

Funsho Folabi

**ISSUES, CHALLENGES AND PROSPECTS OF SMALL AND MEDIUM
SCALE ENTERPRISES (SMEs) IN AFRICA.**

(A survey of Small and Medium Scale Enterprises in Nigeria)

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ISSUES, CHALLENGES AND PROSPECTS OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) in AFRICA.

Folabi, Funsho

Satakunnan ammattikorkeakoulu, Satakunta University of Applied Sciences Degree Programme in Innovative Business Services

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Supervisor: Jeffrey, Salahub

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ABSTRACT

The purpose of this research is to discuss Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SME) in Lagos, Nigeria. This came about due to the high rate of unemployment in the society and the poor performance of SMEs in terms of employment generation. While the research questions address the extent to which poor financing, inadequate social infrastructure, lack of managerial skills and multiple taxation constitute major challenges in the performance of SMEs in Nigeria, it assumes that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will reverse this trend.

This research will replicate the model used by Agwu M.O and Emeti C.I in a research conducted in Port-Harcourt city, the research which also tends to investigate a similar topic - Issues, Challenges and Prospects of SMEs in the Port-Harcourt city. A descriptive research approach using 115 randomly selected registered operators of SMEs in Lagos, Nigeria will be used in this particular research. Results from the data analysis indicated that poor financing, inadequate social infrastructure, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Lagos - Nigeria, thus Agwu M.O and C.I Emeti in their Journal titled *European Journal of Sustainable Development* (2014), 3, 1, 101-114 recommended: provision of soft loans to SME operators, government guaranteeing of long-term loans to SME operators, establishment of SME funding agency, public/private sector partnership in infrastructural provision /development, capacity building for SME operators and provision of tax incentives for SME operators.

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1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely considered the engine room of economic growth and development in many developing countries as well as in countries with economies in transition. According to the executive summary of the OECD report on (Promoting SMEs for Development: The Enabling Environment and Trade and Investment Capacity Building in 2004, pg 5) “SMEs play a key role in transition for developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector and constitute a major source of employment, generate significant domestic and export earnings. As such, SME development emerges as a key instrument in poverty reduction efforts.” SMEs are in a better position to increase employment, promote industrialization and improve the contribution of non oil exports to government purse.

Small and medium-sized enterprises (SMEs) have been increasingly recognized as a major platform by which many African countries can become developed owing to their existing contribution and capability to further drive the entire African continent to a developed status. According to Charles Yeboah Frimpong in his article on SMEs As An Engine Of Social And Economic Development In Africa (July 2013), For example, “it is estimated that SMEs account for 70 percent of Ghana’s gross domestic product (GDP) and 92 percent of its businesses. They also make up 91 percent of formalized businesses in South Africa and 70 percent of the manufacturing sector in Nigeria”. SMEs are not only the engine of the economy, but can also serve as a stimulus for economic diversification in other sectors of the economy. SMEs with innovative technology have the potential to internationalize and enter foreign markets both regionally and globally. Support for SMEs have the capacity to significantly improve the standard of living of the populace and improve the economy of not only many countries in sub-Saharan Africa but the African continent as a whole.

This research considers the challenges inhibiting the development of SMEs in Nigeria. Experience shows that, although the number of SMEs in Nigeria is high, their expectation for

growth is still very low. In order to understand this issue, this study looked into the support SMEs receive from the government among other factors and come to the conclusion that it is significantly different across the continent. Lack of access to credit is also another identified obstacle many SMEs are battling with and if this can be tackled, it would make a positive impact on SMEs' development.

MATERIALS AND METHODS:

The scope of this research is limited to the 115 randomly selected operators of SMEs in Lagos, Nigeria. It is assumed that their responses will reflect the opinions of all SME operators in Lagos, Nigeria. The research adopted a cross sectional survey method and administered the questionnaire to 115 randomly selected operators of SMEs in the city of Lagos. The assumed population of the study consists of about 1,150 registered operators of SMEs in Lagos, Nigeria while the actual sample size of 115 equals 10% of the population size. Data collected would then be presented using tables, pie charts analyzed using nonparametric simple percentages to determine our stated question and same would be used for the analysis.

THEORETICAL FRAMEWORK

This research identifies not only how the state and leadership has failed to provide the necessary support and conducive environment that enables SMEs to thrive and succeed, but also how poor followership and interest has encouraged that failure. Examining the influential role leadership plays in the success of followers, it is obvious from the responses of those interviewed during the course of this study that many of the SMEs look up to the leaders/state for support. According to Amabile, T. M. & Kramer, S. J. in their article "What really motivates workers (#1 in breakthrough ideas for 2010). Harvard Business Review, 88:1, 44-45," "when the business community supports an idea, change can happen really fast" They were of opinion that when workers have a sense of belonging this gives them a motivation that help them to pursue success. For the sake of this study this will mean that when the leadership performs well, the followers will equally do well because there is that genuine desire to succeed. The leadership

ought to learn from the followers what their desire is and work towards making it available for optimum performance.

The followership theory would be explored to throw more light on how the ineffective leadership-followership relationship is affecting SMEs development in Nigeria.

“The followership theory shifts the focus in the traditional leader-follower relationship from the leader to the follower. Basically, this theoretical perspective maintains that though leadership and followership are complexly intertwined, the effectiveness of leadership could very well be a result of the quality of the consequent followership” (Albert Obi & Graen & Uhl-Bien, 1995, p. 223; Kelley, 1992).

“The followership theory is a brainchild of the over-concentration of philosophies and scholarly attempts at perfecting the effective leadership syndrome. The followership theory accepts that effective leadership can be assessed by the amount of influence and compliance imposed on the group of followers. However, it shifts base from projecting the leader as the sole participant in the leader-follower relationship, to a view on how powerful the followers in this relationship can be. The focus of this approach is on the less-emphasized role of the followers which brings a new perspective to the research on leadership. Followership theories are becoming quite common and finding useful applications in areas of government, business, education, administration, management, psychology, human evolution, and of course effective leadership” (Northouse, 2007; Van Vugt, Hogan, & Kaiser, 2008). Kelly (1992) pg. 63(3), 182-196 indicates in explaining the followership theory that followers are of two kinds. There are those who are self-governing with a capacity to be thinkers while others are quite the opposite, dependent, non-genuine thinkers.

These two categories then gave birth to those followers who are actively involved in organizational tasks and seize the initiative where possible as well as those who need or desire to be led and directed. Relating the foregoing to the Nigerian scenario within the focus of this study SMEs serve as a catalyst for national development. Therefore, based on these variables, the recipe for projection of SMEs can be defined in the following manner. An active followership

among the Nigerian populace and especially among would-be entrepreneurs is a prerequisite for the projection and success of SMEs. The understanding of the specific roles of leaders and followers in this context could be considered in order to develop an all-encompassing view of the current challenges to SME growth as portrayed in similar yet smaller organizations. In such consideration, the importance of sound education, cultural values, societal norms, exposure and financial capability of the parties could bring a clear understanding of the reason for the style of followership among Nigerians. If Nigerian entrepreneurs reduce their dependence on government to provide conducive environment for operation, but rather push for effective and efficient governance, then there is no doubt that SMEs can act as a catalyst for development.

