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## Government Contribution towards the Alleviation of Some Problems in Nigeria

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### Abstract

*There has been numerous write-ups on small scale enterprises, SMEs, in recent times, this is as a result of the importance of this sector to the development of the economy, whether developing or developed. The SMEs, as well had made lots of contributions to the Nigerian economy. This has been in the area of job creation, entrepreneurship development, and promotion of indigenous technology amongst others. But however, unlike other developed economies where the contribution of SMEs to the country GDP is high, their contribution to the GDP of Nigerian is low. This has been identified as being caused by the problems facing this sector of the economy. However with the government interventions in this area, it is hoped that there will be a turn around in the performance of SMEs so that they will contribute more to the development of the economy of Nigeria.*

There exist lots and lots of business ventures that are being engaged in by individuals, group of people and associations, firms, industries and government with the main aim of maximizing profits. They range from small scale to medium and large scale. In the Nigeria economy the small scale enterprises are the most common form of businesses. The aim of any economic whether industrialized or non industrialized depends largely on how well organized the small industries are. For example if we look at the standard of practices of small scale industries in economically developed countries.

According to Jegede (1990) the small scale enterprises in Nigeria seem too stagnant, less adventurous than those of the developed countries. Meanwhile, in economically developed countries, small scale businesses are better organized and coordinated than in the developing countries because their government appreciates their significance to the national economy.

Firstly, most of the small businesses are essentially one person's operation which makes such company a sole proprietorship business venture. It is also the easiest form of business ownership to organize because there is relatively small capital outlay. The owner also has managerial freedom and this will help him in employing his initiatives to the maximum. Thomas and Norwom (2001) opined that entrepreneurs are risk avoiders not necessarily risk takers, they appear to be risk takers because they see market differently from other forms of business. They can be referred to as risk eliminators because they seem to methodically eliminate all factors that might prevent them from getting into particular market.

### **Problems Facing the Development of SMEs in Nigeria**

Agreeably there are many problems confronting the development of SMEs in Nigeria. It is a general belief among Nigerians that some factors of production are found in abundance, yet man lives in poverty in the midst of plenty, mainly because the link between the higher and the lower class citizens is so much and that creates the difference between a successful and unsuccessfully SMEs. Above all, the major problems of SMEs in Nigeria include all that are mentioned below;

1. **Market trend:** The major factor militating against the development of SMEs in Nigeria is the problem of being able to identify and meet the market gaps. The Nigerian SMEs ability to identify market gaps has often been in doubt. Furthermore, it is a way of identifying the gaps in these sectors, proper assessment of the market potentials and dynamics, that is necessary for a proper value proposition, which will help them to avoid investing wrongly. Failure to plan against future market trend, lack of resourceful research and other areas where small scale business is deficient in productions pose a problem. The lack of adequate knowledge might make a business manager loose a good business opportunity and the ability to tap into other grounds or markets to make more profit.
2. **Political instability:** This does not encourage an investor to invest in an economy and even if he has invested, he might decide to fold up due to prevailing hostile economic climate.
3. **Inappropriate managerial skills:** Due to lack off enough capital or sheer ignorance of technological advance, entrepreneurs tend to purchase obsolete and inefficient equipment thereby setting the stage for failure ab initio. This brings about lower level of productivity and poor product quality. If all results in huge consequences on product output and market acceptability.

4. **Presence of inflation:** Inflation is an economic condition characterized by a general and continuous rise in price level coupled with a fall in the value of money; hence, inflation is economically dangerous to suppliers because of the unstable quoted market price.
5. **Corruption in Nigeria:** Corruption in Nigeria is a huge barrier to the development of SMEs. Corruption simply means that smaller firms are routinely and continuously disadvantaged compared to larger competitors. This is a direct factor in procurement, especially at the state level of where SMEs are competing. At the same time larger firms with better connections and more experience can effectively be favoured in arranging governments contracts.
6. **Inadequate information:** The collection and analysis of a relatively reliable and authentic information/data that may enhance forecasting and planning is difficult. It is important to point out that the entrepreneur needs to be conscious of the existing forces of law of demand and supply that directly or indirectly affects the consumer's behavior.
7. **Inadequate infrastructural facilities:** The may hinder the development of business activities. The inadequate infrastructural facilities had been a major set back for SMEs and all business in Nigeria e.g electricity is one of barriers, there is no stable electricity, this inadequacy affects all forms of businesses in the nation and most especially the manufacturing companies, the cost of running twenty-four hour generator to manufacture or produce goods is very expensive. It also adds to the cost of production, which is a huge problem in meeting up with other competitors that are from countries that have stable and low cost of electricity.
8. **Business ethics:** There has been a major breakdown in the private business ethics which has further complicated the business standard operations in the country. A much related factor is the physical security and the high rate off crime in the nation. Crime and security are some of the top three of the barriers of business development. It is also considered that the lack of security in any society has a lot of impact on business operations, this includes the obvious security costs, but there is also indirect cost which is related to the inability to travel easily at nighttime. The high risks of keeping cash at hand in an economy which functions largely on cash, and the problems encountered in extending the distribution area due to the threat of robbery.
9. **Publicity:** Another notable problem of small scale business is the lack of publicity which are being enjoyed by those operating on large scale. It must be noted that any business venture that lacks publicity will find it difficult to survive.

