Small and Medium Scale Business Enterprises as a Veritable Tool for Rural Development in Nigeria: Challenges and Prospects

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Abstract
This paper highlighted Small and Medium Enterprises and discussed the concepts of small and medium enterprises, it outlined the challenges and way forwards. Small and Medium Scale Enterprises constitute essential ingredients in the lubrication and development of any economy. In Nigeria, the story makes no remarkable difference as Small and Medium Scale Enterprises dominate the economy. Small and Medium Enterprises are important for employment and economic growth. While gross job creation rates are substantially higher for small firms, so as gross distribution rates. However, Small and Medium enterprises in Nigeria have been facing with challenges confronting their operations. Government over the years has formulated a number of policies aimed at developing Small and Medium Scale Enterprises. While most policies actually failed due to poor implementation, others however, succeeded. The following solutions among others are suggested by the authors; Policies initiated by the government should be funded efficiently. Policies which are aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centers so as to reduce rural-urban migration. Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures. Government and financial institution should develop a holistic approach to schemes initiated by them.

Keywords: Small and Medium, Business, Enterprise, Development, Prospect, Challenges

Introduction
The role of Small and Medium-Scale Enterprise (SMEs) in the national economy cannot be underestimated. These enterprises are being given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import dependent industrial plants (Muritala, Awolaja, and Bako, 2012). The impact of SMEs is felt in the following ways: Greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic
development, a critically important role is played by the small and medium enterprises. At this level, perspectives are directed towards government support and involvement in exploiting countries social benefits from greater completion and entrepreneurship. Secondly, proponents of SMEs support frequent claim that SMEs are generally more productive than large firms but financial market and other institutional improvements, direct government financial support to SMEs can boost economic growth and development. Some argued that SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by Promoting SMEs and individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020; that is to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 2020, 2009).

Concepts of Small and Medium Scale Business Enterprise
Several definitions and meanings of small and medium scale business enterprise exist. This is due to their global diversity and characteristics. Akande and Ojukuku (2008) affirmed that a single universally accepted definition of SMEs has not been easy as different countries have different criteria for defining small and medium business enterprise. Adding that many countries have defined it in terms of manpower, management structure and capital investment limit. He further noted that experts in this field have also contributed to the diversity in SMEs definitions. One crucial thing to note about small and medium business enterprise definition is that certain criteria have been used to define what SMEs stands for most especially according to countries, sizes and sectors. Emmanuel and Daniya (2012) explains that the main reason why small and medium business enterprise definition varies particularly from industry to industry; county to country; size to size and number of employee to number of employee is to reflect industry, country, size and employment differences accurately. Manai (2011) defined SME in terms of employment, asset value and dollar sales. According to Ibrahim (2011) Small and Medium Enterprise (SME) represent a business and not a public limited company.

With regard to small businesses, several definitions of small businesses have been advanced over the years. Kolawole (2008) defines SMEs it as an enterprise with a labour size of 11-100 employees or a total cost of not less than N50 million, including working capital but excluding cost of land. The Nigerian industrial policy defined SMEs as industries with total investment of between N100, 000 and N2 million, exclusive of land but including working capital. One of the most popular definitions of SMEs is given by the American Small Business Administration (SBA) as that business or firm which is independently owned and operated; it is not dominant in its field and meets the criteria for the SME business administration sponsored loans programme (Ogundele, 2007).

In country such as USA, Britain and Canada, small scale business is defined in terms of annual turnover and the number of paid employees (Okpara and Wynn, 2007). According to Manai (2011) in Britain, small and medium scale business is conceived as that industry with annual turnover of 2 million pound or less with fewer than 200 paid employees. It is conceptualized in Japan as a type of industry with a paid up capital and number of employee. Consequently small and medium scale enterprises are defined as those manufacturing with 100 million yen paid up capital and 300 employees. Those in wholesale trade with 300 million paid up capital with 100 employees while those in retail trade with 100 million paid up capital with 50 employees.
Prospects of Small and Medium Scale Enterprises in Nigeria

