Empowering Small and Medium Scale Enterprises in Nigeria: A Key Poverty Alleviation Strategy


Department of Accounting, School of Business, College of Development Studies, Covenant University, Canaanland, Ota, Ogun State, Nigeria.

ABSTRACT: The role of Small and Medium Scale Enterprises (SMEs) in the economic development of any nation cannot be downplayed. In Nigeria for instance, it is reported that SMEs represents about 95% of all enterprises. This statistic is a pointer to the expected contribution of this segment to the economy. Unfortunately, a myriad of problems have strangulated SMEs from performing as expected. While some of the problems are self-inflicted, a high proportion is external, arousing a cry for the empowerment of SMEs to enhance its performance. In this paper, our preoccupation is to establish the fact that empowering SMEs in Nigeria is a key poverty alleviation strategy. The paper finds out that the major problems plaguing SMEs are; inadequate capital, poor infrastructural facilities, inability to access funds from financial institutions due to stringent conditionalities, ignorance of the available sources of finance and lack of management and skill support. It therefore concludes that if these major areas are adequately addressed, our SMEs will be translated into active economic sector, fully empowered to significantly contribute to the achievement of the Millennium Development Goal (MDG) of eradication of poverty and hunger in Nigeria and by extension Africa.

Keywords: Empowerment, Small and Medium Scale Enterprises, Poverty Alleviation

I. INTRODUCTION

Small and Medium Scale Enterprises (SMEs) have been universally acknowledged as a delivery mechanism for economic development and poverty alleviation in both developed and developing countries. This global recognition and interest in SMEs is justified by its potentials in the areas of employment generation, capacity to reduce inequalities, ability to mobilise domestic savings for investment, introduction of business methods, products and services that help to restructure weak agricultural sector or other uncompetitive transition economies, enhancement of economic balance through industrial dispersal, promotion of effective resource utilisation, linking participants in supply chain among others (Ojo, 2006: 24-25; Ogujiuba, Ohuche & Adenuga, 2004; Small Enterprises Assistance Funds (SEAF), 2004)

In Nigeria, research has shown that SMEs account for more than 95% of all productive activities (besides oil and agriculture) with the capacity to employ over 70% of the work force as well as the ability to contribute about 70% to GDP (Ubom, 2006:20; Ojo 2006:24-25). These are indicative of the seminal role SMEs can play as a strong agent of economic growth and a fast tract out of the present devastating and debilitating scourge of poverty.

Unfortunately, there has been a wide gap between expectation and reality, which could only be explained by myriad of problems which SMEs face including inadequate funds, poor infrastructural based, poor management skill as well as unfavourable macroeconomic environment among others. This under performance of SMEs due to under development may also explain substantially why Nigeria has remained a paradox- having many poor in the mix on plenty.

In this paper, we posit that the empowerment of SMEs as a key poverty alleviation strategy in Nigeria. We organised the paper into five short sections. Section one introduces the paper, section two considers the concept of small and medium scale Enterprises, its inhibitors as well as its potential impact on development and poverty alleviation. Poverty reduction efforts in Nigeria and SMEs development efforts takes their turn in section three. In section we present empowerment of SMEs as an alternative strategy for poverty alleviation, while the paper is concluded in section five.
II. THE CONCEPT OF SMALL AND MEDIUM SCALE ENTERPRISE

There has been no universal agreement as to what constitute Small and Medium Size Enterprises (SMEs). Different countries classify their industries based on the criteria they adjudged appropriate, with major or minor similarities and dissimilarities. The common criteria used include; number of employees, scale of investment, income generated, turnover among others (Kimambo, 2005,). In Nigeria, the most generally accepted definition of SMEs follows the classification of industries by the National Council on Industry (NCI) in 2001, on the bases of assets based and the number of employees as shown in table 3.