10. **Capital:** Capital is most important relatively to finance SME transactions in Nigeria. The initial capital for the take off of the business may not be adequate or it may be non-existent. Osuala (1993) submitted that the main problems of small businesses in Nigeria are sources of funds because of importance of finance to the sustainability of small and medium scale industries. The survival of small businesses towards the nation's economic development can no longer be waived. The small and medium enterprises are expected to raise funds through two main sources, equity and debt. The first source is sometimes called internal funds which include the owners' savings and ploughed back profits.

Most times, companies make use of debt, which is called external source of fund for expansion. These mentioned funds can be obtained from informal sources (friends/relatives, cooperatives societies and credit institutions) and also from formal sources (like banks and governmental agencies). However, because the level of saving is low due to poor income level, business owners cannot save enough to borrow from informal sources. Similarly, the accessibility to formal sources of finance, especially by SMEs, is very limited on the supply side, the banks are not expanding SMEs loans due to imperfect information, high transaction costs of dealing with SME loans, geographical dispersion of the SMEs and the large number of borrowers and low returns from investments. But on the demand side, the SMEs are reluctant to secure loans because of the collateral security, untimely delivery of credits and high interest rate. The problem of finance has been on the persistent for a long time, despite the existence of different economic reform programmes organized by the government aimed at developing the SME sector. The source of capital available to a small scale business is that provided by the owner, loans from the banks, contributions from friends, families and relatives. This apparently limits the operation of the business as money realized from this types of source are usually not enough and this lack of adequate capital either leads to inability of the company to produce on large scale or to implement most of its programs which might lead to the business expansion.

11. **Technical know-how:** It is basically associated with this kind of business ventures, unlike the limited liability company that the managements are capable of employing competent hands to manage the affairs of the company. The small scale owners usually commit all managerial duties to one person who may not be capable of discharging some of the duties being delegated to him. The result of giving wrong information as regards one operation or the other since he has little or no knowledge of some of the job being assigned to him or her, this will eventually have an adverse effect on the company on the long run.

12. **Modern equipment:** Small scale businesses have limited access to modern and right type of machinery due to the amount of money involved in acquiring such machines. They therefore, resort to operating on a manual scale which slows down production process. Even in areas where machines are acquired, they are usually of small size compared to the ones being used by large scale businesses.
13. **Lack of foresight:** Small scale businesses lack foresight in their production techniques. These range from inappropriate citing of industries, which in most times have bad effect on the profit realized e.g. setting up an ice-cream industry in areas where there are persistent cold weather.

Small scale businesses are the most vulnerable to all types of business failures, as a result of the fact that there are several problems being encountered as mentioned above and most of these problems lead to the business winding up. Agbo, (2005).

### **Government Contributions towards Alleviating the Problems of SMEs in Nigeria**

SMEs considering their characteristics of small capital investments, low profit margin, small sizes and small managements staff, they cannot afford all the technical support that they need for a successful business operation. However, acknowledging that the SMEs hold the biggest prospect of growth for Nigerian economy, the government over the years has begun to address the problems that impede their growth by putting several programmes and policies that would provide an empowering operating environment NIPC (2002) and Akinbinu (2003). They include export promotion, technical services for innovation, financial services, training and investment promotion, etc.

