

**ASSESSMENT OF THE PROBLEMS AND PROSPECTS OF SMALL AND
MEDIUM ENTERPRISES (SMES) IN NIGERIA:
A STUDY OF SOME SELECTED SMES IN KADUNA METROPOLIS.**

By

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MBA/ADMIN/00363/2010 – 2011
G10BAMP8100**

**BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL OF
AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION (MBA)**

**DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY, ZARIA**

February, 2013.

Declaration

I declare that the work in the project report entitled “An assessment of the problems and prospects of small and medium enterprises (SMEs) in Nigeria: A study of some selected SMEs in Kaduna Metropolis” has been performed by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this project report has been previously presented for another degree or diploma in this or any other university.

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Certification

This is to certify that this project titled “An assessment of the problems and prospects of small and medium enterprises (SMEs) in Nigeria: A study of some selected SMEs in Kaduna Metropolis” written by Oluwagbenga Asuni HAKEEM meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contributions to knowledge, and literary presentation.

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Dedication

This project is dedicated to the Almighty God for His Mercies and Grace during the course of this programme and project work.

Acknowledgement

I must express my profound gratitude and appreciation to God Almighty who made it possible for me to complete my course. I will like to also thank my major supervisor, Mal. Aminu Salisu Gumi for his patience, advice and assistance during the course this project work. I will not fail to mention all my hardworking lecturers who also made this program a success I say thank you all.

To my wonderful parent Mr & Mrs Hakeem for their love, care, support and encouragement throughout my studies.

My gratitude also goes to my darling wife, children, brothers and sisters I say a big thank you because you have all been a source of inspiration to me.

I also want to appreciate some special people who are dear to me: Samuel Joseph, Kikelomo Aiyegbajeje, Gloria Onehi, Victoria Musa and Adamma Okeagu your friendship is one in a million and I will never forget you guys.

Abstract

The study aims at assessing the problems and prospects of small and medium enterprises (SMEs) in Nigeria. The objectives of the study are to: identify and assess the key factors responsible for the relatively low performance and failure of the SMEs survival; investigate the reasons why programmes designed by government to boost manufacturing SMEs performance do not effectively achieve its role; make appropriate recommendation towards alleviating the problems facing SMEs; identify ways and means, which will establish and sustain the vibrancy for Nigerian SMEs. Primary sources of data collection where questionnaire was distributed to respondent which was used to test the hypothesis of the study using chi-square. The study revealed that policies implemented for SMEs have a positive relationship on the survival of SMEs in Nigeria and there is prospect in SMEs in Nigeria. It is recommended that: the government should establish SME clusters in relevant sectors in areas that have comparative advantage for such sectors such as Auto Parts Cluster in Nnewi, Leather Products Cluster in Kano, Apple Processing Cluster in Plateau, Export Clusters for Cocoa in Ondo, Cashew Crushing Plant in Oghe, etc; the government through the Central Bank of Nigeria should establish the much-awaited National Credit Guarantee Scheme for SMEs, which should guarantee at least 80 percent of loans needed by small and medium enterprises in Nigeria; the government should tackle accelerated development and upgrade of rural/urban road and rail network, water and air transport system and other infrastructural facilities head on and review tariff in favour of local manufacturers especially the SMEs.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Small and Medium Enterprises (SMEs) as defined by the National Council of Industries refer to business enterprises whose total costs excluding land is not more than two hundred million naira(N200,000,000.00)only. It has been argued that SMEs are an effective instrument for economic growth and development in Developed and Less Developed Countries (Beyene, 2002; Nitani, 2005). This is because SMEs contribute significantly to the Gross Domestic Product (GDP) and produce substantial amounts of locally consumed products (ECA, 2000; Wattanapruttipaisan, 2003; Tagoe et al, 2005; Saleh and Ndubisi, 2006). According to Mojmir (2000), SMEs play an important role in the economic growth of any country including industrialised countries because they account for more than half of a country's output and employment (Hussain et al, 2008). In the same vein, Udechukwu (2003) asserts that the development of SMEs is an essential element in the growth strategy of most economies, which holds particular significance for developing countries like Nigeria. SMEs are a vital part of any market economy because they are represented in all major branches of manufacturing and service sectors (Obokoh, 2008c). This is in addition to their role in job creation for the unemployed, provision of goods and services within and across national boundaries of countries (Saleh and Ndubisi 2006; Woldie et al, 2008).

Due to their small size, SMEs are flexible and are more able to adapt to changes within the market environment than large firms (Mazzarol, 2000; Udechukwu, 2003; Aryeetey, 2005). However, the small size of SMEs and their small capital base also constitutes an obstacle to their access to funds for their operations (Obokoh, 2008). It is expected that SMEs, with ready and willing entrepreneurs, can succeed in an increasingly competitive world, especially if there are enabling and supportive government policies (Briggs, 2007). In this vein, Berry (2002) asserts that the flexibility of SMEs operations persuades business analysts to believe in their strategic role towards future industrial growth of developing nations. Despite this flexibility, SMEs are also exposed to external environmental risks such as government policies and competition from MNCs (Watson and Everett, 1999; Abonyi, 2003). Some of these environmental factors often hinder SMEs from gaining the necessary international exposure for achieving large scale production for the efficient utilisation of resources (Mambula, 2004).