Table 3: Classification of Industries by Assets Based and Number of Employees

<table>
<thead>
<tr>
<th>S/N</th>
<th>Industry</th>
<th>Assets Based</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro/Cottage Industries</td>
<td>0-1.5 million</td>
<td>1-10 workers</td>
</tr>
<tr>
<td>2</td>
<td>Small Scale Industries</td>
<td>1.5-50 million</td>
<td>11-100 workers</td>
</tr>
<tr>
<td>3</td>
<td>Medium Scale Industries</td>
<td>50-200 million</td>
<td>101-300 workers</td>
</tr>
<tr>
<td>4</td>
<td>Large Scale Industries</td>
<td>201 million and Above</td>
<td>301 workers and Above</td>
</tr>
</tbody>
</table>

Source: Adapted from Ubom (2006:18).

Thus, Small and Medium Enterprise (SMEs) refers to “any enterprise with a maximum asset base of N200 million excluding land and working Capital and with the number of staff employed not less than 10 or more than 300”. This is invariably the definition adopted in the implementation of the Small and Medium Industries and Equity Investment Scheme (SMIEIS), launched in August 2001 (Sanusi, 2003, Nigeria Business info .com:2002).

Other attributes by which this sector of the economy is distinguished includes; ease of entrance, large informal activities, farm ownership enterprises, reliance on indigenous resources and small scale of operations. Others are; labour intensive and adaptive technology, skills acquired outside the formal school system, and unregulated and uncompetitive markets (Ojo, 2006; International Labour Organisation, 1975 in Ojo, 2006:22).

2.2 Inhibitors to SMEs development in Nigeria

SMEs potentials to add value to the economic progress of Nigeria had not been fully manifested, owing to several constraints which had bedevilled its growth and development. These challenges include;

Inadequate Funds: Inadequate funds and other financial services have been identified as the major inhibitors to SMEs development in Nigeria (Olutunla, 2005; United Nations, 1999). Aside of the inadequate start-up capital from the personal savings of owner-managers and the contribution from friends and relatives, they is also constrained access to institutional finance, banks and capital market. The reasons for these limitations according to experts include; inability to provide collateral securities; bad and unacceptable feasibility report; incomplete financial documentation and inability to raise the required equity contribution. (Ojo, 2006:25-8; Olutunla, 2005; Omoruyi & Okonofua, 2006:23)

Poor Infrastructural Facilities: the inadequate infrastructural base coupled with the decay or deplorable conditions of the available ones has posed formidable obstacle to SMEs performance and hence call for urgent attention by the government (Ojo, 2006:26). Essential services such as telecommunication, access roads, electricity and water are either not available at all or grossly inadequate, thus constraining SMEs development; as such cost is estimated to constitute about 15-20 percent of the cost of establishing a manufacturing enterprise in Nigeria (A world Bank Study, 1989 in Omoruyi & Okonofua, 2006:24). The absence of power for instance has led to the demise of many businesses in Nigeria (Business Day newspaper, 2004:7 in Ojo, 2006:28).

Overbearing regulatory and operational environment: It has been reported that the plethora of regulatory institutions, multiple taxes, cumbersome importation procedures and high port charges have contributed to the unconducive operational environment of SMEs in Nigeria

Financial Recklessness/Indiscipline: Apart from the limited financial capacity of SMEs, as is the case in most developing countries, coupled with their poor record keeping, most of the SMEs promoters deliberately divert borrowed fund to ostentatious living such as acquisition of Chieftaincy titles, more wives, over sea trips etc, thereby exacerbating their financial difficulties. The aftermath is poor performance or outright collapse (Omoruyi & Okonofua, 2006:24).

Restricted Market: the insufficient demands for the product of small companies, arising mainly from the non-standardisation of their products, poor quality assurance, consumers dwindling purchasing power impairs the
Empowering Small and Medium Scale Enterprises in Nigeria: A Key Poverty Alleviation Strategy

growth potentials of this sub-sector (Omoruyi & Okonofua, 2006:24). More over, the preferences for imported goods by most Nigerians further weaken the demand and exacerbate the performance of SMEs in Nigerian.