Furthermore, much of the governments efforts are targeted at approaching the institutional and market failure, and the constraints to the survival and growth of SMEs were also addressed through the financial and other form of targeted subsidized credit scheme administered through Development financial institutions (DFIs) and sectoral interventions through selective credit controls contained in the credit guidelines on SMEs issued by the Central Bank of Nigeria (CBN). The others are technical/training support and the classification of SMEs as a preferred sector, (Ogunpola, 2002; (CBN, 2005).

The first systematic effort at supporting SMEs was the setting up of industrial Development Centres (IDC) in each state starting with Zaria, Owerri and Oshogob; these were complemented with the establishment of DFI such as the Nigerian Industrial Development Bank (NIDB) National Economic Recovery Fund (NERFUND) and the Nigeria Export and Import Bank (NEXIM), subsequently, the specialized and subsidized targeted credit schemes such as NERDUND and World Bank SME1 and

SME2 loans were established. These credit schemes provided interest rate subsidy and included the participation of the commercial banks and merchant banks to administer the loans. The micro-finance business also has its importance to SMEs and the Nigerian economy. There was need for ground preparation for effective utilization of microfinance, and for microfinance to effectively harness the potentials of the people to the optimum. Nigerians needs was to first of all find out both the peoples/institutions' strengths and weaknesses. A lot has been done currently to address the capacity problems of the delivery institutions. The National Microfinance Policy and regulatory framework. CBN (2005) provides for the training of key staff of microfinance banks through the certification process. Special emphasis was put on markets and marketing, development and risk management, unfortunately, large gaps exist between the experiences of this large active enterprise and the poor requirements of modern enterprises. There is also a large knowledge gap between what is needed and modern international interest, usually referred to as 'global' needs. This issue is yet to be addressed and that is one of the reasons why microfinance banks in Nigeria are not achieving their full potentials or rather, they are still on the verge of achieving their full potentials.

### **Building Collaboration**

The Nigerian government has been making efforts to minimize environmental and operational factors that might militate against efficient service delivery to SMEs. The use of collaboration is also an efficient tool in providing synergy in this field. Synergy is needed between the intervention of microfinance bank, universal banks, donor agencies and all the three tiers of government.

According to Ani, Agbo and Nwandu (2003) the government at various levels have established organizations to aid the development of SMEs form where enterprenures can obtgain necessary assistance which they need to utilize to run their businesses successfully. These institutions include;

1. **Corporate Affaires Commission (CAC):** The commission was established in 1990, there activities includes;
  - a. Registration of business names
  - b. Conversion of private company to a public company
  - c. Incorporation of public or private company
  - d. Change of company name
  - e. Authorize increase in share capital.
  - f. Company search
2. **Industrial Development Centres (IDSs):** the main objective of the IDC is to develop small and medium scale enterprises throughout the country. To achieve

these objectives, the IDCs have been grouped into three divisions viz; administrative, management and technical service divisions.

3. **National Directorate of Employment (NDE):** The federal government established NDE in 1986 with the following mandate viz;
  - a. To design and implement programmes to combat mass unemployment
  - b. To articulate policies aimed at developing work programs with intensive potential.
  - c. To obtain and maintain a data bank on employment and vacancies in the country with a view to acting as a clearing house to link job seekers with vacancies in collaboration with other government agencies. These objectives are achieved through training and \retraining of unskilled youths. Promoting entrepreneurship programs and providing credit facilities to entrepreneurs.
  
4. **National Economic Reconstruction Fund (NERFUND):** The National Economic Reconstruction Fund is set up by the federal government to provide loan to small and medium scale industries in Nigeria for the reconstruction of the economy by making it easier for SMEs to obtain loans.

All small/medium scale manufacturing and agro-allied projects, mining, quarrying, industrial, support services, equipment leasing are qualified to borrow from the fund provided that;

  - a. The enterprise is one hundred percent (100%) owned by Nigeria.
  - b. The case of a manufacturing project, at least forty percent (40%) of its raw materials must be sourced locally.
  
5. **Nigeria Industrial Development Bank (NIDB):** The Nigerian Industrial Development Bank were established for the main purpose of providing financial infrastructure, stimulate rapid economic development. They are to perform the following functions:
  - a. Provision of medium and long term funds for both private and public sector establishments.
  - b. Supervision of the implementation of the projects financed by it to forestall diversion to non-economic ventures.
  - c. To render consultancy services by giving advice on financial, technical and managerial problems to entrepreneurs.
  - d. Identification of investment priorities.
  - e. Nominating technical and managerial advisors and partners to industrial projects organized.
  - f. NIDB is also involved in the promotion and development of viable projects for investment.

