

Problems And Prospects Of Small And Medium Scale Enterprises In Nigeria

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Abstract

This paper attempts to look at what constitutes Small and Medium Scale Enterprises, different forms of their existence. Their roles in developing any nation in the world were highlighted. Also sartorial prescription for small and medium scale enterprises credit were critically looked into and the major problems facing Small and Medium Scale Enterprises in Nigeria and likely solution to these Problems were prescribed.

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I. Introduction

The roles of Small and Medium Scale Enterprises in any nation throughout the world cannot be over emphasized. These Small and Medium Scale Enterprises could be any of the following forms.

The one-man business referred to as sole proprietorship.

The partnership business, which is the coming together of two or more person in various fields of profession to take advantage of higher financial base and professionalism, specialization and division of labour.

The private corporation whose membership ranges form 20-50 and its shares cannot be traded at the stock exchange market.

Co-operatives these are formed to meet the needs of members at various levels, which could be consumer co-operatives, producers' co-operatives, retailer co-operatives, and wholesale co-operative.

Definition of Small and Medium Scale Enterprise (SMES).

In Nigeria today, there is lack of agreement as to what constitutes a growth as well as development of SMES because this led to confusion, in SMES Isijola (1993), noted that this is a big problem that has retarded the policy objectives. It has become a serious problem to address policies to the development of SMES in Nigeria because of inability to come out with a more acceptable definition as to what constitute SMES.

The solutions have always been wrongly conceived in financial terms

However series of definitions of (SMES) has come up. Some schools thought defined it in terms of the number, of people employed in the scheme others defined it in terms of capital employed, while some others defined it in term of both.

Apart from problems of definition, series of policies are formulated, assistance programme are launched and solution are proffered for industries thought to E (SMES) but which are really not and when they are, they turn out to be wrong

Indeed, different countries, bodies, banking institution are investigations have found it useful to define (SMES) according to Herber problems of interest.

However, the center for industrial research and dev development (CIRD) at the Obafemi Awolowo University, Ile-Ife defines small scale industries as those enterprises with total assets in capital equipment, plant at working capital not more than N250,000 and employing not more than 50 time workers. Similarly in the new industrial policy for Nigeria, Small Sea industries are defined as those with total investment of between N100, 000 and N2.0 million. This new industrial policy recognize what it refers to micro/cottage adulteries which are defined as those enterprises investment cost below N100,000 with cost of land excluded.

In the federal ministry of industry's guidelines to the Nigeria Bank for commerce and industry, Small Scale Enterprise are defines as those with total investment not more than N500, 000 excluding cost of land but including working capital. The Nigeria Bank for commerce and industries in its day by day operation, however

has adopted the definition of Small Enterprise as those with cost of capital not exceeding N750, 000 excluding cost of land but including working capital.

In the Central Bank of Nigeria credit guidelines to bank. Small Scale Industries/Enterprise in the banking set up and those with annual turnover not exceeding N500, 000. While in the case of merchant banks, they refer to enterprises with capital investment not exceeding N2m excluding cost of land or these enterprises with turnover more than N5 million.

According to FBAP small-scale enterprises or rather cottage/micro industries are those with capital outlay between N100, 000 to N500,000 or as may be reviewed by the board from time to time.

The aforementioned definitions highlight how a universally accepted definition about the concept of Small and Medium Scale Enterprise is never arrived at. The range between definitions is very wide from N100,000 in total assets to N36 million in fixed assets excluding cost of land.

Ige (1987) agreed that there is no one single and universally accepted definition of Small and Medium Scale Enterprises in the world he asserted that the defining characteristics run through number of employees, sales turnover, management, initial capital outlay, industry type, use of motive power, current capital investment, fixed assets etc.

Some however, use these characteristics singly while others use combination of some of them. Obitaye (1991) noted that for an adequate discussion on government policies and their impact on Small Scale and Medium Scale Enterprises. The major reason for such definition and classification is to enable government and the promotion agencies to distinguish while availing Small and Medium Scale Enterprises necessary facilities and assistance required of them. The term Small Medium and Large are therefore relative and differ from industry to industry, country to country. It is also pertinent to recognize that definition change over a period of time as it depends to a large extent on the level of development.

