

# Constraints of Small and Medium Scale Enterprises in Nigeria

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## ABSTRACT

*This paper investigated the constraints of Micro small and medium enterprises in Lagos State Nigeria with a view to examining the major factors militating against the performance of the micro-small and medium enterprises subsector to the Lagos State Economy and recommended solutions to make the sub-sector strong and vibrant in order to play the crucial role in Lagos State economy growth and development*

*A total of 400 SMEs were randomly selected from a cross section of a population of 1600 SMEs spread among all the local governments of Lagos State, Nigeria and covering all forms (partnership sole proprietorship public and private limited and unlimited companies and kinds (Banlema Manufacturing 0.12 Gas services, Educational etc) of business took part in the study.*

*The results of the study indicate that SMEs have performed below expectation due to a combination of problems which ranges from financial constraint, attitude and habits of SMEs themselves through frequent policy*

*changes and somersault government instability and Environmental related factor. The paper concluded that government should take a practical radical approach and focus on addressing the identified problems the availability of managerial capacity of SMEs in Ibadan, Oyo State, Nigeria.*

**KEYWORDS:** SMES; development, income generation, employment generation poverty reduction, challenges.

## Introduction

Small and Medium sized Enterprises has drawn a lot of interest among scholars, policy makers, business meant and people in general. Small and medium sized Enterprises are playing increasingly important role as engines of economic growth in many countries. However small and medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the introduction.

European Union define Small and Medium Enterprises (SMEs) as enterprises which employ fever than 250 persons and which have an annual turnover not exceeding

50million euro or an annual balance sheet total not exceeding 43million euro”.

SMEs is one of the principal forces in the development of a nation. SMEs stimulate private ownership and of a nation. SMEs stimulate private ownership and entrepreneurial skills and can adapt quickly to changing market situation, generate employment help diversify economic activities and make a significant contribution to exports and trade. International agencies and organizations (World Bank, United Nations Industrial Development Organization (UNIDO), Department for International Agencies and Organizations (World Bank, United Nations Industrial Development Organization (UNIDO), Department for International Development (DFID) Europe an investment Bank (EIB) have invested in them. Locally, several Non-Governmental Organizations such as Fate Foundation, support and Training Entrepreneurship programme (STEP) the Nigeria Investment Promotion Commission (NIPC) have been promoting the growth of SMEs in Nigeria through advocacy and capacity building initiatives and have continued to canuass for better support structures for operators in the SME subsector.(Onugwu,2005)

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country of the world. Because of their (SMEs) significant roles in the growth and development of various economics, they have been aptly referred to as “the engine catalysts for socio-economic transformation of any country. (Ajagu, A. (2005).

They also represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development entrepreneurial capabilities including indigenous technology (Fatal,2011).

It has however been worrisome that despite the incentives, policies, programmes and support aimed at revamping the SMEs they have reformed below expectation in Oyo State, Nigeria.

Some challenges SMEs faced are: insecurity of lives and property, inadequate infrastructural facilities inconsistent monetary fiscal and industrial policies limited access to markets, multiple taxation and levies, lack of modern technology for processing and preserving product, policy reversals capacity limitations data inadequacies, harsh operating environment, fragile ownership and capacity bases inadequate management skills (Alawode: 2005).

## Statement of the problem

Small and Medium Enterprises (SMEs) in Nigeria has pallen short of expectation and hence have not played the volts vital to the economy growth of Lagos and Nigeria. This situation has been of great concern to this government, citizenry, operators, practioners and the organized private sector groups. This situation is more disturbing and worrying when compated with what other developing and developed countries have been able to achieve with their SMEs. It has been shown that there is a high correlation between the degree of poverty

hunger, unemployment, economic well being (standard of living) of the citizens or countries and the degree or vibrancy of the respective country's SMEs.

The time is now to do something surgical to this situation of our SMEs given the aggravating level of poverty in Lagos State Nigeria and the need to meet us with time.

## Millennium Development Goals

From the above, the areas of shortcomings of the Nigerian SME subsector could be summarized as:

- i) **Rate of Survival:** It is said that less than 5% SMEs survive beyond their first year of existence.
- ii) **Contribution to Industrial Employment:** The 31% of SME contribution to industrial growth is rather disturbing given the high degree of unemployment rate in Nigeria as well as the poverty level in the country as measured by the following indices and figures on Nigeria's Human Development Indicators: illiteracy Rate Infant Mortality Rate, Life Expectancy at Birth and GDP Growth rate as compared with other countries
- iii) **Contribution to Industrial production in particular and GDP in General:** In spite of the fact that there is hardly and well-documented, reliable and current data, it is rather obvious that the contributions of SMEs to the

Nigerian industrial output in particular and the Gross Domestic Product in general are less than satisfactory. Evidence for this poor performances is buttressed by the facts most manufacturing enterprises in Nigeria had operated well below capacity in the last decade. (Ebinringa, 2011).