Deficiency in Policy implementation: It has been discovered that Government policies regarding SMEs are inadequate, inappropriate or inconsistent, which has contributed to also inhibit the growth and development of SMEs (Ojo, 2006:26). In fact, Oji (2006) observed that Nigeria has no explicit policy for the SMEs sector, the closest been the Small and medium Enterprises development Agency (SMEDAN), established in 2003 to facilitate the growth of the small and medium enterprises sector in the country. Also, poor implementation of government policies regarding SMEs had led to “confusion and uncertainty in business decisions as well as weakened the confidence in government’s capacity to execute faithfully its programmes” (Omoruyi & Okonofua, 2006:24)

Lack of Management and skill Support: Entrepreneurial skill and acumen are largely a function of education, experience and exposure which in most cases are lacking in small and medium enterprises. The aftermaths of these deficiencies are, ineffective planning and control, poor record keeping as well as faulty investment decision due to poor evaluation of projects.

2.3 SMEs Potentials for Poverty Alleviation: Theoretical Framework

The potential of SMEs to impact on growth and poverty alleviation is the rational for the global interest and support in SMEs development (SEAF, 2004). According to SEAF (2004) some of the specific areas SMEs help to reduce poverty includes;

Effect on poverty through growth: SME development can help a developing private sector economy function more efficiently and engender a faster growth which in turn can promote poverty reduction, as growth tends to be good for the poor (Dollar and Kraay, 2002; in SEAF, 2004)

Removal of bias against labour intensive production: bias against labour intensive production techniques is a market distortion which is removed by SMEs. This is likely to have positive impact not only on the development of SMEs but in improving the lives of the SMEs employees as well as the acceleration of human and community development among others.

Employment of relatively more low skill workers: SMEs on the average employ a greater share of local, low-skilled workers than do large firms or the suppliers to large firms, and since a large portion of the poor are less skilled, there is likely to be a positive multiplier effect on the alleviation of poverty

Linkage to small suppliers: It is plausible that SMEs have more supply links than large firms to the local economy, given their small size or lesser sophistication, which would generally inhibit sourcing directly from abroad. SMEs probably import fewer intermediate goods than large firms, suggesting a larger local multiplier effect.

Magnified impact on poverty reduction among very poor people: Targeting a small number of very poor people provides greater social benefits than targeting a larger number of less poor people. Thus, to the degree that SMEs hire relatively poor people, the impact of any given income increase on poverty would be magnified.

Other areas of impact include security of employment, impact on children through employment of mothers among others.

SMEs tax payment: unlike large organisations that may find loopholes or use their influences to pay less tax than statutory tax rate, SMEs may be bereft of that capacity, hence, contribute more tax revenue. And since tax revenue are use to execute poverty-impacting programs such as local infrastructure improvements, health services, etc SMEs could be expected to have a greater indirect impact on poverty reduction than large firms.

III. PAST EFFORTS AT REDUCING POVERTY IN NIGERIA

Poverty reduction is said to be the most difficult challenge facing developing nations and the greatest constrain to sustainable economic growth in Nigeria (Ogumike, 2001; IMF, 2005). This is why government after government put in place policies and programmes aimed at alleviating the menace of poverty, though with varying severity. In Nigeria a number of programmes in this direction can be harvested. Before the introduction of Structural Adjustment Programmes (SAP), the concern of government toward poverty alleviation was indirect and could only be deduce from the objectives of the National Development Plans (NDP) and some other agencies of government. For example, agencies such as the River Basin Development Authorities (RBDA), the
Agricultural Development Programmes (ADP), the Agricultural Credit Guarantee Scheme (ACGS), the Rural Electrification Scheme (RES), and the Rural Banking Programme (RBP) were designed to actualize the objectives of employment generation, enhancing agricultural output and income, and stemming the tide of rural – urban migration. Also, Operation Feed the Nation (OFN) set up in 1977, Free and Compulsory primary Education (FCPE) set up also in 1977, Green Revolution established in 1980, and Low Cost Housing Scheme were all indirectly targeted at poverty reduction. (Ogwumike, 2002; Obadan, 2002; Okojie, 2003)

In 1986 the government adopted the IMF/World Bank supported Structural Adjustment Programme (SAP) in June 1986 in an effort to check the severe economic crises (Ogwumike, 2002). Although SAP recorded increase in growth rate of 9.8% in 1988 and contributed about 40% to GDP in the same period (Iyoha, 2003:20-23), they is almost a consensus of experts that SAP typically made most Nigerians worse off, as it brought about increase in rural and urban poverty both in spread and intensity. (Oyefusi & Mogbolu, 2003:400; Ogwumike, 2002: Kolawole & Torimiro 2006:16).