Given favourable policy environment and support, it is believed that SMEs can achieve an efficient production process that would enable them to compete successfully in the global market (Briggs, 2007). Therefore, government policies should be directed towards improving the economic environment in which SMEs operate (Fredland and Morris, 1976; Everett and Watson, 1998). There is now a re-newed emphasis on the development of SMEs especially in LDCs (ECA 2001). This is in view of LDCs governments' formulation of policies that would create the enabling environment for the establishment and the operation of SMEs (Agboli and Ukaegbu, 2006).

This research is thus intended to critically appraise the circumstances of SMEs in Nigeria with a view to actually identifying and assessing the bottlenecks militating against the effective performance of SMEs and also seek to investigate the reasons why programmes designed by government to boost SMEs performance are yet to fully achieve their desired objectives (Mambula 2002).

1.2 Statement of the Problem

Small and Medium scale enterprises play an important economic role in many countries including Nigeria. However, it appears that considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. This is because the sector in these developing countries has been bedeviled by several factors militating against its performance, and leading to an increase in the rate of SMEs failure. SMEs are faced with the threat of failure with past statistics indicating that most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity. A 2004 survey conducted by the Manufacturers Association of Nigeria (MAN) revealed that only about ten percent (10%) of industries run by its members are fully operational. Essentially, this means that 90 percent of the industries are either ailing or have closed down. This

situation has been of great concern to the government, citizenry, operators, practitioners and the organized private sector groups.

Also it will seek to determine the key factors militating against the survival and effective performance of SME in Nigeria especially the manufacturing sub- sector. It also intend to explore and investigate the reasons why programmes designed by the government to boost manufacturing SMEs performance do not effectively achieve its role.

1.3 The Objectives of Study

The objectives of this research is to:

- i. Identify and assess the key factors responsible for the relatively low performance and failure of the SMEs survival.
- ii. Investigate the reasons why programmes designed by government to boost manufacturing SMEs performance do not effectively achieve its role.
- iii. Make appropriate recommendation towards alleviating the problems facing SMEs.
- iv. Identify ways and means, which will establish and sustain the vibrancy for Nigerian SMEs.

1.4 Research Questions

The main interest of this research and the questions it intends to answer are;

- i. What are the key problems militating against survival and effective performance of SMEs?

- ii. To what extent has the government development programmes designed to boost SMEs performance effectively towards achieving its desired goals?
- iii. What can be done to curb the problem faced by SMEs and ways to improve their performance of SMEs to enable them play a major role in economic development?
- iv. What are the ways and means, which will establish and sustain the vibrancy for Nigerian SMEs?

1.5 Research Hypothesis

- 1. **H₀** : Policies implemented for SMEs have a negative relationship of the survival of SMEs in Nigeria.
- 2. **H₀** : There is no prospect of SMEs in Nigeria.

1.6 Significance of the Study

The study of SMEs Problem and Prospect is of relevance or great concern to the various governments (federal, state and local), SME promoters and operators, Banks as well as the civil society; It is said that a clear and precise definition of a problem represents half the solution – hence, identifying and crystallizing the key problems of the SMEs would lay a solid foundation for mitigating if not solving them out rightly. The time is now to do something to the situation of our SMEs given the aggravating level of poverty in Nigeria and the need to meet up with the Millennium Development Goals.

1.7 Scope of the Study

The study focuses on SMEs in the manufacturing sector because of the importance of the manufacturing sector to economic development in Nigeria. Due to budget and time constraints, the study was restricted to manufacturing SMEs operating in Kaduna State of Nigeria. The study traces the SMEs programme from which has affected SMEs in the manufacturing sectors with particular focus on the period of 2004 to 2011.

1.8 Definition of Terms / Acronyms

Various bodies, organizations and institutions have defined SMEs differently depending upon their purpose, objective and use. For this research, the following definitions have been adopted:

Micro Enterprise: A firm, whose total cost including working capital but excluding cost of land is not more than ten million naira (N10,000,000) and/or with a labour size of not more than thirty (30) full-time workers and/or a turnover of less than two million naira (N2,000,000) only.

Small Enterprise: An enterprise whose total cost including working capital but excluding cost of land is between ten million naira (N10,000,000) and one hundred million naira (N100,000,000) and/or a workforce between eleven (11) and seventy (70) full-time staff and/or with a turnover of not more than ten million naira (N10,000,000) in a year.

Medium Enterprise: A company with total cost including working capital but excluding cost of land of more than one hundred million naira (N100,000,000) but less than three hundred million naira (N300,000,000) and/or a staff strength of between seventy-one (71)

and two hundred (200) full-time workers and/or with an annual turnover of not more than twenty million naira (N20,000,000) only.

Large Enterprise: Any enterprise whose total cost including working capital but excluding cost of land is above three hundred million naira (N300,000,000) and/or a labour force of over two hundred (200) workers and/or an annual turnover of more than twenty million naira (N20,000,000) only.