Small and Medium Scale Enterprises Credit Programme in Nigeria

In this section, a review of some programme embarked upon by the government in order to improve the flow credit to Small and Medium Enterprises sub-sector was discussed.

Development Finance Institution (DFIS)

Nigeria industrial Development Bank NIDB has formally established in the year 1964. NIDB authorized capital is 59.0 percent and 40.0 percent owned by private individuals.

Sectorial Prescription for Small and Medium Scale Enterprises Credit

Medium scale enterprises credit

1. Preferred sector
2. Less preferred sectors.

The loans to the preferred sectors are minima in the sense that that bank can exceed the stipulated proportion while loans to the latter sector are maximal which simply implies that the bank must not exceed the stipulated amounts.

In 1990, monetary policy circular for example, the government stipulated that 50.0 percent of the total credit allocation to both commercial and merchant banks should go to the preferred sectors of the economy 35.0 and 40.0 percent of the total credit allocation of the commercial and merchant banks respectively should go to manufacturing enterprises sector. Similar another aspect of banks credit allocation in respect of small and medium scale enterprises relates to the stipulation that not less than 40.0 percent of the total deposits collected through banks rural branches be lent to the customers in those rural areas. This 4.0 percent was later raised in 50.0 percent since 1991

Banks Equity Holding in Companies

In 1998, annual budget the federal government of Nigeria lifted o banks equity participation in industries in other to allow banks to diversify their business base. Before the lifting of the ban, the banking acts sector 73 (f) of 1969 restricted the banks from holding equity shares in non-banking related industries, in order to protect the funds of depositors to avoid conflict of interest. The objectives of the policy is to simulate increased availability of equity capital to Small and Medium Scale Enterprises for their survivals as well as for their growth.

Fiscal Policy Measures

The term 'Fiscal Policy' refers to any government policy concerned with its national economy.

Some of the fiscal measures introduced by the government in order to encourage the growth of manufacturing enterprises are discussed below.

Income Tax Relief

The industrial development (income tax relief) Act of 1958, as subsequently amended provides tax exemption for a period of three or five years (tax holiday) for an industry declares a pioneer industry and issued a pioneer certificate.

The tax relief period could be extended by the number of tax relief years during which the losses were incurred by a company. Any losses incurred during the tax holiday period were offsets from profit made after the holiday was over.

In the year 1970 however, amendment of the Act took place and such losses were no longer gross but net losses while in the year 1975 amendment, the period for which the claims could be made was limited to four years.

At the beginning, the duration of the tax holiday, depend on the amount of capital invested, but in the later amendment of the act, a set of criteria was applied.

These include:

- i. Rate of expansion;
- ii. Standard of efficiency and level of development
- iii. Training and developing of Nigeria personnel; and
- iv. Relative importance of the industry in the economy.

Tariff Measures

The tariff measure is used to provide effective protection to locally produced goods. Tariff is one of the important policy tool in use for industrial development.

They have been used to

Stimulate domestic production and discourage undesirable or luxury imports;

Generate revenue for the government

Correct balance of payments disequilibrium.

Sport Promotion Incentives

To promote the growth of non-oil export, promotion incentives such the import duty drawbacks were introduced to facilitate export diversification. Other incentives include export license and exercise tax, export guarantee and insurance scheme to enhance international competitiveness for manufactured exports and act as cushioning against expected risks, promotion programme, like export expansion fund, export adjustment scheme fund, the duty suspension scheme etc.

Allowance

Under the accelerated depreciation allowance system, all companies or company income tax are granted automatic and simultaneous initial allowance to enable to depreciate their assets for tax purposes:

The objectives of depreciation allowance is to promote industrial and development vary with the size and type of capital expenditure incurred.

The generous deductible capital allowances were limited to 75.0 percent of assessable profits, in the case of manufacturing companies.