Other programmes with direct or indirect impact on poverty alleviation include; the Directorate for Food, Roads and Rural Infrastructures (DFRRI), National Directorate of Employment (NDE) created in 1986, Better Life Programme (BLP) 1987, People’s Bank of Nigeria 1989, Community Bank (CB) created in 1990 and the National Agricultural Land Development Authority (NALDA) created in 1991, the Family surport programme (FSP) 1994, Family Economic Advancement Programme (FEAP) established in 1997. All these programmes had varied impact on poverty reduction.

Further more, the democratic government in May 1999, expressed concern over the threatening incidence of poverty in country, and introduced a number of programmes aimed at making a dent on the poverty. Among the early programmes were: the Universal Education Basic Education (UBE); the Poverty Alleviation Programme (PAP), the National Poverty Eradication Programme (NAPEP) and the establishment of the National Poverty Eradication Council (NAPEC) (Obadan, 2002). The Small and Medium Industries Equity Investment Scheme (SMIEIS) 2001 and SMEDAN 2003 and the National Economic Empowerment and Development Strategy (NEEDS).

Generally, the poverty alleviation programmes and efforts in Nigeria to date have had minimal success in alleviating poverty and ironically some have elevated poverty instead (Gberevbie, Duruji & Ogundjeji, 2007). The failure has been largely attributed to political and policies instability, lack of targeting mechanism, poor coordination, lack of accountability and transparency, overextended scope, poor design, lack of involvement of the beneficiaries, poor implementation, corruption of government officials and public servants, among others (Ogwumike, 2002)

3.2 Pass Efforts at Developing SMEs in Nigeria

Over the years, there have been several monetary, fiscal and industrial programmes aimed at speeding up the development of SMEs in Nigeria. Some of this policy measures as identified by Sanusi (2003) includes; the Industrial development Centres (IDC) established in 1962 by the then eastern government and taken over by the federal government in 1970, set up to provide extension services to SMEs in such areas as project appraisal for loan applications, training of entrepreneurs Product planning and control and other extension services; Small Scale Industries Credit Scheme (SCICS); established in 1971 and operated as a matching grant between the federal and state governments, designed to make credit available on liberal terms to SMEs; The Nigerian Bank for Commerce and Industries (NBCI), set up in 1973 as an Apex Institution for SMEs with the objective of providing financial services to indigenous business community, particularly SMEs. The Nigerian Industrial Development Bank (NIDB) established in 1962 with the mandate of providing medium to long term loans for investment in industrial activities and with a special unit focused on SMEs and the Central Bank of Nigeria (CBN) which has since its inception been instrumental to the promotion and development of Small and Medium Scale Enterprises. For instance, the CBN credit guidelines required that banks allocate a specified minimum percentage share of credit to important sectors including the SMEs at preferential interest rates. The most recent been the SMIEIS lunched in 2001, which requires Banks to set aside 10% of their profit before tax for investment in SMEs.

Other SMEs development schemes and programmes include; World Bank, United Nations African Development bank which has at one time or the other assisted in the development of SMEs. For instance US$270 millions was obtained in 1989 through the world Bank Assisted SMEs II Loan Project to complement other sources of financing SMEs; the National Economic Reconstruction Funds (NERFUND) set up in 1990 with the aim of providing medium to long-term loans (5-10 years), to SMEs at concessionary rates of interest,
thereby removing one of the most formidable handicaps to SME development; **State Governments** have also through their ministry of finance and investment companies provided technical and financial assistance to SMEs; **The National Directorate of Employment (NDE)** established in 1986 has promoted SMEs through self-employment programmes; **Technical, Training and Extension Services Programmes** provided by such institutions as Industrial Training Fund (ITF), Raw Materials Research and Development Council (RMRDC) and the Centre For Management Development (CMD) have in their activities supported the promotion of SMEs in the country. **The Second Tier Security market (SSM)** established in 1985 to assist small indigenous companies to access funds from the capital market.