This research will also use the same model as the study of Agwu M .O and Emeti C. I based on the active learning model of Ericson, R., and A. Pakes, 1995, “Markov-Perfect Industry Dynamics: a Framework for Empirical Work”, *Review of Economic Studies*, 62(1): 53-82 “which states that a firm explores its economic environment actively and invests to enhance its growth under competitive pressure from both within and outside the firm.” The potential and actual growth changes over time in response to the outcomes of the firm's own investment and those other actors in the same market. According to the model used in their journal *European Journal of Sustainable Development* (2014),pg 3, 1, 101-114, they stated that “The improvement in learning for owners or managers of SMEs could raise their efficiency through formal education and training that increases their skills and ability. while on the other hand, government may support their activities through the creation of enabling and suitable environment”. Entrepreneurs or SMEs operators that have higher and formal education and have along the line gained enough work experience either by training from place of work or government helping them in some sort of training is expected to grow faster than those without these qualities. This implies that SMEs in Nigeria have prospects of experiencing growth and contributing meaningfully to help create gainful employment generation only when appropriate investments are made into them by all the stakeholders. This could best be achieved if all government parastatal that are suppose to aid growth of SMEs is fully involved through the

provision of financial assistance, social infrastructure, to help SME operators reach their potential and favorable taxation policies in place.

2. Background and History

2.1 Literature Review

Although there are growing numbers of SMEs in Africa, but the environment where they are created and nurtured varies considerably. The role of the government is one of the most important factors that should be taken into account when considering the growth of SMEs. After the investigation, it becomes clearer that government support is significantly different across the continent. In some countries, the government create numerous obstacles to the development of SMEs in the form of excessive regulation and red-tape. Chad is one of such examples. The World Bank business report reveal that Chad is one of the most difficult countries in sub-Saharan Africa to conduct business. Chad ranks 185th out of 189 countries in terms of ease of doing business in 2015 which is an improvement from 2014 when it occupied the 186th position (World Bank Group 2015). Other challenges includes high tax rate of about 65%, difficult insolvency law, about 60% demand for the cost of real estate, fluctuations in business rules etc makes Chad a very difficult place for SMEs to trade profitably. The high cost of insolvency proceedings is incredibly complex and costly for entrepreneurs, hence, scary for many SMEs who do not want to be caught in the act of insolvency that may be a stumbling block to undertaking future business ventures. Long procedures, delays and waiting time means that it takes 60 days to start a business in Chad, and 53 days in the Republic of Congo.

In addition, it is extremely costly to operate a business once it has been set up because of poor infrastructure. Problems of corruption, unreliable electricity and poor infrastructure makes life unbearable for SMEs in Nigeria. The World Bank Group ranks Nigeria only 170th in 2015, five spots down from 175th in 2014 out of 189 countries for ease of doing business despite government policy that attempts to encourage entrepreneurship. In 1999, the federal government through the Central Bank of Nigeria implemented a Small and Medium Enterprises Equity

Investment Scheme (SMEEIS) aimed at encouraging a more productive SME sector. In a publication from the 246th Meeting held on 21st December, 1999 with the Bankers' Committee "the Scheme requires all banks in Nigeria to set aside ten (10) percent of their Profit After Tax (PAT) for equity investment and promotion of small and medium enterprises. The 10% of the Profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local technology and generating employment. The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises and or loans at single digit interest rate in order to reduce the burden of interest and other financial charges under normal bank lending, as well as provide financial, advisory, technical and managerial support from the banking industry". However, the policy and their goal has not been successful the way it was expected because of administering difficulties. This has posed a lot of problems to the SMEs from reaching their potential in the market and economy generally thereby slowing down economic growth and employment generation.

2.3 SMEs and Economic Development in Nigeria

In the present day Nigeria, Small and Medium-sized Enterprises (SMEs) constitutes a very big and important part of the economy. This sector is said to be economically the key to a sustainable development of Nigeria, thereby making this sector of great interest. Looking at the importance of SMEs in Nigeria one can say in the long term that it has a relation to the structure of the economy. Despite petroleum oil as the big part of the economy, agriculture which comprises of lots of SMEs continues to be the key sector of the economy, providing 70% gainful employment for the population .

Available records according to CNBC Africa shows that the agricultural sector accounted for about 35 per cent of the gross domestic product (GDP). Most operators in the agricultural sector are cottage type or small-scale self-employed persons who are also involved in agro-processing. The activities in the processing sector have certain implications for the role of small manufacturing enterprises in Nigeria. For example, small-scale industrial fabricators constitute

the main source of machinery supply to agro-allied processors. These issues thrive all over the country and when added to the output of the SMEs in the agricultural sector, the combined contribution of SMEs cannot be less than 60% of the GDP. A recent study also indicate that both the agricultural sector and the informal sector contribute about 75% to the GDP.

A prioritised focus was given to SMEs by the government because it is believed that they have the ability improve the economy by creating employment and thereby reduce poverty. Within this context, it is necessary to stress that there is a great desire for the government of Nigeria to do everything possible to make growth and development of SMES . However, realizing this is not an easy fit and the potential of SMEs are underutilised.

There are a number of factors contributing to this ranging from lack of a proper Understanding of SMEs to failure of government to develop , implement and monitor policies that would enhance their growth. There are also factors like the poor operating environment in which this businesses are established. SMEs gives rise to many incurable weaknesses especially long-term capital and lack of access to adequate information on viable projects.

The importance of small and medium-sized enterprises (SMES) in the area of job creation, economic empowerment of women, fight against poverty and even distribution of development has long been recognized. In Nigeria, the number of non-farm microenterprises in the informal sector is estimated to be 6.49 million with total employment 8.97 million. This group is dominated by wholesale and retail trade which is approximately 49% employment and industry (30 per cent). Other significant sectors include repair of vehicles (3.2 %), transport (2.9 %), hotels and restaurants (2.6 %) and construction (1.8 %). Manufacturing is dominated by production of food products (18.7 per cent), textiles, clothing and leather products (3.8 per cent), wood and furniture (3.3 %) and metals and metal products (1.1 %). Non-farm microenterprises, small and medium-sized enterprises account for over 25 per cent of total employment and 20 per cent of GDP.

Small and medium-sized enterprises (SME) is of great importance for socio-economic development of low and middle-income countries like Nigeria especially (Daniels, 2003; UNIDO, 2003; ILO, 2002; King & McGrath, 1999; Daniels and ministry, 1998). In poor countries, SME and micro-enterprises in particular are one of the main sources of employment and income (Mead & Liedholm, 1998) especially for the poorest members of society.