Similarly, companies engaged in agro-allied industries were excluded.

Other Scheme for Promoting Small Scale and Medium Scale Enterprises.

The central bank of Nigeria being the primarily for producing

Having determined to make a major breakthrough in the continuous dearth of credit delivery to Small and Medium Scale Enterprises and to make it a veritable engine of growth, the federal government approached the World Bank for financial assistance to complement its other financial assistances.

This loan package is aim to assist the financial restructuring of some firms. Rehabilitation and expansion of some as well as initiating the setting up of new ones.

The total project cost is \$415.8 millions out of which the World Bank provided \$270 million or 64.0 percent of the total. The Small and Medium Scale Enterprises are expected to provide \$79.9 or 19.2 percent of the project and the 28 participating banks are expected to supply the balance of \$66, million or 15.8 percent of the total package.

The Central Bank of Nigeria established the Apex unit loan scheme to, administer the credit components and other related activities of the world Bank loans to facilitate the project implementation and a project coordinating committee has been set up to oversee the implementation of the scheme.

Socio-Economic Contribution (Roles) of Small Business Firms to Development Process in Nigeria

The social economic roles of Small Scale Business firms in the development process include:

1. The transformation of traditional/indigenous industry to giant modern corporations.
2. Stimulation of indigenous entrepreneurship/technology often times imported technologies need adaptation to suit the local environment and small firms offer themselves as a suitable medium for the take-off of indigenous.

Technologies: an adaptation and testing ground for imported technology. They also provide the opportunity of nurturing a pool of skilled and semi-skilled self-employed people in the economy

3. Employment creation: The labour intensive and consequently capital saving methods of operations of Small Scale Business firm provides job creation potential.

4 Wealth redistribution: By providing paid employment or remunerative economic activities to a great number of both rural and urban people on one hand and supplementing their income from their regular jobs on the other, - small firm contribute significantly to the reduction of income disparities which help to stem inherent discontent which income disparity between one region and another or between different social classes in economy breeds.

5. Utilization of local resource (human and material): Use of local raw material, and discarded by products of large firms as primary inputs in their production process. The use of local resources help to conserve foreign exchange, and capital, which are relatively scarce in third world countries.

6. Dispersal of economic activities: Small business aid the dispersal and diversification of economic activities they constitute a sector of industrial structure offering easy entry to prospective entrepreneur, making low demand on capital intensity and not dependent upon significant economic of scale in production and marketing for take-off or survival. Rather they make for greater demand on the skilled and ingenuity of their owners in addition their greater tendency to locate outside major metropolitan center favour industrial decentralization of the congestion-prone urban city thereby helping to foster development. They serve as forwards and background linkages between economically, geographically and socially diverse sectors of the nation economy (Owuala 1999).

7. Mobilization of savings: Small business firm help in tapping idle financial resources, which ordinarily would not be brought into banking mechanism.

These also aid the transformation of trade capital. Accumulated saving from trade which predominantly is the initial entrepreneurial endeavours of most small business in third world is another source. These are usually later transformed into actual production of goods or reduction-oriented activities.

8. Small business firm help produce specialized items in small quantity to meet current and reversed demands.

9. They provide training ground for unskilled workers

10. Allow creative minds to be productive.

11. Low-patronage of imported goods.

12. Effective in sub-contracting with large enterprises component and intermediate product, thereby strengthen the international competitiveness of manufactured goods.

13. Development of local areas where such business is located

Major Problems Facing Small and Medium Scale Enterprises in Nigeria.

Several problems are facing the growth as well as development of Small and

Medium Scale Enterprises in Nigeria today. According to Philips (1987) portion of Small and Medium Scale Enterprises though government policies cannot be effective or comprehensive if the problems confronting them. Especially those that have persisted over the years are not presented within the proper brought up and discussed in seminars, conference and even workshops but since they still pose serious problems for policy measures, it is therefore essential to restate it here again to emphasize their importance and for possible redress or modification of policy measures.

Problems Inherent in the Small and Medium Scale Enterprises Themselves.