In spite of the challenges confronting small and medium scale enterprises in Nigeria, government realized the role of SMEs as the veritable tool for rural development through employment and their contribution to macro-economic development. It is therefore only proper to say that government is making tremendous efforts in ensuring that these challenges are tackled. This explains why, apart from the past efforts by government, the emergence of democracy has also increased government’s effort since democracy is tied with economic development (Akabueze, 2002). Government in the past has established various support institutions and reliefs measures aimed at enhancing and improving the capacity of SMEs. Example of such includes, specialized banks meant to offer investment credits and loans to improve the investment capacity of SMEs. In addition, government also initiated regulatory and preferential laws as a measure of protection and offers preferential treatment to small and medium scale enterprises for the purpose of its improvement and development. Despite government’s efforts in the past there is a renew support for small and medium scale enterprises since 1999; the government has since commence economic reform which SMEs are central to its objectives. The opportunity on the future of SME has started yielding results, because the economic reforms had shown evidence of improvements in the legal and regulatory environment, particularly regarding company registration, taxation, infrastructural improvement (especially telecommunication). As Onugu (2005) put it that the economic reform programme would aid the creation and consolidation of existing small and medium scale enterprises because of its focus on income generating opportunities for the people. Boter (2005) views the current effort of government since 1999 towards revamping SMEs as a sustainable process capable of building the prospects of small and medium scale enterprises and a path to national recovery of the Nigeria ailing economy.

While lauding government’s efforts, the organized private sector is also making a vital contribution in this direction. As Onugu (2005) observed the capital market driven by the Nigeria stock exchange (NSE) and the security and exchange commission (SEC) have not only been expanding its facilities, but also for cost effectiveness for small and medium scale enterprises to access funds from the market. In 2005, during the commissioning of small and medium enterprises development agency of Nigeria (SMEDAN), the former president of Nigeria, Olusegun Obasanjo urged the Central Bank of Nigeria (CBN) to realize the objective of small and medium scale industries equity investment scheme (SMIEIS) which is expected to complement the development effort of financial institution in term of loan assessment on a short and long term basis for investment purposes. The current thrusts of the established SMEDAN give some measure of optimism as it portray government serious engagement and cultivation of small and medium scale enterprises. Currently the agency has completed a nation-wide survey on SMEs as basis of articulating ideas for small and medium enterprises policy thrust. This policy thrust would aid in facilitating improvement and capacity building programme, support service and intervention for the small and medium scale enterprises in Nigeria. small and medium scale enterprises development agencies of Nigeria, the facilitation of small and medium scale industries equity investment scheme (SMIEIS) and other employment generation and poverty alleviation scheme at various levels of government. Such as National Economic Empowerment and Development strategies (NEEDS-at national level, SEED- at State level and LEEDS- at Local Government level.)

Economic Benefits of Small and Medium Scale Business Enterprise in Nigeria
Small and Medium Enterprise (SMEs) have tremendously contributed to economic development of so many developing nations like Nigeria, through poverty eradications, job creation and industrialization, reduction in rural-urban migration, promotion of local technology and entrepreneurship, encouragement of local utilization of resources etc. Arising from the foregoing, it is pertinent to focus on the following.

**Job creation:** Small and Medium Enterprises are important for employment and economic growth. While gross job creation rates are substantially higher for small firms, so as gross distribution rates. This is because small firms exhibit high birthrates and high death rates, and many small firms fail to grow. In developed countries, net job creation rates (gross job creation less gross job distribution) do not exhibit a systematic relationship in firm sizes (Etebefia and Akinkumi, 2013). Since small enterprises have higher gross job creation and destruction rates than large enterprises, Small and Medium Enterprises may offer less job security than larger firms. In the United State, for both new jobs and the typical existing job, durability increase with firm size. Yet, it appears that job destruction during recession is lower in small and medium enterprises than in large enterprises may be due to greater wage flexibility in small and medium enterprises. In other words, small and medium enterprises temporally accept lower compensation during recession in order to hold to their business.