It would be observed from the forgoing that most of these schemes were aimed at providing financial support to SMEs, yet inadequate Finance have remained the most influential inhibitor to SMEs development In Nigeria till date. This is indicative of the fact that most of the programmes were ineffective. Besides, the failure of most of the programmes have also been attributed to poor implementation, inadequate manpower to supervised the project, poor funding, poor project appraisals among others (Sanusi, 2003)

### 4.1 How to Empower Small and Medium Enterprises for Poverty Alleviation

The potentials of SMEs to serves as a delivery mechanism for poverty alleviation are enormous (see Ojo, 2006:24-25). However, these potentials and the expected contribution will remain trapped and unprofitable unless this sub-sector is adequately empowered. By ‘empowerment’ we mean increasing the socio-economic cum political strength of SMEs to carry out value adding operations. We have enumerated some of the areas needing empowerment, it is however not exhaustive;

**Financial Empowerment:** Inadequate funds are unmistakably the most influential inhibitor to SMEs development in Nigeria and which is why many SMEs have become moribund (Olutunla, 2005). In other to increase SMEs financial capacity, both the money and capital markets policies should be formulated to give SMEs more access to funds. Bank lending rate could be reduced to a lower rate than the current regulated 8%. The recently launched micro credit Scheme of N50 billion by President Yar’Adua on February 2008 and the pooling of the various Development Financial Institutions (DFI) under the bank of Industry to provide developmental loans are laudable programmes in this direction, but must be monitored to avoid been hijacked and made a conduit pipe for embezzlement by the privileged government officials. Micro credit has been recognized as one of the effective strategies for poverty alleviation in third world countries, in recognition of the fact that poverty result from the fact that majority of the population have very low income and live below the poverty line. Micro credit therefore has the potentials for the empowerment of the poor and the improvement of incomes of the economically deprived (Soludo, 2008; Nzotta, 2003).

The Capital market is another vehicle through which SMEs can be empowered. There are two areas to be addressed in this respect. First, the aversion to disclosure and fear dilution of ownership by SMEs promoters has to address through education and re-orientation. Secondly, the Security and Exchange commission may need to soft-pedal on the listing requirements. This will allow SMEs access to longer term and cheaper funds appropriate for financing long term projects as a way out of the suffocating pressure from short term creditors

More so, Nigeria could adopt the German model, were commercial banks assist SMEs in preparing feasibility report as a way of encouraging efficient project formulation and implementation (Ojo, 2006:35)

**Infrastructural Empowerment**

Availability of basic functional infrastructures in both the rural and urban areas is *sine quo non* to the performance of SMEs. This is because the cost of providing power, telecommunication and other basic infrastructural facilities is about 20% of the total cost of operating an SMEs in Nigeria. If these facilities are provided, funds hitherto drained through efforts to provide these amenities will now be diverted into more productive operations. The result will be expanded operation, increased employment, higher contribution to the community and the national development and consequently a dent would have been made on poverty.

**Educational Empowerment:** most SMEs promoters and potential entrepreneurs have inadequate educational/training or are illiterates (Ojo, 2006:35). The aftermath of this inadequacy are poor feasibility reports, poor management skills and lack of proper accounting procedures which are among the major internal problems that have barricaded SMEs from gaining access to bank funds as well as exacerbated their performance. (Olutunla, 2005). SMEs promoter should be encouraged acquiring a minimum level of training even in an informal setting. Besides, the government can also provide through it agencies such as NDE etc free and compulsory courses SMEs operators. The training should include the knowledge and utilisation of...
Empowering Small and Medium Scale Enterprises in Nigeria: A Key Poverty Alleviation Strategy

information and communication technology (ICT). ICT has been described as sine qua non for effective competition and the survival of SMEs in today’s business environment (Ovia-George, 2007), as was agreed to by the Managing Director of Hewlett Packard West Africa Dr Lloyd Atabansi, when he stated explicitly that SMEs can overcome some of its hurdles to growth such as low productivity, lack of competitiveness, and the limited skill level of owners and workers by learning how to apply information and communication technology effectively.