Other abbreviations/acronyms, terms and notations used in this study include;

NASME: Nigerian Association of Small and Medium Enterprises, which is an umbrella association of all SMEs

MAN: Manufacturers Association of Nigeria is the official association of manufacturing companies in Nigeria

NACCIMA: Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture is an association of various Chambers of Commerce in Nigeria

NASSI: Nigerian Association of Small Scale Industries is the umbrella association of all the Small Scale Enterprises in Nigeria

DFIs: Development Finance Institutions are companies involved in project and development finance such as the Bank of Industry (BOI)

SMEs: Small and Medium Enterprises are those firms, which satisfy the definitions given above

SMEDAN: Small and Medium Enterprises Development Agency of Nigeria

BOI: Bank of Industry, which provides medium to long-term loans to enterprises

CBN: Central Bank of Nigeria, the apex bank in Nigeria, which supervises other banks

NACRDB: Nigerian Agricultural Cooperative and Rural Development Bank

NEEDS: National Economic Empowerment and Development Strategy

SEEDS: State Economic Empowerment and Development Strategy

NDE: National Directorate of Employment

CMD: Centre for Management Development

NAPEP: National Poverty Eradication Programme

MSME: Micro, Small and Medium Enterprises

NGO: Non-governmental Organisation

SRS: Simple Random Sampling

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review of various authors and scholars related to the subject matter. It takes a broad look at the concept of SMEs in general and in Nigeria. It highlights the role and importance of SMEs in economic growth and development of a country.

2.2 The Concept of SMEs

Small and medium scale enterprises (SMES) have been generally acknowledged as the bedrock of the industrial development of any country. Apart from the numerous goods and services produced by SMES, they provide a veritable means of large scale employment, as they are usually labour intensive. They also provide training grounds, for entrepreneurs even as they generally rely on the use of local raw materials. If well managed, SMES can gradually transform into the giant corporations of tomorrow. These contributions thus explain why government and international agencies mobilize efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the small and medium enterprises (Nnanna, 2005).

This fact underscores the essence, importance and relevance of this sub-sector in the development of any given economy. The experiences of developed economies in relation

to the roles played by SMEs buttresses the fact that the relevance of SMEs cannot be overemphasized especially among the Less Developed Countries (LDCs) or rather Developing Countries. In order to highlight the significance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the “engine of growth” (Basil, 2005). This stems from the fact that almost all countries that have focused on the SMEs sector and ensures its vibrancy have ended up succeeding in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in GDP among other salutary effects.

There is a consensus that if all stakeholders are to show serious commitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness meaningful transformation and prosperity. A dynamic SME sub-sector is vital and imperative for the overall economic development of the country. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large-scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and effective SME sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy.

Customers on their part tend to enjoy personalized service and attention because of the keen competition, focus and innovation, which characterize the operations of SMEs.

Employers or rather SME entrepreneurs on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining good relationship with their financiers (banks and other financial institutions), auditors, regulators and even their competitors. They achieve this by belonging to and participating actively in the activities of appropriate chambers of commerce, trade groups, various fora, exhibitions, etc where ideas, new concepts and knowledge are shared and discussed. The bottom line of all these is that the relevant SME would remain efficient and profitable and hence contribute to the growth and development of the entire economy.

SMEs have no doubt been indeed recognized as the main engine of economic growth and development, a major variable for promoting private sector, development and partnership. Various governments, development agencies and experts as well as multilateral institutions do appreciate this fact such that they positively respond to any occasion and situations, which could permit their contributing to or creating opportunities for promoting the lot of SMEs.

One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant and virile SME sub-sector. Given a population of about 150million people, vast productive and arable land, rich variety of mineral deposits, as well as enormous human and other natural resources, Nigeria should have been a haven for Small and Medium Enterprises with maximum returns as it also has the location advantage as a marketing hub for the West and even East African Countries.

A number of reasons have been adduced as to why the expectations from the SMEs have not been met. If anything, the performance of the SMEs in Nigeria has been rather dismal. In developing countries like Nigeria, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation. The key roles of SMEs include mobilization of domestic savings for investment, significant contribution to Gross Domestic Product (GDP) and Gross National Income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and export growth and diversification.

This can however only be realized with the existence of a responsive and vibrant industrial policy and involving governments overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilization of economic resources.

2.3 Role of the SMEs Sub-Sector in the Economy

A review of historical experience of economic growth and development in developed countries show positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion. Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike. Small

domestic markets, inadequate infrastructure, high transportation costs, shortage of capital and foreign exchange, weak currency, lack of access to technology and foreign markets as well as surplus low quality labour are the general characteristics of developing countries and hence are susceptible to being trapped in a technology divide and investment gap. Foreign direct investment and the acquisition of technology are indispensable elements for economic transformation these countries require to achieve sustainable economic growth and poverty alleviation. Although SMEs in developing countries and countries with economies in transition are regarded as the engine of economic growth, they face enormous challenges in attracting investors and accessing modern technology. Other barriers which SMEs in developing economies face include the lack of effective investment and technology promotion policies, inappropriate legal and regulatory frameworks, inadequate capabilities of investment promotion and technology support institutions and the lack of access to potential investors and sources of new technology, limited technical and managerial skills, difficulty in obtaining financing and insufficient knowledge about laws and regulations. Others are inability to achieve economies of scale through integration or linkages, problems of size and relative isolation such as the difficulties in entering into national and global value chains driven by large multinational corporations.

In developing countries, the role of SMEs is even more important since SMEs often offer the only realistic prospects for creating additional employment and thus reducing poverty and enhancing the quality of lives. A healthy SME sub-sector is a sine qua non for

inclusive and socially sustainable development even though institutions that provide support services where available are often limited in capacity and coverage in developing economies.

2.4 Significance of the SMEs Sub-Sector in the Nigerian Economy

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries. Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, Research and Development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organisations (NGOs) (Basil, 2005).