Some of the major problems of Small and Medium Scale Enterprises come from their nature and characteristic. These problems serve as hindrances. which limit their access to capital required for their growth. Some of these problems are mentioned below.

High Rate of Business Failure

Insufficient working capital which reduces the productivity of some small and medium scale enterprises has lead in some cases to their failure. Financial institution, especially the banks, assume them as high risk venture that are very vulnerable to policy changes.

Poor Accounting Standards and Record Keeping

Some Small and Medium Scale Enterprises fail to keep proper records payments and receivables. This failure to have proper book of accounts record keeping does not make the estimated profits or losses, accounts

the true return on capital invested, similarly, cash inflows this make difficult. Also planning itself is only possible, where and when available, and most of the financial required information on which loan.

Indiscipline

This is one of the 'major constraints facing the growth of Small and Medium Scale Enterprises in Nigeria today. Some of our Small and Medium Scale industrialists are undisciplined in the sense that they deliberately divert loan obtained for project support to ostentatious expenditure like funeral ceremonies, birthday celebration etc. some of them do not only diver the more alone they refuse to pay the loan at as when due if paid at all. Some that benefited from this loan believed that the amount so benefited their share of national cake.

Lack of Trained Personnel

Due to lack of adequate capital, many Small Business find it difficult to train their personnel. This in turn leads to decline in their productivity and expansion. Not that alone, lack of trained personnel may also lead to poor planning and management.

Lack of infrastructural Facilities

Lack of pipe-bone water, electricity, access roads, medical and educational services banking and telecommunication facilities has been a great hindrance toward the growth as well as development of Small and Medium Seale Enterprises. The importance of these facilities cannot be over emphasized as they contribute in no small measure to the desired structural changes for accelerating development of the industrial sector.

Restricted Access to Market

Owing to their relatively small scope of operation, the Small and Medium Scale Enterprises produce goods that are varied, non-standardize and widely dispersed all over the country.

They are constrained in marketing their products and therefore behind Large Scale Enterprises. The only way out of this problem is for the government of this country to adopt the Indian government strategy where the government purchases specified products, specified quantities from Small and their own market share. Similarly the exclusive reservation of certain activities Medium Scale Enterprises. This will encourage them, as they will be sure of for Small and Medium Scale Industrialist production, may also remove the problem of restricted access to the markets.

Restricted Access to Institutional Credit

Majority of Small and Medium Scale Industrialist are unable to provide adequate collateral security hence they are unable to get credit facilities from commercial and merchant banks. Even though the Central Bank of Nigeria credit guidelines to the banks stipulate form April 1980 that a minimum of those bank preferred to pay penalties for noncompliance rather than incur high losses as a result of funding Small and Medium Enterprises.

II. Conclusion

Based on the above therefore, the following conclusion are drawn:

1. There is lack of agreement as to what constitute a Small and Medium Scale Enterprises in the world as the definition of Small and Medium Scale Enterprises varies from one country to the other.
2. Similarly, the definition varies from time to time within a country, as it largely depends on inflation level in a particular country.
3. There was a need developing country to embrace Small and Medium Scale for future development.

III. Recommendation:

The following recommendations are hereby suggested to improve the Small and Medium Scale Enterprises in Nigeria.

1. In an attempt to formulate a standard policy on Small and Medium enterprises, the policy maker should ensure a sort of rolling plan of say years after such policy must be reviewed to remove the effect of inflation-on the financial policy.
2. To achieve local production of high quantity at competitive prices on feature of Small and Medium Enterprises in this country government should develop or encourage a sort of cluster parks that is Small and Medium Enterprises using related equipment and raw materials, where the end produce of one serve as a raw materials to the other location in the same area, for such cluster parks could increase the expert competitiveness of the regions in which they are established by creating huge export potential.
3. Similarly, government of this country should endeavor to establish a bank to cater specifically for operators in the economy. Indeed, the creation of Small and Medium Enterprises (NASME) is a round peg in a round hole as this will enhance improvement for Small and Medium Enterprises in Nigeria.

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