2.4 Nigeria's Business Environment: An Overview

That Nigeria is a blessed country endowed with abundance of mineral and human resources. The main issue that is a thing of surprise is that despite all this abundance of these resources there has not been any good use of the resources or a way to put them in good use economic development. The problems of poor power supply, dilapidated roads, insecurity and many others have continuously make the cost of doing business in Nigeria very expensive. According to the Enterprise Surveys (2007) of the World Bank, "electricity, access to finance and transportation constitute the main obstacles to running a business in Nigeria".

Nigeria is made up of over 170 million inhabitants with different ethnic groups numbering about 234. There are also 36 states and 774 local governments in Nigeria with Abuja as the federal capital. Lagos is considered a 'mini-Nigeria' because of its large mixed population and position as the major hub of commercial activities in Nigeria. Other state capitals also play huge role in the amount commercial activities going on in Nigeria. However, the options for businesses which serves as a hallmark of large cities are still in most of these cities.

A good business environment is always determined by the ease with which business can be done successfully. For Nigeria, many studies have categorized the business environment as harsh. This is not to say that there are no good stories emerging from different sectors surviving the harsh environment. According to the World Bank Annual Business report of 2014, the Nigerian business environment is 'deteriorating'. This opinion is the outcome of an assessment of four critical business activities which are starting a business, registering a property, getting construction permits and enforcing contracts. According to the World Bank, Nigeria dropped

from 138th position in 2013 to 147th position in 2014. Although, for 2015, Nigeria is ranked 135th which is a positive improvement. However, this shows that the business environment is still struggling to improve tremendously.

Starting a new business: Nigeria dropped from a previous position of 114th in 2013 to 122nd in just a year 2014. This means that the act of registering a new business takes longer than expected.

Registering a property: In terms of registering a new property for business, Nigeria did not make any progress in 2014 and remain in the same 185th position as in 2013. The report specifically state mentioned there was no improvement in the country's operational conditions and the ability to settle business insolvency issues remains in 107th position for both years .

Getting construction permits: The situation was not any better in 2014 where Nigeria occupied 151st position from a previous position of 146th in 2013, dropping down by 5 places. Another indication of a tough business environment.

Enforcing Contracts: In terms of contract execution and adherence to terms of contract, Nigeria improved her position from 138th to 136th between the same period under observation.

In addition to these indicators the report also enumerated some other important factors that shows that the business environment in Nigeria is far from supporting the development and growth of not only SMEs but the economy as whole. It mentioned that "the country however recorded marginal improvements in the areas of trading across borders (improving one step from 159th ranking to 158th position) and enforcement of contracts (from 138th position to 136th), ability to guarantee credits to prospective investors declined from the 11th ranking in 2013 to the 13th position; from 67th to 68th ranking for ability to protect investors and 167th ranking to 170th position for paying of taxes.

Apart from the above mentioned indicators, Obiwuru T.C. , Oluwalaiye, O.B., Okwu, A.T, (2011) "External and Internal Environments of Businesses in Nigeria: An Appraisal" in International Bulletin of Business Administration (12) puts forward several other factors such as technology, legal, political etc also affect the business environment in Nigeria.

“Technological factors: this includes research and development activities, technological incentives and pace of technological progress. They can detect obstacles to the entry force, the minimum effective level of production and the impact of outsourcing. Technological change may affect cost, quality and stimulate further invention, innovation and competition in any business environment.

Environmental factors: Weather, climate, climate change and how they affect various industries such as agriculture, tourism and insurance. There is increasing awareness about the potential impact of climate change on many companies, their products as well as the impact on creation of new markets and the reduction of destruction of existing ones.

Legal factors: Included in this component are discriminatory legislation, consumer law, and antitrust law, employment of the population, health and safety law. These factors can affect the way in which the company operates, price, and the demand for its products.

Political factors: This is the question of the extent to which direct and indirect interference and influence on the enterprise of the economy. In particular, the political factors include the following areas; tax policy, labor law, environmental law, trade restrictions, tariffs, incentives and political stability. It may also include goods and services which the government intends to provide or not to provide.

Economic factors: This includes economic growth, interest rates, exchange rates and the rate of inflation. These factors have effect on operations and determination. For example, the impact on the value of exports of goods, power supply and increasing prices for imported goods in the economy ”

The last but not the least important factor is the existence of social factors which is a cultural aspect. These aspects include health consciousness, the rate of growth of the population distribution by age, career relations and an emphasis on social protection. In accordance with them, trends in the social factors influence the demand for services and how it works.

In addition, other factors such as financial sources, image and reputation, information, skills and expertise, and so on also affect the business environment.

From the foregoing, it can be seen that SMEs have a lot to overcome in order to be successful and grow. Many African countries are also caught in this web of uncertainties which makes sub-Saharan Africa a tough place to do business.

2.5 Statement of the Problem.

Small and medium-sized enterprises (SMEs) are largely owned and managed by entrepreneurs with the help of family members, friends and other closed relations. In most cases, entrepreneurs are usually the major financier of SMEs and do not explore the opportunity of sourcing from external sources due to lack of knowledge or unavailability of any of such opportunities around them. The owners do not understand the importance of external source of capital and the impact on the expansion of business. In other cases, the small and medium-sized businesses experience difficulties in sourcing for capital from their homes or individuals. Even in the case where financial houses agree to provide equity capital, conditions are always stiff and difficult to meet.

About 80% of SMEs in Nigeria are greatly affected by the problem of inadequate financing. There is a lot of problems which arise from poor financing other recurring which includes

- (a) Unqualified management which is as a result of inadequate resources for the SMEs to hire experts
- (b) The use of old machines or equipment to run manufacturing processes because of lack of funds to access new ones.

Despite all measures adopted after in Nigeria since its independence in 1960 all effort to increase growth of small and medium-sized enterprises continued to be faced with difficult conditions.

This is as a result of some limiting factors.

- (a) The high cost of raw materials affects price. This has had a negative impact on the growth and development of SMES and also on their profitability.
- (b) The availability of infrastructure is clearly inadequate in the many areas such as lack of access roads, electricity, water etc.
- (c) The diversification policies and regulatory measures such as removal of fuel subsidies, taxes, a number of expenses on credit.

In the light of the above, this research evaluates the Challenges for SMEs and raised the following questions:

- To what extent does financial houses' strict conditions affect the development of SMEs?
- How does bad financing actually affect SMEs businesses?
- What are some of the problems and issues in the field of SMEs?
- What are the implications of multiple Taxation and regulatory measures on the SMEs?

2.6 The Objectives of the Study

The following are the objectives of the study:

1. To find out whether lack of access to financing is one of the major challenges of SMEs in Lagos - Nigeria.
2. To find out whether lack of good social infrastructure constitute one of the major challenges of SMEs in Lagos - Nigeria.
3. To find out whether lack of managerial skills constitute one of the major challenges of

SMEs in Lagos - Nigeria.