In recognition of the crucial roles played by SMEs with respect to economic growth and development, succeeding governments in Nigeria had various initiatives aimed at promoting the cause of SMEs in the country. The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs. Some of the support institutions and opportunities created by the government to enable SMEs access funding in the past 30 years include (Basil, 2005):

1. Small Scale Industries Credit Scheme (SSICS) 1971
2. Nigerian Bank for Commerce and Industries (NBCI) 1973
3. Nigerian Industrial Development Bank (NIDB) 1964
4. SME Apex Unit of Central Bank (1989)
5. National Economic Reconstruction Fund (NERFUND) 1989
6. The African Development Bank/ Export Stimulation Loan (ADB/ESL) 1989
7. Nigerian Export Import Bank (NEXIM)
8. National Directorate of Employment (NDE)
9. Industrial Development Co-ordinating Centre (IDDC)
10. Community Banks
11. People's Bank
12. Family Economic Advancement Programme (FEAP)
13. State Ministry of Industry SME Schemes
14. Small and Medium Industries Equity Investment Scheme (SMIEIS)
15. Bank of Industry (BOI)
16. Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN)
17. Credit Guarantee Scheme for SMEs

The above well-intentioned institutions designed to provide succour to SMEs notwithstanding the sub-sector is yet to find its bearing in the murky waters of Nigeria's business environment. These account for the government's recent introduction of the last three support schemes i.e. BOI, SMEDAN and the Credit Guarantee Scheme, and the

Bankers Committee's decision to institutionalise SMIEIS. It is expected that the Credit Guarantee Scheme would enhance and facilitate easy access to credits by the SMEs while SMIEIS would boost access to equity financing while SMEDAN would provide other needed non-financial support and leverage for the SMEs to thrive

2.5 Characteristics of SMEs in Nigeria

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business.

Other common features of Nigeria's SMEs include the following among others (Basil, 2005).

1. Labour-intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and bank charges
5. High mortality rate especially within their first two years
6. Over-dependence on imported raw materials and spare parts
7. Poor inter and intra-sectoral linkages - hence they hardly enjoy economies of scale benefits
8. Poor managerial skills due to their inability to pay for skilled labour

9. Poor product quality output

10) Absence of Research and Development

11) Little or no training and development for their staff

12) Poor documentations of policy, strategy, financials, plans, info, systems

13) Low entrepreneurial skills, inadequate educational or technical background

14) Lack of adequate financial record keeping

15) Poor Capital structure, i.e. low capitalisation

16) Poor management of financial resources and inability to distinguish between personal and business finance

17) High production costs due to inadequate infrastructure and wastages.

18) Use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage.

19) Lack of access to international market

20) Lack of succession plan

21) Poor access to vital information

2.6 Prospects of SMEs in Nigeria

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and

difficulties in their operating environment. These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succour to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs.

It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive. From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualization, or were not truly and religiously implemented. A study by Basil (2005) also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases. All the stakeholders in the SME sub-sector should be involved in policy formulations and implementation for them to be effective and yield expected results. The comfort is that the governments (local, state and federal) are neither relenting nor giving up in their bid to revamp and invigorate the fortunes of SMEs as to enable them play the expected role in Nigeria's economic growth and development. This is evidenced by the government's recent establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises

Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers' Committee's institutionalisation of the Small and Medium Industries Equity Investment Scheme (SMIEIS), the federal government's drive and focus on realizing the objective of NEPAD, the government's endorsement and support of multilateral agencies and loans, and the government's backing of international development finance facilities such as the European Investment Bank (EIB) facilities and the likes. Other indications relate to the government's programmes aimed at poverty alleviation and providing succour to those whose jobs could be affected by the current government reforms as well as the proposed establishment of a Credit Guarantee Scheme for loans to SMEs.

Aside from the government's concerted and relentless efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the sub-sector. The capital market driven by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) have been not only expanding its facilities but also working to make it cost effective for SMEs to access funding from the market. Professional groups and associations such as the various Chambers of Commerce, Nigerian Association of Small and Medium Enterprises (NASME), Nigerian Association of Small Scale Industries (NASSI) and the likes are vigorously pursuing, pushing and lobbying the governments for improved welfare and a better and more enabling operating environment (Basil, 2005).

Given the current awareness of the Nigerian investing public as well as the depth of the Nigerian capital market, it is expected that many SMEs would approach the capital market to raise funds. On a related note, there is a reawakening and new impetus towards the establishment of venture capital companies primarily targeted at developing SMEs. Even some banks are exploring this option towards finding a sure window or vehicle through which they would invest the SMIEIS funds, which they have reserved since the commencement of the scheme.

The on-going reforms being undertaken by the government ministries, inter-ministerial departments, agencies and parastatals and the realities of the global economic meltdown are bound to render quite a handful jobless. Certainly one sub-sector, which many of the affected persons may want to venture into would be the SME. Thus, this scenario would make it compelling for the government not to ignore this one of the most important sub-sectors of the Nigerian economy.

2.7 Problems and Challenges of SMEs in Nigeria

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. Most SMEs die within their first five years of existence (Basil, 2005). Another smaller percentage goes into extinction between the

sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity (Basil, 2005).