**Labour Intensity:** Small and medium enterprise employs a large scale of labour force. Labour intensity exhibits more variation across industries than among firm size groups within industries-leading some authors, to suggest that efforts to make economic growth more labour demanding should focus on altering the pattern or demands in favour of labour intensive industries rather than on supply-side efforts to charge the size distribution of firms (Erdem, 2011).

**Promotion of Firm Share of Employment:** The existence of small and medium enterprise actually contributes to the shares of firms as well as creates room for employing people into the firm so as to avert poverty rate.

The relative importance of small producers varies significantly across countries and within a given country across stages of development over time. Comparative studies of manufacturing show a common pattern in the transformation of the size distribution or firms as industrialization process. In low-income countries, the vast majority of firms are micro or small- scale existing along-side a few large-scale enterprises. In middle-income countries, medium-scale enterprises begin to account for a relatively large share of production and employment. In most countries, the trend toward larger firm size continues as per-capital income increases.

**Efficiency:** Measure of enterprise efficient example labour productivity and factor productivity varies greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as management skill and technology, and the effect of high product quality, flexibility and responsiveness to customer needs as means of competing with large-scale mass producer. According to Fabayo (2009) opined that many small firms bring innovation to the market place, but the contribution of innovation to productivity often takes times, and large firm may have more resource to adopt and implement them.
Wages and Benefits: The operation of small and medium enterprise in environment provides wages and benefits to people who gainfully employ themselves permanently or temporarily. This is to promote their standard of living as they engage themselves so as to earn more benefits as independence means of livelihood and avoidance of dependency. In low income countries, small enterprise have much lower productivity levels than larger firms and this is reflected in the lower wages and non-wages benefit paid by small and medium enterprises compared to large firms. Here is evidence that this divergence in labour productivity and wages rates between small and large firm’s narrows as industrialization proceeds (Etebefia and Kinkumi, 2013).

The Roles of Small and Medium Enterprise in Rural Nigeria
Small and medium enterprises have a good potential for growth and development. The superiority of small and medium enterprises industrialization strategy in promoting economic growth is generally accepted. As a result, a positive correlation between the emergence of an active small and medium industrial sector and the commencement of paid economic growth and development can always be established. According to Okorie and Ibegbulem (2014) Small and medium enterprises play a dominant role in dictating the pace of growth in rural Nigeria economy given an enabling environment. Such industries maintain a very strong and ubiquitous presence in rural economy. Small and medium enterprises, therefore, play key roles in moving rural development forward in the following areas.

Even Development: Because small and medium enterprise can easily be located in rural areas as they can survive on rudimentary industrial infrastructure, they serve as major facilitators for industrial spread and rural development, thus helping in mitigating rural-urban drift.

Industrial Development: Generally, small and medium enterprise has short-term gestation periods and high potentials for quick yield on investment.

Improvement of Rural Infrastructure and the Living Standard of the People: when small and medium enterprises are cited in rural areas, they help to improve rural infrastructure and the living standard of the people. They help to attract electricity, road, and telecommunications facilities to the host communities and also create linkage businesses that can improve their earning power of rural dwellers.

Promoting Growth: The very nature small and medium enterprise is such that it is propelled by rudimentary economic activities which depend mostly on locally sourced materials. This place it in a position to achieve high value added operations. This is a key role in the growth and development of rural Nigeria.

Employment Creation: Small and medium enterprises usually create more employment per unit of investment because of their labour intensive nature. They have helped in solving the unemployment problem of many countries.

Technological Acquisition: Small and medium enterprises provide opportunities for the development of local skills and technology acquisition through adaptation. The “Aba Made” syndrome is a clear manifestation of such technological acquisition that gives impetus to rapid rural development in the economy.
Poverty Alleviation: Small and medium enterprises help to reduce poverty and inequality in the rural Nigeria. The nature of small and medium enterprise allows the employment of both skilled and unskilled labour force. It enhances the earning capacity of citizens thereby reducing poverty and inequality gaps. This is an important role in any economic development process in rural Nigeria.