4. To find out whether multiple taxation constitute one of the major challenges of SMEs in Lagos - Nigeria.

2.7 Research Questions

This study is focused on answering how issues and challenges confronting SMEs in Lagos - Nigeria can be tackled and would provide viable solutions

The following questions were formulated to serve as a guide:

1. Does poor financing contribute to the main problems of SMEs in Lagos - Nigeria?
2. Does inadequate social infrastructures constitute one of the main problems of SMES in Lagos - Nigeria?
3. Does lack of managerial skills constitute one of the major problems in SMES in Lagos - Nigeria?
4. Does multiple taxation constitute one of the main problems in SMES in Lagos - Nigeria?

2.8 Limitation of the Study

The study is therefore limited to 115 SMEs in Lagos city who were able to answer the questionnaires completely due to the lack of time and enough logistics to cover the whole Lagos city.

3. Small and Medium-sized Enterprises SMES

There is hardly any unique or generally accepted definition of SMEs because the classification of business into small and large scale is a subjective judgment (Ekpeyong & Nyong, 1992). Egbuogu (2003) pointed out that the definition of SMEs may be different both between countries and between continents. The main criteria for the use of the definitions in accordance with Carpenter (2003) may include various combinations: the number of employees, financial opportunities, sales, relative size, initial capital costs and types of industry. Inang & Ukpong (1992), however, emphasized that certain indicators such as capital (property), annual turnover (gross) and number of employees are common in most definitions.

In countries such as the United States of America, Great Britain and Canada, small and medium-sized business is defined in terms of annual turnover and number of employees. In the UK, for example, small and medium-sized businesses are defined as a business with an annual turnover around \$2 million or less and less than 200 employees. Research and Development Institute of Management, University of Delft - The Netherlands, categorizes enterprises into four groups and certain small businesses as one of the 10 99, in which the chief personally performs all control functions without actual participation in the production. Stanley and Morse (1965) stated that after the Second World War, Japan defines small and medium-sized enterprises as one of either the capitals does not exceed Y50m, or not more than 300 employees in the manufacturing industry, and either the capital does not exceed Y10m, or not more than 50 staff members in the field of trade and services.

From the point of view of quantitative measures, the Indian official version small-scale enterprises of the industry, including the production of investment in machinery and equipment is not more than 750,000 rupees. In the definition, employment, thus reflecting the India seeks to problem of lack of capital and unemployment.

In Nigeria, definition of SMES also varies from time to time, depending on the institutions involved. The Government of Nigeria various definitions and criteria in the definition is called micro- and small-scale enterprises. In a certain period of time, it is used in machine and equipment and working capital and at some point in time the cost of capital and staff turnover. However, the Federal Ministry of Industry, under whose jurisdiction micro- and small enterprises falls has adopted several flexible definitions particularly as values are fixed costs. Surrounded by a few definitions, the Government and its agent to the agency, the National Council for Industry (1991) micro-industry, the total cost of the project for the net value of the land, but also including working capital is not more than N500,000:00 (i.e. , 50,000 dollars). Small businesses on the other hand is determined by the Security Council in the industry, the total cost of the project less the value of land, including working capital funds must not exceed n5m (i.e. , US\$500,000).

3.1 Types of Small and Medium-sized Enterprises

According F.N. Udechukwu , Survey of Small and Medium Scale Industries and Their Potentials in Nigeria, (2003) SMEs can be categorised according to the following sizes;

- **“Micro/Cottage Industry**

An industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding cost of land.

- **Small-Scale Industry**

An industry with a labour size of 11-100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land.

- **Medium Scale Industry:**

An industry with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land.

- **Large Scale**

An industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding cost of land.”

3.2 The Importance of Small and Medium-sized Enterprises in Nigeria (SMEs)

Small firms are the foundation for any meaningful economic development. For a country like Nigeria to fully realize its economic and social development potentials, it has to pay attention to the development of SMEs because of their ability to create new jobs, products and services that the economy needs to sustain and grow.

In this case, trade liberalization and encouragement of foreign direct investment (FDI) has to go hand in hand with a thorough and consented effort to help the growth and development of small business to enhance development. For example, the study conducted by the Federal Bureau of Statistics in 2004 shows that 97% of all enterprises in Nigeria employed less than 100 employees. Therefore, it means that 97% of all business in Lagos state has used the "umbrella" of the "small business". Micro and small enterprises provides on average about 50% of employment in Nigeria and 50% of its industrial production. No Government can afford to ignore such a high contribution to its economy. The proportion of Nigeria's micro and small enterprises and their impact on the economy is virtually the same in other countries around the world especially in developed economies. This makes a total of more than 50 % of private labor force.

4. The Role of SMES in the Field of Economic Development in Nigeria

SMEs make a reasonable contribution to economic development in Nigeria. SMEs perform the following roles in the economic development of many developing countries and Nigeria in particular.

I. **Rapid development.**

They have a short gestation period and high potential for rapid acquisition and investment. In this regard, they serve as a viable platform for countries aspiring for quick industrial development.

II. **Employment creation**

SMEs are noted as important job creators and majority of new jobs in virtually every sector apart from the government is created by SMEs.

III. **Technical skill acquisition**

SMEs are known to be good ground for innovation and development of skills and technology. The city of 'Aba' in South East Nigeria is a good reference point in Nigeria for innovation, creation or imitation of products.

IV. **Capacity building and development**

They provide training and avenue for the creation of local entrepreneurs in several areas of economic activities. They are regarded as the learning ground where most SMEs learn more during the day to day running of business.

V. **Promotion of Growth**

Most of the SMEs are involved are involved in many aspect of the which make them make both primary and secondary economic efforts which are heavily dependent on the use of rural material .

VI. **Improving the Quality of Life**

Because of the rapid growth nature of SMEs, its development has a great impact on the immediate environment in which they operate thus improving the standard of living of the people

VII. **Flexible Nature**

They have to respond quickly to changes in the operating environment. Thus, they provide a good testing ground for new products and emerging production technology.

IX. **Startup Requirements is Easy**

Those with very little take-off capital can participate in the economy. They require in most cases very little money to start as a result they become an effective tool of mass participation in the area of industrial development.

5. **The Problems of Small and Medium-sized Enterprises in Nigeria**

According to Uffot E. (as cited by Ogunro V.O 2014 in the International Journal of Academic Research in Business and Social Sciences April 2014, Vol. 4, No. 4 pg 135-136) stated that “there is no single country in the world which is completely free from problems either in business economics or policies. The fact is that such problems may be different from country to country or society to society. And the task also depends on the nature and type of business that is being run. In Nigeria, several factors affect the business environment which makes Nigeria’s business environment unfriendly and unsafe for investment. Some of these problems are listed below.