A review of literature reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching (Basil, 2005):

1. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
4. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
5. High cost of packaging appropriate business proposals
6. Uneven competition arising from import tariffs, which at times favour imported finished products
7. Lack of access to appropriate technology as well as near absence of research and development

8. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
9. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
10. Unfair trade practices characterised by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalisation and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
11. Weakness in organisation, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.
12. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazetted tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
13. Widespread corruption and harassment of SMEs by some agencies of government over unauthorised levies and charges
14. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs

15. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources, which manifest as:

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

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

17. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational

set-up, transparent operational system, etc on the part of many founders and managers of SMEs in Nigeria. As a fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage ab initio for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.

18. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate SME businesses.

2.8 The Importance of SMEs Access to Finance for Nigeria's Development

If Nigeria is to attain Vision 2020 and meet the Millennium Development Goals (MDGs), it must make a concerted effort to improve access to finance. With a population of 170 million people, 55% of which are living below the poverty line (NLSS, 2004), Nigeria is not on track to meet the first Millennium Development Goal (MDG) of halving poverty. Although strides have been made in improving macroeconomic management and business environment over the past few years, Nigeria still faces several challenges, among which are poor infrastructure, low education and weak governance (National

Bureau of Statistics, 2005). Access to finance is also identified as a key constraint to the poor in securing their savings or to SMEs attempting to grow and expand their business. In a country where only one in ten working Nigerians is formally employed and underemployment is estimated at 70.5%, microfinance, SME finance and branchless banking are important in supporting growth and reducing poverty through employment creation (National Bureau of Statistics, 2005).

However, access to finance is currently very low for both the poor and SMEs. Around 74% of the Nigerian population has never been banked, while only 7% of adults have a loan. Only 5 percent of firms have a loan, despite the fact that 80 percent of SMEs seek financing (National Bureau of Statistics, 2005). These numbers place Nigeria among the bottom ranking developing countries for access to finance (National Bureau of Statistics, 2005). The end result is that Nigeria is foregoing important opportunities for growth and poverty reduction. Despite the recent progress to improve access to finance, a number of reforms still need to be undertaken. While the Government of Nigeria has made considerable efforts to improve access to finance, more needs to be done both in terms of regulatory and legal reforms as well as a concerted effort by the authorities to improve the financial infrastructure in support access to finance.

2.9 The State of Microfinance in Nigeria

A FinScope survey (2009) estimates that 74% of Nigerian adults have never been banked. This is roughly equivalent to 64 million people. EFINA estimates also indicate that 53%

of Nigerian adults are financially excluded: they are not served by formal or informal financial services providers (e.g. savings clubs, Esusu, moneylenders, etc.). This situation is similar to that of Tanzania, but it is considerably worse than that in countries like Kenya or South Africa (FinScope Survey, 2009).

Given the number of financially excluded adults implied by these percentages, Nigeria emerges as a huge potential and as yet unexploited market for financial services. While the salaried population has been targeted especially by the growing banking sector, this is not the case for the rest of the population. Sixty one percent of the unbanked assert that they would like to have a bank account and cite reasons for their exclusion such as not having enough money or a regular income or that the bank branch is too far away. In addition, 86 percent of the rural population remain unbanked (FinScope Survey, 2009).

2.10 The State of SME Finance in Nigeria

The development of a robust SME sector would be a viable means to create jobs and reduce poverty in Nigeria. Following years of Dutch Disease and loss in international competitiveness, the Nigerian SME sector is fragile, operating in a business environment that presents considerable challenges (e.g. poor infrastructure, low skills, weak governance) (Malik and Teal, 2010). This caused the overall share of SME contribution to GDP growth to halve (from 8.4% to 4.6%) between 1980 and 2009 (Malik and Teal, 2010). The SME sector in Nigeria is much smaller than in other developing countries, with MSME (including microenterprises) accounting for close to 50 percent of GDP

(compared to 80% for many developing countries) (NBS, 2010). Manufacturing as a whole is estimated to account for less than 5% of GDP, with SMEs accounting for half of this (National Bureau of Statistics, 2010).

The World Bank Investment Climate Assessment (ICA) study (2009) identifies low access to finance as the second most important constraint for Nigerian SMEs, ranking after the electricity shortage. Only 5 percent of SMEs have a loan, despite the fact that 80 percent of them seek financing. Financing constraints depend on the size of the firm. About 59 percent of small firms report difficulties in accessing finance compared to 35 percent of medium firms and 11 percent of large SME firms. The difficulties of Nigerian SMEs in obtaining finance are similar to those of SMEs in Brazil but are much worse than those in India, China, South Africa, and Indonesia (World Bank Study, 2009).

Most of the SMEs requiring finance do not apply for it. The 2009 ICA study notes 80 percent of SMEs that did not apply for financing would actually like to have a loan/line of credit. The main reasons Nigerian SMEs give for not applying for loans are: short loan maturities, inaccessible collateral requirements, high interest rates and cumbersome application procedures (World Bank Study, 2009). Nigeria has the shortest average loan maturity (21 months) among comparison countries, such as Kenya, Brazil, China and India (World Bank Study, 2009). Shortage of suitable collateral is also a deterrent, since every loan of over NGN 10 million (US\$86,000) must be collateralized with land or buildings. However, evidence shows that, despite firms' perceptions, the cost of finance

compares favourably with that of the aforementioned countries (World Bank Study, 2009).

