;

1. Inadequate and inefficient infrastructural facilities
2. Lack of funds for SMIs
3. Bureaucratic bottlenecks and inefficiency in administration of incentives
4. Weak demand for the products
5. Incidence of multiplicity in regulatory agencies and taxes while Anyawaw (2005) went further to include;
 1. Poor management practices and low entrepreneurial skills
 2. Financial indiscipline
 3. Access to money and capital
 4. Lack of information
 5. Lack of adequate financial records

For the purpose of this study, the barriers confronting the SMIs would be classified according to North (1997) whereby barriers confronting SMIs were classified into formal, informal, and environment as displayed in Table 1

Formal Barriers	Informal	Environmental
(1) Taxes too high	(1) Inadequate infrastructural facilities	(1) Weak demand for the product
(2) Multiplicity in regulatory agency	(2) Poor maintenance practices and low entrepreneurial skill	(3) lack of funds for business
(3) Inefficiency in administration of incentives	(3) Financial indiscipline	(3) Access to money and capital market
	(4) Poor maintenance records	(4) Lack of information

The formal barriers are those barriers which are not under the control of the SMIs owners, The informal barriers those that are within the control of the SMIs operator. The environment barriers are those barriers which affect the SMIs owners which are under the control of both the government and SMI operators.

As a result, this paper formulates the following three Hypotheses.

Hypothesis 1; Formal barriers such as high taxes, multiplicity in regulatory agency and inefficiency in administration of ineffective will present the greatest barrier to SMIs development in Nigeria.

Hypothesis 2; Informal barriers such as inadequate infrastructure, poor management practices and low entrepreneurial skill, financial indiscipline and lack of adequate financial records will be very significant barriers to the development of SMIs in Nigeria

Hypothesis 3; Environmental barriers as weak demand for products, lack of funds for business, access to money and capital market and lack of informal will present significant barriers to SMIs owners .

3.0 METHODOLOGY

Due to the lack of available and reliable data on SMIs owners survey data was collected by sending questionnaires to private business owners who are operator of SMIs, public and professional groups such as Kwara State Chamber of Commerce, Nigerian Association of Small and Medium Scale Enterprises (NASME), and Nigeria Association of Small Scale Industries. The response rate was high at 60%. Of the 150 respondents, criteria used in selecting the SMIs operators includes; they own their business, they are still in operation and they had less than 300 employees

The questionnaires contained 30 questions regarding business and personal barriers. The respondents were asked to identify the main barriers that they encounter in their business operation from list of 11 barriers earlier identify from literature. The Likert scale was used, in which the respondents were given six options to express their opinion. That is “Completely agree”, “agree”, neither “agree nor disagree”, “completely disagree”, “not applicable”. The objectives of SMI owners with regards to the barriers they encounter provide insight to the actual barriers these individuals encountered. it is a valuable technique for understanding the issues that is

constraining SMIs development and growth. Basil (2005). However, the survey has its limitation than a percentage of the respondents may not express their true opinion when filling in the questionnaire. However, this percentage is expected to be small and will not affect the overall results

4.0 RESULTS AND DISCUSSION

Table 2; General Characteristics of SMI Respondents

Characteristics	Category	Percent
Sex (n=90)	Male	78
	Female	22
Education(n=90)	University	12
	Others	88
Sector(n=90)	Trade	62
	Other services	25
	Manufacturing	13

As Table 2 shows approximately, 78% of the SMI respondents were male while 22% of the SMI operator was females. The vast minority of the SME respondents was university graduate owner; approximately 12%, which indicates that majority of SMI owner other not have university education. More than 60 percent of the SMI respondents were engaged in either retail or wholesale trade and 25 percent were engaged in either personal or business services.