Power Supply: There is no sufficient and distribution of electricity in Nigeria. Electricity is the life-wire of any production companies especially large-scale industries that depend on office automation of all kinds. Supply of electricity in Nigeria is poor to the extent that many companies are forced to shut down or move their businesses away from Nigeria to other African countries. This is because, the alternate power supply increases overhead costs for the business which could adversely affect the overall purpose of business activities.

Poor Transport Network and Connectivity: Nigerian roads are bad. Some of the roads' link to other cities are not motorable. The movement and delivery of goods and services is slow and sometimes unsafe on the Nigerian roads. There have been repeated cases of accidents and breakdown of vehicles. This is discouraging for investors and limit opportunities for business.

Lack of Security: There is a high level of instability in the country, in particular, in the northern zone, where (BokoHaram) has become a threat to business activities. No investor would be willing to invest in for fear attack. Many companies in the northern part of the country ceased to work due to the "Boko Haram" disastrous activities”.

Another factor that affects the Nigerian business environment is the tax system. There are different taxes leveled by different tiers of the government (local, state and federal governments) which makes the cost of doing business higher than necessary.

In addition, there are unpredictable policies of the government. The policy of the government is not stable in Nigeria, some policies may be inconclusive, and some have refused for political reasons while some were abandoned in their own selfish interests of those who hold the power and the government. This position creates perpetual fear in investors' minds.

The lack of interaction between agencies of the government and there is not enough opportunities for agencies responsible for the promotion of investment of SMES trade facilitation and coordination to support a favorable business climate. Prohibitive cost of land, transferability of rights to the land, weak trade and poor promotion of entrepreneurial activities, heavily indebted poor countries and integration of the various industries, low entrepreneurial capacity, lack of appropriate technology for SMES, reduction of national values and standards of education, the high number of cases of failure by government officials, low quality graduates of higher educational institutions, weak national values.

5.1 Policies and the Implications for SMES

Most of the African countries are not able or have not succeeded craft its policies to combat the deepening developmental crisis which they have been grappling with in the last two decades. Sub-Saharan African countries in particular with its undiversified economic structure and policy infrastructure development have not been able to adapt to the external and internal problems. Despite the fact that the benefits of reform and change continues to be clear, it is a matter of concern that some of the African leaders and policy makers may have learned nothing from the "lost decade" in 1980s. The policy of the government in the past has not been favorable for the establishment of a viable SMES and economic development.

5.2 Problems with Policies on SMES

Lack of stability, the frequent changes in policy, often undermines the implementation of the SMEs. There is no true commitment on the part of governments, the private sector and labor unions to achieve the goal. There is no enabling environment for the private sector, grassroots organizations and the joint/self-help group for effective participation in the development of SMES through the reduction of inflation, exchange rate stability, security of life and property to attract domestic and foreign investors. It is a matter of concern that at present the rate of inflation is 19%.

There is no good basis for monitoring, implementation and evaluation of the performance. Sectoral policies and implementation should be strengthened. Monetary and fiscal policies in the field of SMEs are discriminatory in relation to SME development. They are as follows:

1. **Inadequate financial measures**, - Adverse monetary issues, such as:
 - (A). The level of interest remains very high
 - (B). Inability to get access to credit

- (C) Financial structures is really bad and not functioning
- (D). Interest rates are so high that it discourages entrepreneurs from borrowing
- (E). Lack of funds from Financial institutions.
- (F). Tariffs, customs duties, taxes in the cases of where SMEs are discriminated
- (G). Too Heavy tax burden through multiple taxes and tax rates.

2. **Legal and Regulatory Policies**

The old regulations that have been in place since the independence in the 1960s is what is still in uses in Nigeria and some parts of Africa. They include the following; health, building standards and the way laws and regulations are made brings a huge challenges on SMEs because they find it too high a standard to attain, due to little fund.

In many African countries, business laws vary from country to country and the complexity of those laws also varies too.

5.3 The policy of the Government on Development of SMES Business

The Federal Government has continued to play an innovative and active role since the 1970s to stimulate small business development (Obitayo (1991)). Some of these strategies include:

- Industrial development and integration at the national level using industrial dispersal
- The expansion of opportunities in the field of employment
- The increase in manufacturing output
- Technology development of indigenous people
- An increase in industrial production, use of local raw materials in order to promote greater interaction and backward integration to improve the overall level of economic activity.
- To promote and to create institutions such as the Center for Industrial Research and Development in some universities with the aim of training personnel in small business management studies.

5.4. The Prospects for the Creation of a Favorable Business Environment in Nigeria.

It is an undeniable fact that the enterprise needs to be in favorable conditions for business prosperity. Nigeria is blessed with both human and material resources that can adequately do well in such an environment. But, unfortunately, the leaders of the business environment in Nigeria are unfriendly towards potential investors. In order to make business and investment attractive in Nigeria, the following proposals should be work towards:

One, the government should increase and improve power to ensure that electricity is regularly supplied all over the country. This will help to attract investors and to assure them of smooth operations, business profitability and investment security.

Two major and minor roads in the country should be repaired for the effective movement of goods from one place to another in order to strengthen safe and quick delivery of goods and services.

Three, the government should increase security. Security is very important for human existence and business activities will not thrive in an environment that is not secured. The government should ensure that potential investors life and properties are well secured. Fear and attacks by unknown groups at any point in time must be prevented to attract potential investors. Peace is necessary for investment.

Four, the government should ensure stability and continuity. Since the government is not ready, strategies, which emanate from the government must also be a continuous process. Policies which are considered to be obsolete may be reviewed and updated in accordance with current challenges. The idea somersaulting or inconsistent policies of the government, political and

selfish attitude should be jettisoned by employees. Government's policies should be predictable to secure investors' confidence and create favorable conditions for business.

Others include effective management of the economy. The economy, must be well-managed by the elected leaders. Foreign investment could not flourish in a terrible economy. In addition, it is necessary to ensure the creation of an enabling legal and regulatory environment in order to avoid a system of double taxation in various levels. Access to financial services are also very important. Potential investors must be able to access credit and other financial services without frustrations. Another problem is the entrepreneurial culture. This culture should be encouraged and developed. There should be education, training and learning throughout life, social justice and social integration, good governance and respect for human rights and international standards in the field of labor.

6. The Project Methodology

In this research, this study have used both primary and secondary data. Primary data collected questionnaires given to some SMES in Lagos, Nigeria. This study also made use of personal interviews, observations and structured questionnaires. This was done in order to ensure that first hand information from the developmental experience of SMES.

Additional information was also extracted from magazines, newspapers, journals, job descriptions, documents submitted at symposia and also text books.

The sources of the secondary data and the results of the research have been developed in such a way that points were awarded to respondents based on the problems they face some individual companies in Lagos NIGERIA. Such SMES have been taken as a model for the study of the population.

Data collected in the course of the research were analyzed with a view of establishing how these factors affect SMES in Nigeria.