The constraints to full industrial capacity utilization have been enumerated to include limited access to financing high costs of funds and equipment, infrastructural inadequacies, unpredictable and inconsistent government policies, low purchasing power of consumers, low quality of manufactured goods, inefficiencies of customs and ports administration, dumping of cheap finished product on the Nigeria markets inadequate legal framework and non-patronage of locally produced goods by government and its agencies. Because of these and other debilitating problems only about 5% of SMEs in Nigeria are into manufacturing.

### 1.2 Objective of the study

- i) To identify the major problems, challenges and constraints which have militated against the SMEs from playing the vital role in the Nigeria Economic growth and development.
- ii) To find out the key causes of low utilization or patronage by SMEs.
- iii) To ascertain first hand, the opinions, feelings and the pulse or some key SME operations as well as professionals in the SME subsector of the economy with respect to the unhealthy state of SMEs in Nigeria.

- iv) To make appropriate recommendations for solving or alleviating the identified problems and challenges of the SMEs.
- v) To rank the identified bottlenecks or problems militating against the healthy state or wholesome performance of SMEs in Nigeria.

### Literature Review

Many scholars have written on Small and Medium Enterprises in Nigeria. This fact underscore the essence, importance and relevance of SMEs to the development of any given economy.

It has drawn a lot of interest among scholars, policy makers, businessmen and people in general. The role played by SMEs in developed economics buttresses the fact the SMEs is an engine of growth and development of many nations (Robert Black: 2012).

This stems from the fact almost all countries that focused on the SMEs have succeeded in the significant reduction and its enhancement in the quality and standard of living, reduction in crime rate, increase in per capital income as well as rapid growth in EDP among other salutary effects.(Mordi:2005)

There is a consensus that if all stakeholders are to show serious commitment of the development of the SMEs sub-sector it follows that the economy must witness meaningful transformation and prosperity. SMEs help to provide opportunity for employment generation and effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large-scale

companies, SMEs contribute to the strengthening of industrial inter-linkages and integration (Ahmed: 2009).

Many international and Development Agencies, organizations and financiers not only appreciates the roles played by SMEs in poverty alleviation and overall economic growth and development, but also invest a significant percentages of their resources in them (SMEs).

A review of World Bank Operations revealed that it invested a whopping 100 billion dollars in SMEs in 2013 with Africa getting a sizeable share or 50 million dollars (CBN: 2014). This sum was channelled through time four major development arms of the bank: the international finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIEA). This International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Nigeria benefitted from part of the project development to the tune of 220 billion naira in 2014. (Field Work: 2014) (Field Work: 2014).

SMEs have no doubt been recognized as the Spain engine of economic growth and development as it contributes 45% percent of GDP in India 50% of EDP in Poland and 45% in South Africa. It also serves a major variable for economic private sector, development and partnership. A various governments development agencies and experts as well as multilateral institution do appreciate this facts such that they positively respond to any recession and situations, which could permit their contributing to or

creating opportunities for promoting this lot of standards.(Ebringa:2011)

One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant and mile sub-sector. A number of reason have been adduced as to why the expectation from the SMEs have not been meet. They are:

- i) Devaluation of Naira
  - ii) Political instability
  - iii) Privatization
  - iv) Lack of electricity supply
- Role of SME in the Economy.  
According to Zansran (2011). The roles of SMEs in the economy are:
- 1) They booster an entrepreneurial spirit and put forward electricity in the economy.
  - 2) SMEs and not efficient in resource allocation as compare to that of large scale companies from social point of view.
  - 3) They play significant contribution in the transition or agriculture led economics to industrial ones.
  - 4) They contribution to improved living standards, substantial local central formation and high level of productivity and capability.
  - 5) They generate employment and alleviate poverty.

According to Onugu (2005) the importance OF SMEs to Nigeria Economic Development are:

- a) SMs act as catalyst for technology development.
- b) They serve as major source of employment

- c) They provide a training avenue for the creation of future entrepreneur in several area of economic activity.
- d) SMEs are a major source of domestic capital formation through their mobilization of savings and channelling of such in productive investment.
- e) They aid the process of redistribution of incomes.
- f) SMEs provide intermediate/semi-processed goods for use by large-scale firms.
- g) SMEs engage in manufacturing serve as channels for import substitution and promotion of exports.
- h) Sound development of SMEs has positive implications for improving the standard of living of the citizenry.
- g) SMEs provide a variety of choice to the customer.
- i) They also constitute a critical source of specialization for most large organizations operating in the economy.
- j) SMEs and structural transformation to the rural areas.\
- k) SMEs help in improving rural incomes and general rural living conditions and by extension the country per capital income.
- l) They also serve as a strategy for checking rural-urban migration.
- n) They in their limited ways help in reducing the development gap between these areas and the urban centers and in this way help sustain economic growth (Band: 2005).