NIDB has helped in the development of entrepreneurship in the country by assisting in setting up and funding of small and medium scale enterprises.

### **Conclusion**

The aim of this article was to examine the problems of establishing small business enterprises in Nigeria. It also touched on the source of the problems that are hindering the sustainability of small business enterprises in Nigeria. Knowing the problems relating to establishing a small business in Nigeria is good for all business investors and aspiring entrepreneurs. Establishing a small business in Nigeria has its problems and prospects, like any other country around the world.

Most of the small business owners do not get the needed assistance from the government. The Nigerian government is trying to do its best but the system of passing the help or letting the help reach the minorities is what needed to be addressed. It was also observe that some businesses obtain financial aids while others do not. No bank likes to give out loans when the applicant does not have any collateral to back up his or her application. Banks are also in business so it is safe for them not to give out loans when they know that the loan might as well be a loss to them. Udoh (1999).

Business owners or managers do not always get the necessary or needed information, marketing information or product development information. Such information is particularly important for businesses and its development. Business owners can avoid problems while establishing their business but all the necessary information need to be obtained. A good location is also necessary and ready capital for making the business flourish.

The article also took a look at government's effort towards alleviating the problems of SMEs in Nigeria. It includes the provision of technical support which the SMEs cannot afford because of their size. The government also provides financial supports in form of targeted subsidized credit schemes which are administered through (DFIs) and others. It was seen that the government established industrial development centres (IDC) in many states, as an effort to help out small scale businesses.

### **Recommendations**

Having looked at the various problems confronting the development of small and medium scale industries in Nigeria, the following suggestions are advanced to help alleviate these problems to forestall the continued demise of this important sector of the economy. Many small and medium scale businesses have collapsed as a result of one problem or the other. Proprietors or owners of these businesses need to know and understand the necessary steps to take to avoid these big or long term problems. Nigeria with a population of about one hundred and sixty million people need to get the small



Government Contribution towards the Alleviation of Some Problems in Nigeria - B. N. Ifezue

business owners informed so that they can get their businesses going and avoid major pitfalls. This is because this sector of the economy is very crucial for the country's economic development as evidenced in other nations.

If there are no problems, there will not be solutions, but if the Nigerian small businesses owners are aware of the possible problems that may occur in running their businesses, it will be wise to take careful measures. Also finding the right information or being well informed before establishing a business in Nigeria will go a long way to forestall the failure of the business. The already established enterprises can also avoid these problems that have been ignored in the past for better efficient and effective operations in the future.

The Nigerian government is trying to do its best to put the SMEs on a sound footing by setting up different economic reform programmes that are aimed at developing SMEs. The SMEs are classified as preferred sector and much of the government interventions are targeted at approaching the institutional and market failures. The constraints to the survival and growth of SMEs have been addressed through the financial and technical support programmes of the government. The SMEs should be informed of these efforts of the government for effective utilization.

One major problem facing the SMEs is the ability to identify their potential markets. The ability to identify the market gaps with proper assessment of market. Potentials and dynamics for proper value proposition will help the SMEs to avoid investing wrongly.

The government should ensure steady power supply for the SMEs to survive as they cannot afford to run their businesses with gasoline generating sets at a profit.

Official corruption poses a huge barrier to the development of SMEs in Nigeria. Corruption contentiously and routinely put the smaller enterprises at a disadvantaged position compared to the larger companies. The government should consider offering contracts to the small businesses owned by Nigerians to enable them grow instead of the big companies. Soft loans which are meant for the SMEs should be channeled appropriately without diversion, and so on. All these, if properly executed with ensure the growth of SMEs in Nigeria.

SMEs lack adequate publicity of their businesses and this poses a great problem to their survival. The lack of awareness of their existence and products makes for low patronage and low profit. The SMEs should expand their tentacles of publicity to reach the consumers to ensure their survival. It must be noted that any business that lacks publicity will find it difficult to survive.

The various agencies established by the governments at various levels to help the development of SMEs have not helped the matter. They have not created the enabling environment for the survival of the SMEs in Nigeria. The government should review their activities and reinvigorate them for optimum performance. This may be in form of proper funding, effective supervision, and reduction in the duplication of functions and so on. With the effective performance of the agencies responsibility, the SMEs will grow in Nigeria.

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