6.1 Data Sources

This research made use of two types of data in the course of this work. These are primary and secondary data

- **The Primary and main data**

They were collected in the form of answers to the questionnaire and interviews

- A. Questionnaire: Well-structured questionnaire was developed for the servicing or intermediate staff in the selected SMES in Lagos Nigeria. The questionnaire was personally presented to respondents. The questionnaire consisted of printing issues in which respondents have to fill in the answers. Use several options in the questionnaire.
- B. Interview: This study also used oral/personal interviews in primary data collection. This method was very useful for the purpose because it helped to obtain certain facts and data which would not have been possible with the only the questionnaire method.

- **Secondary Data**

This study also generated data from the literature reviews, textbooks and business magazines etc.

7. Research Findings and Analysis

7.1 Population of Study

The population for this study was evenly spread and consisted of 115 randomly selected staff member of SME operators in Lagos city and administered the questionnaire. Projected population of the study consists of approximately 1,150 registered SMES in Lagos, Nigeria. The sample size of 115 reflects 10% of the total population.

7.2 Answers to Research Questions

The result obtained from the administered questionnaire will form the basis of the discussion and presented with the aid of tables and pie chart to show distinctive differences of responses.

Distribution of responses to questions

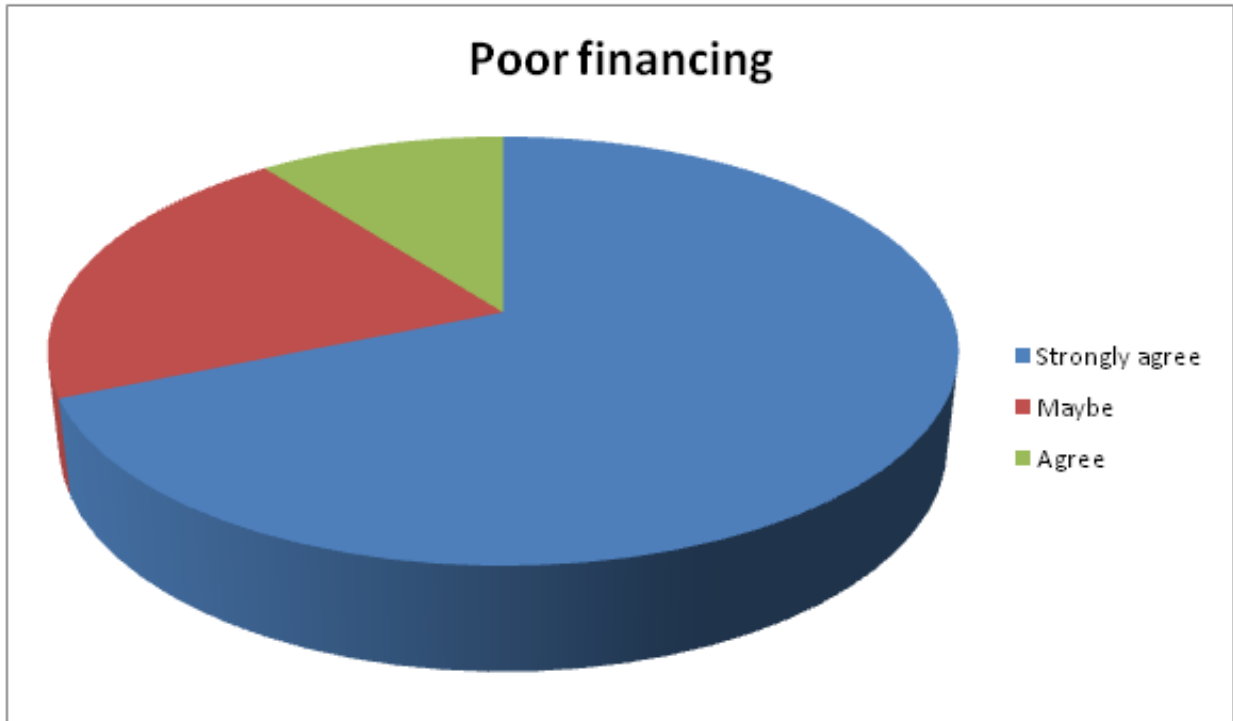
7.2.1. Question 1

Is bad financing one of the main problems of SMES in Lagos City? Table 1 indicates that 79 (68.69%) respondents strongly agreed that insufficient funding is to one of the main problems of SMES in Lagos City. 24 (20.88%) of the respondents expressed a 'may be' view meaning not sure while 12 (10.43%) respondents expressed agreed that poverty as well as insufficient funding is one of the main problems of SMES in Lagos City. Therefore, it can be concluded that lack of funding is one of the main problems of SMES in Lagos City as confirmed by the

68.69% of the sampled respondents. About 80% of small and medium-sized enterprises in Nigeria have been undermined by poor funding and other related problems. In addition, Hiemenz [18) research about SMES in Asia noted that finance is the most frequently mentioned problem.

Table 1. The response to the lack of funding is one of the main problems in SMES in Lagos

Answers	The number of respondents	Percentage of the respondents
Strongly agree	79	68.69 %
Maybe	24	20.88 %
Agree	12	10.43 %
Total	115	100%