Table 3:Barriers identified by SMI Owners in percentage

Formal barriers	CA	A	N/N	D	CD	N/A
Taxes too high	85	89	4	0.1	1	0.9
Multiplicity in Regulatory agency	71	22	6	0.5	0	0.1
Inefficiency in admission rate	65	22	10	0.9	2	0.1
Mean	74	17	7	0.5	1	0.5
Informal Barriers	CA	A	N/N	D	CD	N/A
Inadequate Infrastructures	90	7	2	1	0	0
Poor Management Practices and low Entrepreneurial skill	64	6	15	7	3	5
Financial Indiscipline	42	8	16	10	20	4
Poor Accounting Records	53	12	20	9	4	2
Mean	63	8	13	7	7	2
Environmental Barrier	CA	A	N/N	D	CD	N/A
Weak demands for products	58	33	6	2	5	1
Lack of funds for business	74	9	8	6	1	2
Access to money and capital market	8	3	12	42	32	3
Lack of information	11	6	45	25	10	2
Mean	37	12	18	19	12	2

Key; CA= Completely Agree, A= Agree, N/A= Neither Agree nor Disagree; D=Disagree. CD=Completely Disagree; N/A=Not Applicable

Table 4: Showing Calculated Value of X^2 and Table X value

Problem Area	Calculated X^2 Value	Table X value
Formal Barrier		
Taxes too high	339.4292	11.070
Multiplicity in Regulatory Agency	233.69	11.070
Inefficiency in Admission of Incentives	181.8292	11.070
Mean	248.93	11.070
Informal Barriers		
Inadequate infrastructures	389.24	11.070
Poor Management Practices and low Entrepreneurial skill	166.4	11.070
Financial indiscipline	56	11.070
Poor Accounting records	107.25	11.070
Mean	158.24	11.070
Environment Barriers		
Weak demand for products	161.14	11.070
Lack of funds for business	239.72	11.070
Access to money and capital market	80.84	11.070
Lack of information	74.96	11.070
Mean	40.76	11.070

Level of Significance=5%

Proof of Hypotheses

These results provided support for the three hypotheses, which are the formal, informal and environmental barriers are significant barriers to the SMI owners. In all variables, the calculated X^2 value was greater than the table value at 5% level of significance. Therefore, these variables constitute a barrier to the development of SMIs in Nigeria.

5.0 Discussion Of Results

An analysis of the survey shows that formal and informal barrier from the main barriers for the SMI owners in Nigeria. The environmental barriers are only secondary in importance. Lack of information is found to form the least importance barrier, while inadequate infrastructures pose the greatest barrier to the SMIS operator. However, all the barriers were found to pose significant barriers for SMI owners. As a result does not reject the three Hypothesis. According to the statistics, the most significant barriers, chosen by majority of the respondents related to formal and informal barriers that is the tax too high and lack of infrastructures. In Nigeria the provision of essential services, such as telecommunication access roads, electricity and water supply

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constitutes one of the greatest constraints to SMI development. A World Bank study (1989), estimated that such cost accounted for 15-20 percent of the cost of establishing manufacturing enterprises in Nigeria. Although the environmental barriers are the least important in all the barriers, 74% of respondents identified lack of fund as one of the major barrier under the environmental barriers this was due to the banks to extend credit to the SMI owners, because of poor documentation of the projects proposals as well as inadequate collateral by SMI owners

6.0 Conclusion And Recommendations

Most SMI owners regardless of their business or personal characteristics are significantly affected by multitude of barriers to their business such as frequent changes to regulations, results in increased costs for all SMIS owners. An economic environment characterized by low purchasing power, diminishing consumer demand, lack of funds and lack of infrastructures pose barriers to the growth and development of SMIs. It would be beneficial to reduce the number of taxes, lowering the tax rate provide electricity and access roads, which would bring a welcome relief for SMI owners

A special government policy to provide concessions for small business through reduced tax rates, tax holiday, and interest paid on loan and simplified bureaucratic procedures would have a positive effect on small business survival and growth. Improvement to road, electricity supply and water will go a way in reducing the cost of production and give the SMI the opportunity to compete with the foreign competitors. Government should also provide fund for research, good education policy and development of subsidized Management development programs to increase managerial and entrepreneurial skill of the SMI owners. These are clearly where the government can play an important role in developing SMIs to play a greater role in the future.