Consequently, most Nigerian SMEs tend to rely heavily on their own funds. Most SMEs use retained earnings and their own funds (70% of firms) for financing, while bank lending is very low (1% of firms). Supplier credit is also low, accounting for only a quarter of SME financing. Results are similarly low for other credit products like overdrafts and lines of credit, often a preferred way of providing working capital to SMEs. Only a small percentage of Nigerian SMEs have access to a line of credit (4%) or an overdraft (8%). When compared with global experience, SME finance from financial institutions in Nigeria seems particularly limited. Access to credit also varies by economic sector. The firms with the highest access are those in the food industry, while the garment sector attracts the lowest volume of credit (World Bank Study, 2009). Nigerian financial institutions would seem to have a clear preference for lending to sectors with shorter turnaround times.

A popular credit option among SMEs is equipment leasing. Between 2003 and 2009, the Equipment Leasing Association of Nigeria (ELAN) recorded a quadrupling of leasing volumes granted by its members. A total of NGN 242 billion (US\$ 2 billion) was recorded in 2009, out of which approximately 20 percent was in the form of operating leases and 80 percent were financial leases (World Bank Study, 2009). However, only 30–35 percent of this amount went to SMEs, which are mostly served by smaller leasing

companies and face higher costs of funding. The fact that such leasing is growing in spite of the high costs involved is a clear indication of the lack of financing alternatives. Like in many other developing countries with weak systems for enforcing liens on moveable assets, leasing is a widely used form of financing in Nigeria as the ownership of the item tends to remain with the lessor and, upon non-payment, repossession of the asset does not require legal action.

Factoring is a much less common form of finance for SMEs in Nigeria. Most factoring is granted by banks to companies in the oil sector or large corporate clients (World Bank Study, 2009). In other sectors, where the value chain is not as well understood, banks perceive higher risk in providing factoring finance to an SME. However, recently finance houses have been moving into short-term working capital loans for SMEs, providing some factoring and purchase order financing.

The Government has attempted to make finance more readily available to SMEs in a variety of ways. The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was initiated by the Bankers' Committee and became operational in 2001. As of end-December 2009, SMEEIS investments totaled NGN 28 billion (US\$ 194.4 million) in 333 companies, out of a total NGN 42 billion (US\$ 291.6 million) in the SMEEIS fund. In an attempt to enhance the performance of the scheme some banks decided to establish specialized venture capital companies with the Securities and Exchange Commission (SEC) to manage the funds. Although in early 2008, the low level

of funds invested and changing national priorities led the Bankers Committee to discontinue SMEEIS and transfer the balance to a Microcredit Fund, most of the newly created venture capital funds are still in operation. The lessons learnt from this experience could prove useful for banks aiming to target SME investments and there is evidence of more banks beginning to offer better tailored services to SMEs building on this venture capital fund experience (e.g. Diamond Bank, Oceanic Bank, Ecobank).

Two development finance institutions are also active in SME lending in Nigeria. The Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB), created to serve the rural poor, 300,000 clients among SME (with loans from NGN 250,000 to NGN 5,000,000) (National Bureau of Statistics, 2010). With capped and subsidized interest rates, NACRDB has continuously generated losses and has had to substantially reduce its new lending. A more successful, but also more modest attempt by the government to support SMEs is the work carried out at the Bank of Industry (BOI), which has committed 89 percent of its portfolio in loans to 65 small and medium enterprises. However, BOI's portfolio growth is limited by a small equity base, lack of deposits and lengthy process for loan disbursement (National Bureau of Statistics, 2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the basic methods and sources of data and procedures used in the gathering and analysis of data. This is used for the purpose of obtaining data to enable the researcher test hypothesis or answer research questions. It is an outline of a scheme that serves as a useful guide to the research in his effort to generate data for this study.

In this chapter, the research designs issues such as population and the sample, variables and the measures used, data collection method and data analysis techniques are discussed. With specific regard to the SMEs problems and prospects for period under study.

3.2 Research Design

According to Donald et al (2009) research design means the plan and structure of investigation so conceived as to obtain answers to research questions. According to Bell et al (2000), research design is essentially the overall framework of a research project, the master plan within which various data gathering tools are used. It constitutes guidelines which direct the researcher towards solving the research problem. Hence research design constitutes the blue print for collection, measurement and analysis of data. The research work can best be described as a survey research. A survey research is one in which a group of people or items is studied by collecting and analyzing data from only a few people or items considered to be representative of the entire group (Nworgu 2006). More

specifically this research work is a sample survey as only a sample of the population is studied. For this study, data will be obtained mainly from Primary Sources (Questionnaire).

Purposive or judgmental sampling will be used for this study to select the Sample Size out of the entire Population. In adopting a method of data collection, two basic methods will be applied which is the secondary data which will be used for literature review and the primary data i.e. the questionnaire which will be used to gather information from respondents and the information will be used for analysis. The method of data analysis will involve the use of simple percentage analysis of the questionnaires administered in the period under study to analyze the entire questions in the questionnaire while a statistical mechanism called Chi-square statistical tool of analysis will be employed to test the stated hypothesis using some specific questions in the questionnaire.

3.3 Population of the study

According to Ndagi (1999), population is sometimes referred to as the universe, and it is defined as the entire group whose characteristics are to be estimated. While, he defined sample as a limited number of elements selected from the population which is representative of that population.