Legal/ Regulatory Empowerment: the development of SMEs in Nigeria like anywhere else requires dynamic, robust and effective legal/regulatory framework. SMEs can be legally empowered if laws favouring the development of SMEs are enshrined in the constitution and/or the companies Acts. Besides, a robust regulatory framework is necessary to ensure compliance with rules and discourage regulatory forbearances. However, rule relating to SMEs should not be too stringent as that will further inhibit their operations. Government at all level should encourage SMEs through generous tax rebates and holidays to both the operators and promoters.

Scio-Economic Empowerment: two dimensions of empowerment have been identified here, ‘clustering’ and access to market. Clustering provide a platform for networking among SMEs which will engender competitiveness and innovations, as the businesses in the ‘cluster or district interact and depend on one another. A cluster has been defined as “network of production of strongly interdependent firms, knowledge producing agents, bridging institutions and customers, linked to each other in a value adding production chain” (Roelandt and Hertog, 1998 in Ravarini, Pigni, Buonanno & Scuito, 2005). The principal attributes of a cluster are the linkages and interdependence between different subjects that generate value and increase the competitiveness and innovativeness of firms in the cluster. Clustering have proved very rewarding in most industrialized and even emerging countries including Italy (Ravarini, Pigni, Buonanno & Scuito, 2005). We therefore recommend that conscious design of clusters/ business district for SMEs should be incorporated into the overall industrialization strategy.

Beside, they should also be policies that guarantee a market for SMEs products and services, since “the only reason for production is consumption”. This could be done in several ways including orientation of Nigerians to change their negative attitudes towards ‘made in Nigeria good’, as well as a deliberate policy to protect SMEs from the domineering and unhealthy influence of larger firms’ especially foreign firms.

Political Empowerment: Policy inconsistency, political instability and the lack of political will are listed among the major variables responsible for failure of many poverty reduction programmes as well as the crippling of SMEs development in Nigeria. It is the consensus of experts that poverty transcends political boundaries. Therefore, any programmes aimed at alleviating poverty should not be frustrated or killed by undue politicisation. In the light of this, appropriate and effective policy package for SMEs development should be charted and given a political will to ensure that it outlive the tenure of any government or administration in power in order to elicit its desired objectives and impact. Besides, SMEs development could be made an explicit constitutional matter, while it objectives and strategies given expression in national industrial development framework.

Institutional Empowerment: The Development of SMEs can be accelerated with an institutional framework in place. This was reported as one of the three factors that fosters the development of SMEs in India (Ojo, 2006:30). Like the Indian model, Nigeria can establish a special ministry for micro, small and medium enterprises’ whose responsibility is to provide support to SMEs in areas such as; Training in several technical grades; Creation of favourable market condition; procurement, supply and distribution of indigenous and imported raw materials; supply of both indigenous and imported machine as well as harness all the relevant agencies associated with SMEs development.

5.1 Conclusion
SMEs have huge potentials to serve as the engine room for the development of any economy, especially the developing ones like Nigeria. These potentials which include employment generation, rural development, wealth creation etc, will remain buried and unprofitable if SMEs capacity and abilities are not enhanced through empowerment. The past experiences were ad hoc programmes are use to promote SMEs operations and to alleviate poverty had either failed out rightly or yielded no significance result, due to poor funding, lack of focus, political sabotage, poor implementation among others. It is therefore beyond doubt that the underdevelopment of SMEs is a principal reason for the under performance of our economy as well as the increasing and worrisome incidence of poverty in the Country.
It therefore our view that Nigeria’s ability to break out of its current unimpressive economic performance in term of alleviating poverty will depend to large extend on its ability to harness the huge potentials buried in SMEs. The Government should create enabling financial, infrastructural, institutional, legal, socio-economic, and political environment that will allow SMEs to operate profitably. If this is done, our SMEs would have been translated into active economic sector, fully empowered to significantly contribute to the achievement of the Millennium Development Goal (MDG) of eradication of poverty and hunger in Nigeria and by extension Africa.

REFERENCES