Challenges Small and Medium Scale Business Enterprises in Nigeria

1. Financial Problems
The association of Nigerian development finance institutions in 2004 issued a statement in relation to the why small and medium scale business enterprises in Nigeria performed poorly in Nigeria. Truly, finance is usually a constraint to SMEs, while this may be true empirical evidence shows that finance contributes to only about 25 percent of the success of SMEs (Ahmed, 2006). Thus the creation of other appropriate support system and enabling environment are indispensable for the success of SMEs in Nigeria. In Nigeria most SMEs are folding up or lack competitiveness because they lack the much require financial capacity to prosecute their manufacturing concern. Most of these enterprises cannot access loan on a long and short term basis. In a World Bank report in 2001, it was reported that almost 50 percent of micro, 39 and 37 percent of the small and medium scale firm are financially constrained in Nigeria as oppose to25 percent of the very large firm. According to World Bank (2001), the implication of this shows that small and medium scale enterprises are either discriminated against or cannot access funds at the credit market. In addition to this, the financial stringent attached to loan and credit also discourage industries from accessing credit from the bank. This factor has largely undermined the capacity of small and medium scale enterprises in Nigeria. Even where SMEs can access the loan, it is usually a short term loan and what SMEs required in building capacity is a long term loan which can be rolled on investment overtime. This issue has generated heated debate between the SMEs operator and the Banks. While small and medium scale business enterprises operator have been claiming that Bank requesting stringent conditions and terms of approval, the Bank on the other hand had claimed that SMEs operators don’t present bankable projects. Nevertheless, Ogujuiba (2004) in a report on SMEs claimed that 20 percent of SMEs have reported being constrained in receiving long term loan. This has forced SMEs to use their internal financing which is usually unsustainable and vulnerability of SMEs as a result of low capital base. Even at the establishment of the second tier security market of the Nigerian stock exchange as a palliative measures to solve the financial problem of SMEs, most SMEs shunned it because of the tight procedure and administrative bottleneck in the assessment of credit facilities.

2. Lack of Infrastructural facilities
The performance of small and medium scale business enterprise (SMEs) has also been hindered by the lack of infrastructural facilities. Inadequate facilities like power supply, telecommunication, access road network and water supply constitutes one of the major constraints challenging SMEs in Nigeria. A World Bank study in 2001 estimated that the cost of providing infrastructural facilities by SMEs in the absence of those facilities is estimated to be about 15-20 percent of the cost of establishing manufacturing enterprises in Nigeria. Boter (2005) contends that the percentage has since increase to 30-35 percent of the cost of establishing manufacturing concern in Nigeria. The problem of power has best the most critical of the infrastructural problem. The erratic power supply has hindered the business environment. In Nigeria most businesses has fold-up or cannot operate as result of irregular and epileptic power supply. The problem of power is so bad to the extent that the large
industries are now relocating to Ghana and other neighboring countries, while majority of the small and medium scale business has since gone into extinction. The implication of this has led to the reduction in production activities. The cost of fueling generator, machines and equipment has led to cut in public utility (Carter, 2006). The truth however is that the state of infrastructural facilities in Nigeria is poor. Power supply is unstable and inadequate, the states of the roads are terrible and water is not sustainable, telecommunication services are not effective. Where infrastructural facilities are neither present nor inadequate and functional, the investment environment cannot stimulate improvement for small and medium scale enterprises. In these instances, Banks would not be willing to invest in small and medium scale business enterprises because of high risk and the uncertainty of the investment climate.