#### **PROBLEMS OF SMEs IN NIGERIA**

Zaman (2011) identified the major problems confronting SMEs as:

- 1) Lack of Basic infrastructures
- 2) Lack of skilled workers
- 3) Marketing and Distribution problems
- 4) Delayed payments
- 5) Extreme competition
- 6) Delayed payments
- 7) Gradual withdrawal of Deservation policy
- 8) Mind self-problems
- 9) Outflow wealth
- 10) More prone to global fluctuations

Moreover, most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the seventh and tenth year thus only about six to percent of young companies survive, thrive and grow to maturity.(Nnana:2005)

A review of literature reveals indeed the following plethora of problems of SMEs in Nigeria. They are:

- 1) In adequate infrastructural facilities which tend to scale cost of operation as SMEs are forced to resort private provision of utilities such as water, electric, transportation etc.
- 2) Bureaucratic bottlenecks and in efficiency in the administration of incentives and supports facilities provided by the government. These discourage prospective entrepreneurs of SMEs while stapling existing ones.
- 3) Lack of access to funding /lack of adequate collateral facilities and poor documentation of business proposals.
- 4) Uneven competition arising from import tariff which at time favour imported finished products

## Methodology

### Discussion of Major research findings

The majority of respondents showed a lot of interests and swiftly complete the questionnaires and returned them indicating that many SMEs have been growing under heavy problem researcher.

From the responses to the questionnaires and the personal interviews, ten key broad problems areas militating against SMEs in Nigeria are crystallized in the following decreasing order of intensity:

- i) Management problems
- ii) Access to finance/capital
- iii) Infrastructural problems
- iv) Environment policy inconsistency and bureaucracy
- v) Environmental related problems
- vi) Multi taxes and levied
- vii) Access to modern technology
- viii) Unfair competition
- ix) Marketing related problems
- x) Non-availability of raw materials locally
- xi) Lack of access to appropriate technology
- xii) High dependence on raw materials with the attendant high foreign exchange.
- Xiii) Weak demand for products arising from low and dwindling consumer Purchasing power
- Xiv) Absence of long-term finance of fund capital assets and equipment under Project finance for SMEs
- Xv) Widespread corruption and harassment
- Xvi) Weakness in organization marketing, information

Xvii) Lack of scientific and technological know-hoe.

Xviii) Lack of strategic succession plan.

Xix) Lack of initiative and administrative framework to support and sustain SMEs development.

xx) Lack of suitable training and leadership development (Onugu: 2005)

### Conclusions

From the findings, A was established that the top key problem areas facing SMEs generally in Nigeria descending order of intensity include managerial problems, access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, environmental factors related problems inadequate sufficient finance, multiple taxes and levies access to modern technology, unfair competition marketing problems and the non-availability of raw materials locally.

There are however some opportunity windows which discerning Nigerian SME promoters can leverage on and taking advantage of to grow. The liberalization of trade through WTO Agreements has provided awareness through which SMEs could access international markets. Another opportunity is the African Growth Opportunity Act (ACOA) which favours exports from African countries to the United States of America. Current many SMEs in Nigeria are to tap into this opportunity.(Mordi:2005)

### Recommendations

In the light of the findings from the study the following recommendation are considered:

- i) The Federal Environment should establish more industrial development centres in every state of the federation.
- ii) Government should tackle accelerate development and upgrade of rural urban road and rail network, water and air transport and other infrastructural facilities head on and review tariff in favour of small and medium entrepreneurs.
- iii) Government should stimulate this provision of specific tax incentives for ventures specialists.
- iv) They should reduce tax rate for SMEs and provide tax incentives to SMEs.
- v) SMEDAN should through its business development provide more support in this area of capacity building and skill upgrades, identification of sources of funds with attractive interest rates.
- vi) Environment should institutionalize the policy of all to ministries, agencies and department buying only made in Nigeria goods and services.
- vii) SMEs should honour payment obligations to banks, government or ratier gran/loan agencies.
- viii) SMEs should provide needed statistics and information to relevant agencies whose contributions are vital to creating and sustaining an enabling environment.

- ix) SMEDAN should assist SMEs improving effective marketing and distribution channels of SMEs products to penetrate sub-regional global markets.  
Finally SMEs should exploit ways of producing at low costs and selling at relatively low prices.

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