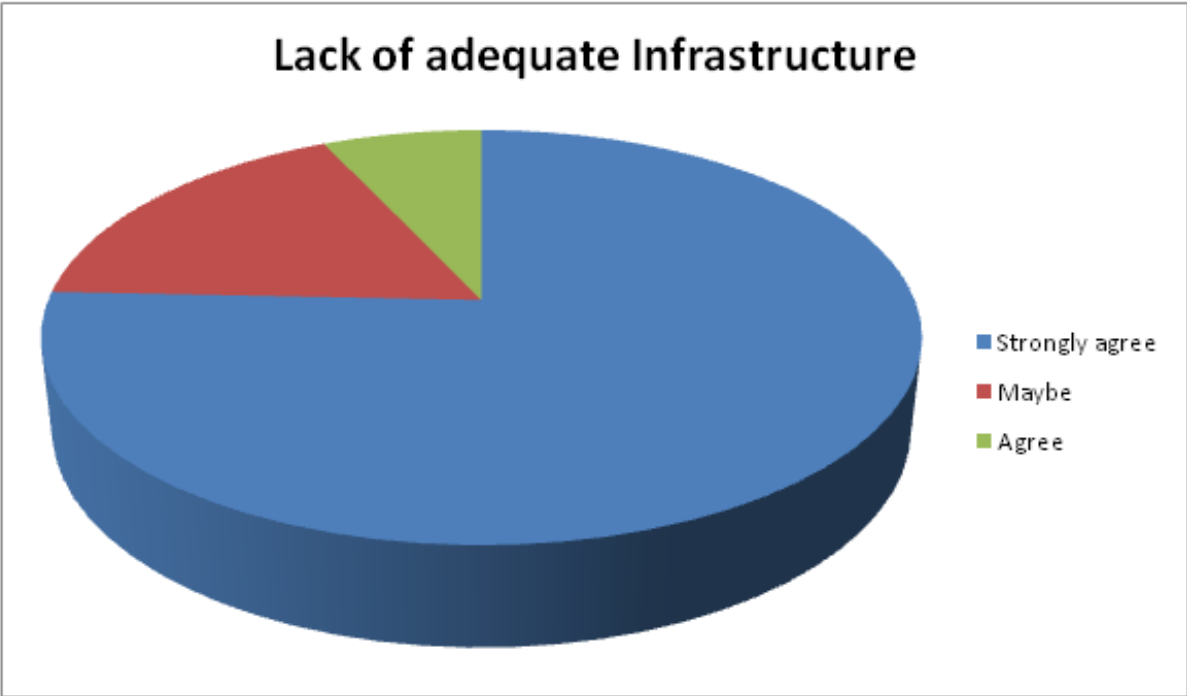


7.2.2 Question 2

Does inadequate social infrastructure constitute one of the main problems of SMES in Lagos city? Table 2 shows that a total of 87 (75.65%) of the respondents expressed a strong agreement that lack of social infrastructure is to a large extent one of the major problems affecting the performance of SMES in the city of Lagos. 20 (17.39%) of respondents expressed a were not certain and 8 (6.96%) respondents agreed that inadequate infrastructures affect the performance of SME. Therefore, this study concluded that the lack of social infrastructure constitute one of the main problems in SMES in Lagos city as expressed by 75.65% of the sampled respondents.

Table2. The structure of the lack of social infrastructure constitute one of the main problems of SMES in Lagos Nigeria.

Answers	The number of respondents	Per cent of the respondents
Strongly agree	87	75.65 %
Maybe	20	17.39 %
Agree	8	6.96 %
Total	115	100%

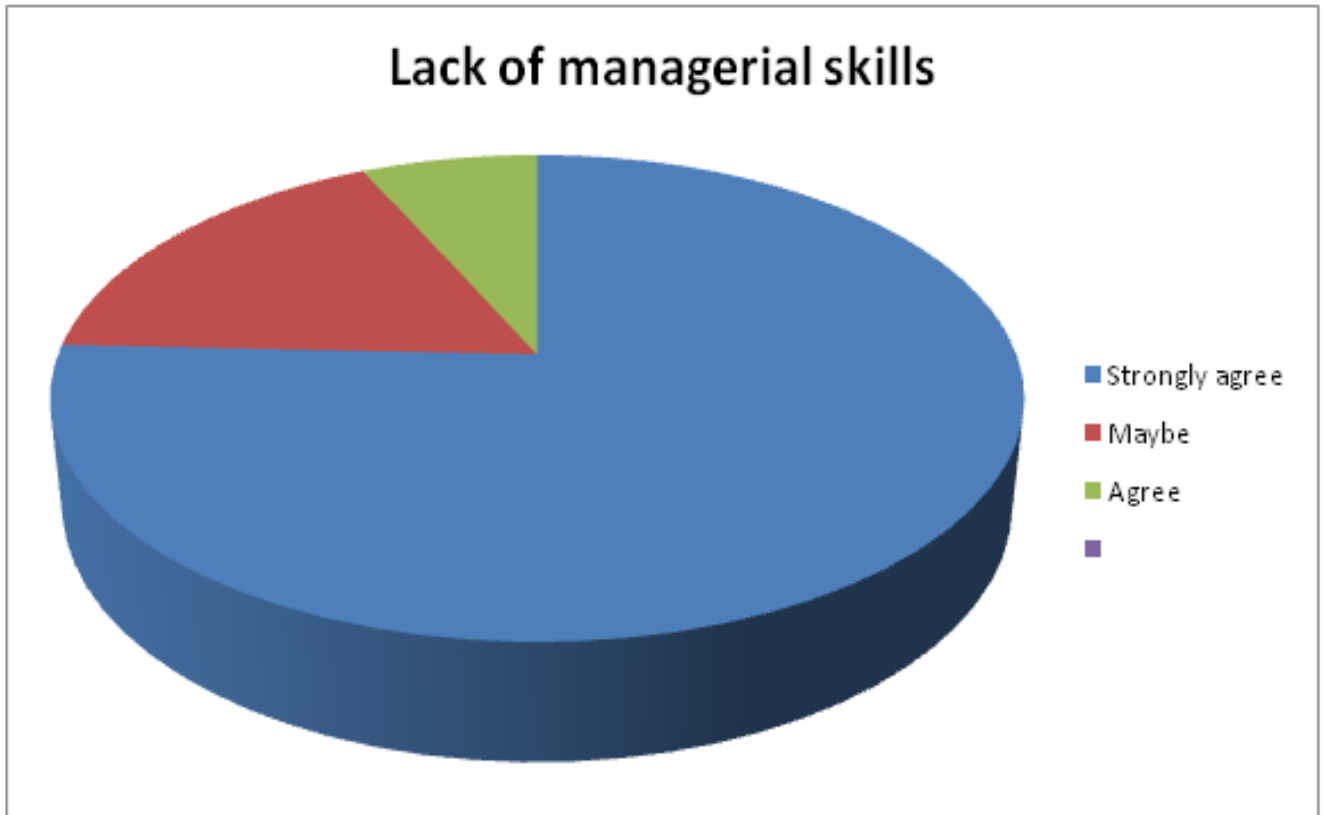


7.2.3 Question 3

Does lack of managerial skills constitute one of the major problems of SMES in Lagos City? A total of 87 (75.65%) of the respondents strongly agreed that lack of managerial skills to a large extent constitute one of the main problems of SMES in Lagos City. 20 (17.39%) of the respondents expressed were not sure while 8 (6.96%) respondents expressed the view that the poor as opinion. Therefore, we have to conclude that lack of managerial skills constitute one of the major problems in SMES in Lagos City, as evidenced by 61.82 per cent to a large extent on the sample respondents. This conclusion is supported by the system monitoring of the western and wood (20), that 90% of all these failures are the result of lack of experience and competence.