For the purpose of this study, the population constitutes the totality of manufacturing sectors of the economy that make up or contribute in the development and growth of the economy. We have three such groups which include the large enterprise, the medium

enterprise and small enterprise. The population of this study constitute over 1000 large, medium and small enterprise in Kaduna metropolis.

3.4 Sample Size and Sampling Technique

Odola (2005) asserted that a sample is a part of a population of interest that is selected for study according to some selection technique. A sample is a subset of the population; it comprises some numbers selected from the population. Since sample needs to be representative of the population, the sample will be drawn from medium scale enterprises and small scale enterprises. The Sample size for this study drawn from the small and medium enterprise is 200 this selection was arrived at by using Purposive/Judgmental Sampling because of the nature of the study and also because it satisfies some predetermined criteria.

The purposive sampling procedure is one in which a researcher purposely selects certain groups as samples because of their relevance to the investigation under consideration (Razaq and Ajayi, 2000).

3.5 Sources of Data Collection

Data collection is one of the major tasks when undertaking a research study. This is due to the fact that it is based upon the data collected that the answers to various research questions raised by the researcher can be arrived at. The two basic sources of data available are the primary and secondary sources. Obviously, in order to achieve the objectives of this study, and to broaden our knowledge, data ought to be collected,

analyzed and appraised. The primary method of data collection will be used for this research. The data were collected from 200 respondents with the aid of questionnaires.

Questionnaire

The questions that constituted the questionnaire included those pertaining to personal information about the respondents; number of years of experience with the bank and other questions were based on the problem statements of the research topic. These were brought forward so as to enable the respondents to answer the questions posed by the problem statement adequately. Thus, it was possible to provide solutions to the questions raised by the statement of the problem.

In the collection of data for the purpose of this research work, both primary and secondary sources of data collection were used. Prominent among the primary sources used is the use of questionnaires to obtain relevant information. For the secondary sources of data collection journal reviews, textbooks, Bulletins, Reports and other publication on relevant topic are used.

Using the questionnaire, some structured questions and closed ended questions will be made, in order to aid the researcher to obtain relevant information and to reach the selected sample size who could provide the relevant information for the research and also it will be made base on the likert scale of questionnaire. To achieve this objective, a questionnaire is drawn and given to entrepreneur in Kaduna metropolis numbering 150

small enterprise and 50 medium enterprise making a total of 200 SMEs; and the questionnaire contains set of questions relevant to them.

3.6 Method of Data Analysis

In this section, a test statistics which is useful in the test of hypothesis about classification of data will be used. The test statistic is used is called chi-square. It is used to consider hypothesis about proportions of observations under the study. The chi-square is calculated as thus;

$$x^2 = \frac{(fo - fe)^2}{fe}$$

Where

$$\begin{aligned} fo &= \text{Actual or observed frequency} \\ fe &= \text{expected frequency} \end{aligned}$$

The following steps are involved in calculating chi-square;

Step 1: State the Null hypothesis (H_0) and the calculative hypothesis (H_1)

Step 2: Calculate the test of statistic by using the formula:

$$x^2 = \frac{(fo - fe)^2}{fe}$$

Step 3: Determine the tabular value of a chosen level of significance (usually 5%) and at $(r-1)(c-1)$ degree of freedom.

Step 4: Compare the results in step (2) and step (3) and conclude as follows;

If the calculation value in (step 2) is greater than the tabulation value in (step 3) reject the null hypothesis (H_0) and conclude in favour of the alternative hypothesis (H_1)

If on the other hand, the calculated (in step 2) is less than tabular value in (step 3) accept the Null hypothesis (H_0) and reject the alternative hypothesis (H_1).

For the purpose of this research, data collected was analyzed based on the answers and opinions of the respondent derived from the questionnaire issued to the respondents. The answers are tabulated and interpreted using the percentage method. Data collected from the questionnaire was also used to prove the hypothesis raised, and to establish a result of findings. So the chi-square method of analysis will be used to test the hypothesis for this research work.

3.7 Justification of Method Used

In this research work questionnaire were used. The used of questionnaire will helped in the collection of data from various people with varying opinion. Thus, many people responded to similar questions with different opinions and views. The used of questionnaire also gave the respondents time to think and ponder on the question before they responded in various ways. Above all, anonymity was guaranteed to the respondents so as to get some information, which the researcher discovered are of great importance to this research work.

In determining the sample for this study, judgmental sampling method was employed as it seemed to be the most appropriate method as regards the nature of the study to select the two sub-sector to study which are the medium scale and small scale enterprise. The

method of data analysis employed for this study included Chi-square method to test the hypotheses and simple percentage to analyze the questionnaire.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is concern with the presentation and analysis of data collected using the data collection instruments. As discussed in chapter three, the data were presented in tables (Percentages) and hypothesis tested using Chi-Square.

4.2 Data Presentation and Analysis

Questionnaires Administered

Table 4.1: Questionnaire Administration

	Small Enterprise	Medium Enterprise	Total
Entrepreneurs	150	50	200
Total	150	50	200

Source: Own Research, 2012

Questionnaires Received

Table 4.2: Questionnaire Retrieved

	Small Enterprise	Medium Enterprise	Total
Entrepreneurs	150	50	200

Total	150	50	200
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Source: Own Research, 2012

From the above table 4.1, it would be observed that a total of 200 questionnaires were administered to respondents with 150 questionnaires to Small scale enterprise entrepreneurs and 50 to medium scale enterprise entrepreneurs making a total number of 200 questionnaires administered to SMEs entrepreneurs in Kaduna metropolis.