3. Government unfavorable fiscal policy and policy inconsistencies
The inability of government to execute favorable fiscal policies and policies inconsistencies has undermined the capacity of small and medium scale enterprises. Asaba (2012) identifies, inconsistencies in government policies is a major problem affecting small and medium scale enterprises. Alaye (2012) also factored in the problem to inappropriate time or delay in budget implementation as factor constraining investment and trade decision. In most cases the process of approving budget at the legislative level is usually delay due to executive and legislative face-off most time and even when the budget is approved the executive implementation of such is also very slow due to administrative bottlenecks. Thus, delays investment decision of small and medium scale enterprises, particularly on tariff and taxes measures in their trade decisions. Factors such as this have made the investment environment to be unpredictable and uncertain for small and medium scale enterprises. In some cases, high incidence of government regulatory agencies, taxes and levies by different levels of government have resulted into high cost of running small and medium scale business enterprise seems not to be motivated by these factors. This is due to the absence of harmonized and gazette tax regime which would enable manufacturers to build in recognized and approved levies of tax payable.

4. Poor Record keeping and Information Management: Poor record keeping and lack of information management are very pronounced among Nigerian small and medium businesses. These phenomena, undoubtedly pose many challenges to the success of small business in Nigeria. The overwhelming majority of small business owners interviewed do not prioritize record keeping, and very few that keep records do not do it professionally. It is surprising that some small business owners think that keeping records is not necessary.

5. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.

6. High cost of packaging appropriate business proposals.

7. Uneven competition arising from import tariffs, which at times favour imported finished products.

8. Lack of access to appropriate technology as well as near absence of research and development.

9. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times.

10. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
11. Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.

12. Weakness in organization, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.

13. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazette tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.

14. Widespread corruption and harassment of SMEs by some agencies of government over unauthorized levies and charges.

15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:
   i. Lack of equipment, which have to be imported most times at great cost (capital flight) and which would require expatriate skills to be purchased at high costs.
   ii. Lack of process technology, design, patents, etc., which may involve payment of royalties, technology transfer fees, etc. and heavy capital outlay.
   iii. Lack of technical skills in the form of technological and strategic capability
   iv. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.
   v. The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export.

16. Lack of initiative and administrative framework or linkage to support and sustain SMEs’ development, which to a large extent, is also a reflection of poor technological capability or intellectual resource.

17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system, etc on the part of many founders and managers of SMEs in Nigeria. As fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage ab-initio for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.
18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate small and medium scale business enterprises.

**Way Forward**

Based on the findings of this paper, the following recommendations are hereby put forward.

i. Policies initiated by the government should be funded efficiently.

ii. Policies which are aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centers so as to reduce rural-urban migration.

iii. Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures.

iv. Government and financial institution should develop a holistic approach to schemes initiated by them.

v. The Central Bank of Nigeria (CBN) and other financial institutions should embark on extensive sensitization of small and medium scale business enterprises on the operations of the banks.

vi. Interest which deters people with genuine business ideas should be reduced to a bearable level so as to make borrowing cheaper.

vii. All administrative bottlenecks which make funds inaccessible to small and medium scale Enterprises operators should be mitigated.

viii. The Central Bank of Nigeria should as a matter of urgency compel all other commercial banks to adhere strictly to banking policies and regulations.

ix. Government should engage professionally in the formulation of policies that will stand the test of time.

x. Government should develop a lasting solution to the state of infrastructural deterioration especially electricity.

xi. The security situation of the country needs to be improved so as to make business doable in the country.

**Conclusion**

There is absolutely no doubt that small and medium scale Enterprises contribute tremendously to the rural development. Harnessing the economic potentials of SMEs in Nigeria is still a mirage since several policies aimed at small and medium scale enterprises development did not stand the test of time due to poor implementation, erratic financing of schemes initiate by the government and other administrative bottlenecks. These have made it difficult to existing and prospective SMEs operators to have easy access to funds set aside for SMEs development. Bank which are suppose to complement and implement government policies also clamour for huge collaterals which prospective poor borrowers usually do not have even borrowers who could afford to provide benefiting collateral are further discouraged by continuous increase in interest rate which make borrowers vulnerable to the risk of continuous indebtedness to rich lenders. The recent development by committee of bankers in Nigeria Small and Medium Scale Industries Equity Investment Scheme (SMIEIS) remains a
vibrant scheme if the objective for which it was established is implemented to the letter. Of course SMEs will never thrive if government and financial institutions continue to pay lip services to schemes initiated by them.

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