Table 3 The structure of whether lack of managerial skills is one of the major problems of SMES in Lagos, Nigeria

Answers	The number of respondents	Per cent of the respondents
Strongly Agree	87	75.65 %
Maybe	20	17.39 %
Agree	8	6.96 %
Total	115	100%

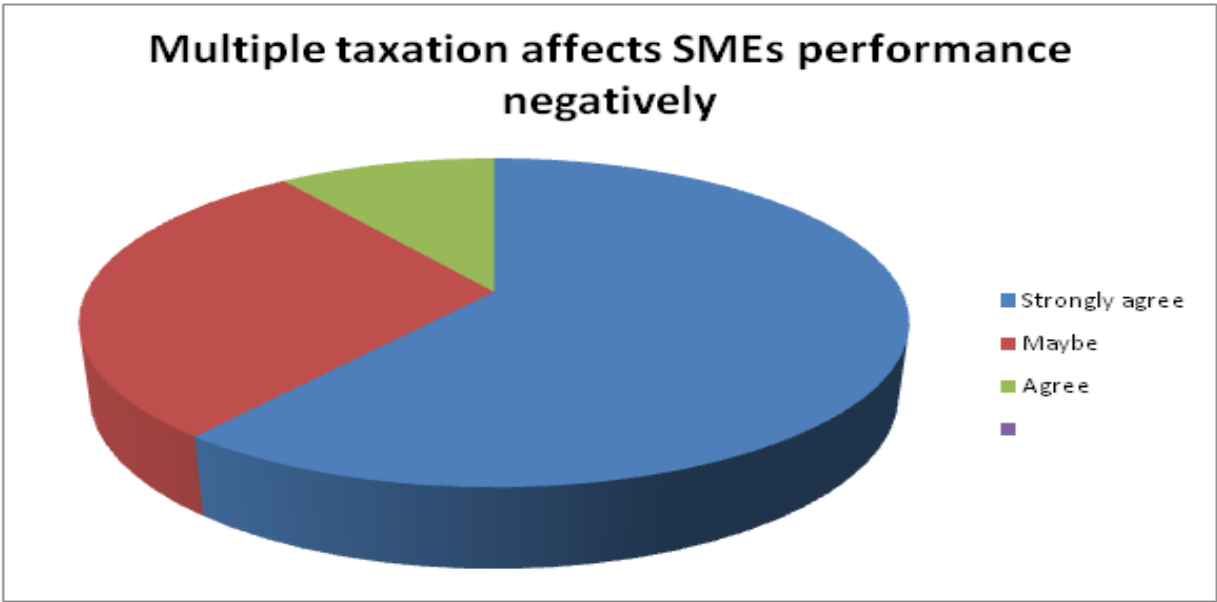


7.2.4 . Question 4

Does taxation constitute one of the main problems of SMES in Lagos city? Table 4 indicates that a total of 72 (62.60%) of respondents strongly agreed that high taxation levied on SMES constitute one of the major problems affecting the performance of SMES in the city of Lagos. 31 (26.96%) of the respondents expressed an uncertain opinion while 12 (10.43) respondents agreed that taxation affects the performance of SMES in Lagos. Therefore, we can conclude that multiple taxation is one of the most important challenges facing SMES in Lagos City as seen from the strong view of 68.18% the sampled respondents.

Table4. Multiple taxation affects the performance of SMEs in Lagos, Nigeria

Answers	The number of respondents	Per cent of the respondents
Strongly agree	72	62.60 %
Maybe	31	26.96 %
Agree	12	10.43 %
Total	115	100%



8. Conclusion and Recommendations

This research discussed issues, challenges and prospects of small and medium scale enterprises (SMEs) in Lagos city Nigeria survey as a case study. The outcome of the survey is not surprising owing to the myriad of challenges inhibiting their growth and development. One can easily conclude that if the government can improve tremendously on effective policy implementation and provision of facilities, SMEs in not only Lagos city but Nigeria and Africa as a whole will be successful and economic growth will be achieved.

The four major findings of the research are as follows:

1. Poor financing constitutes a major challenge in the performance of SMEs in Nigeria.
2. Inadequate social infrastructures constitute a major challenge in the performance of SMEs in Nigeria.
3. Lack of managerial skills constitutes a major challenge in the performance of SMEs in Nigeria.
4. Multiple taxation constitutes a major challenge in the performance of SMEs in Nigeria.

From the findings of this research, it is suggested that Nigerian government should take the following steps to address the major challenges of SMEs in Nigeria:

1. Nigerian government should encourage banks and other financial institutions in Nigeria to "step up" the assistance of SMEs so that they can come up with flexible packages that can help

to alleviate the financial problems. These packages should not be seen as a long term solution but as a short time solution that will help them to set their foot on ground while they grow.

2. For the government of Nigeria to secure the future of SMEs in Lagos Nigeria, it has to update the current educational system with entrepreneurial curriculum/trainings. This will improve their skill set to manage the business

3. The administrative bottlenecks should be removed to help create an enabling environment that will be free of bureaucracy which has been an all time problem hindering growth and development of the system in which these SMEs operate.

4. Inadequate infrastructure has always posed as a major problem to SMEs especially those that are striving really hard in the manufacturing sector. Power supply poses a great challenge as most of them resort to the use of generators for power supply with at the end of the day increases the overall cost of doing business. This research recommends that government should tackle this problem as these factor can at the long run jeopardise the future of SMEs.

5. Another factor that affects Lagos city Nigeria's business environment is multiple tax system. There is multiplicity of taxes by tiers of government which makes the cost of doing business higher than necessary.

6. Capacity for SMEs operators that would cover their overall knowledge about business and self confidence. Government should liaise with the Lagos City Chamber of Commerce and other non-governmental agencies in the organization of regular training programmes/seminars for potential and actual SME operators where they can be educated on how to plan, organize, direct and control their businesses.

APPENDIX 1

Department of Business Administration
Satakunta University of Applied
Sciences (SAMK)
Finland

Dear respondent,

I am an international final year student of the above department, conducting a research on the **Issues, challenges and prospects of SMEs** in Lagos city. It is in partial fulfillment for the award of degree in Innovative Business Services I will be glad if you can help fill the attached questionnaires to enable me carry out this research successfully.

I assure you that your response will be treated in confidence and used solely for this research.

Thanks for your co-operation.

Yours sincerely,
Funsho Folabi

APPENDIX 2

INSTRUCTION: Some of the questions contain response alternative you are expected to tick against the alternative (s) of your choice.

1. What is the name of your Company.....

2. How long have you been in the business?

A .3-6 years [] B.7-12 years [] C.13years or Above []

3. What is the number of the following workers?

A. Skilled employed

B. Unskilled employed.....

4. Do you have any financial problems?

A. Yes [] b. No []

5. Do you have need for Expansion?

A. Yes [] b. No []

6. If yes, do you need loan?

A. Yes [] b. No []

7. Have you received loan from banks before?

A. Yes B. No

8. Do you have enough raw materials?

A. Yes B. No

9. Where is the source of your raw materials?

A. Nigeria B. Imported C. Both

10. Small scale industries does contribute to economic growth and development

A. Yes B. No

11. Lack of finance is the major problem facing small scale industry

A. Yes B. No

12. Do you use local supply of equipment in carrying out your production?

A. Yes B. No

13. Do you pay more than one form of tax to the government?

A. Yes B. No

14. Does the tax you pay affect the profitability of your business?

A. Yes B. No

15. Do you use public power supply for your business?

A. Yes [] B. No []

16. Educational qualification

A. Secondary school () B. Diploma () C Degree ()

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