In table 4.2 it shows that out of the 200 questionnaires administered to Small scale enterprise entrepreneurs and medium scale enterprise entrepreneurs (i.e. 150 and 50 respectively) 150 for Small scale enterprise entrepreneurs and 50 medium scale enterprise entrepreneurs returned to the researcher i.e. 100% of the questionnaire administered was retrieved.

Table 4.3 Gender of Respondents

	Small Scale Entrepreneurs	Medium Scale Entrepreneurs	Total	Percentage (%)
Male	123	41	164	82
Female	27	9	36	18
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.3 it shows that 164 respondents which represent 82 percent are male entrepreneurs while 36 respondents which represent 18 percent are female entrepreneurs. This signifies that most enterprise in both small and medium scale are in Nigeria are being dominated by Male entrepreneurs.

Table 4.4 What group of enterprise do your business fall into?

	Small Scale Entrepreneurs	Medium Scale Entrepreneurs	Total	Percentage (%)
Small scale enterprise	150	0	150	75
Medium scale enterprise	0	50	50	25
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.4 it shows that 150 respondents which represents 75 percent strongly have their business under the category of small scale business while 50 respondents which represents 25 percent have their business under the category of medium scale enterprise. This signifies that out of hundred of thousand of most enterprise in both manufacturing and the service sub sector in Nigeria are being dominated by the small scale enterprise.

Table 4.5 How long have you been in this business?

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
1 – 5 years	135	25	160	80
6 – 10 years	12	15	27	13.5
11 – 15 years	3	8	11	5.5
16 – 20 years	0	2	2	1
21 – 25 years	0	0	0	0
26 – 30 years	0	0	0	0
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.5 it shows that 160 respondents which represents 80 percent are between 1 to 5 years old in their business, 27 respondents representing 13.5 percent are 6 – 10 years old,

11 respondents representing 5.5 percent are 11 – 15 years, 2 respondents representing 1 percent are 16 – 20 years old.

This signifies that most of the SMEs that in Nigerian are between 1 to 5 years old and none is more than 20 years old which requires the need for government to implement policy that will help in the long survival of SMEs in the country.

Table 4.6 Environment affect small and medium scale enterprise development

	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Favourable	4	5	9	4.5
Undecided	35	8	43	21.5
Undecided	111	37	148	74
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.6 it shows that 9 respondents which represents 4.5 percent that the environment is favourable to small and medium scale enterprise development and 148 respondents representing 74 percent that the environment is unfavourable while 43 respondent representing 21.5 percent could not decide on the statement.

This signifies that the environment is unfavourable to small and medium scale enterprise which can be due to low patronage of goods and services.

Table 4.7 Minimum of how much does one need to start this type of Business?

	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Less than 100,000 naira	120	0	120	60
100,000 – 1million	35	37	72	36
Above 1million	0	8	8	4

Total	150	50	200	100
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Source: Field Survey, 2012.

In table 4.7 it shows that 120 respondents which represents 60 percent stipulates that one need less than 100,000 naira to start their type of business which all such business is small scale type while 72 respondent of both small and medium scale business representing 36 percent sees between 100,000 to 1million naira as starting fund for their type of business and only 8 respondent representing 4 percent which are entrepreneurs from medium scale sees above 1 million as the start up fund for their type of business.

This signifies that most enterprise in Nigeria need less than 100,000 naira as a start up fund which must of such business is the small scale business while the businesses involving 100,000 to 1 million have fewer entrepreneurs because of non easy access to such kind of funds. The business involving over 1million have only little entrepreneurs involve in the category because of the amount involve. This shows that entrepreneurs in Nigeria do not have access to large amount of money for starting a business.

Table 4.8 How much do you need to sustain your business?

	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Within 50,000 – 100,000	120	0	120	60
Within 100,000 – 1million	35	37	72	36
Above 1million	0	8	8	4
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.8 it shows that 120 respondents which represents 60 percent stipulates that one need less than 100,000 naira to sustain their type of business which all such business is

small scale type while 72 respondent of both small and medium scale business representing 36 percent sees between 100,000 to 1million naira as fund to sustain their type of business and only 8 respondent representing 4 percent which are entrepreneurs from medium scale sees above 1 million as fund to sustain their type of business.

This signifies that most enterprise in Nigeria need less than 100,000 naira fund to sustain their business which must of such business is the small scale business while the businesses involving 100,000 to 1 million have fewer entrepreneurs because of non easy access to such kind of funds to sustain their business. The business involving over 1million has only little entrepreneurs involve in the category because of the amount involve. This shows that entrepreneurs in Nigeria do not have access to funds to sustain their business which means they may be operating under capacity of production or their activities.

Table 4.9 SMEs have a positive impact on the development of Nigerian Economy.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	135	39	174	87
Agree	13	10	23	11.5
Undecided	0	0	0	0
Disagree	2	0	2	1
Strongly Disagree	0	1	1	0.5
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.9 it shows that 197 respondents which represents 98.5 percent agree that there is a positive impact of SMEs on the development of Nigerian economy while 3 respondents representing 1.5 disagree with that.

This shows that SMEs have contributed immensely to development of the Nigerian economy in the provision of employment, export promotion, and thus reducing poverty and enhancing the quality of lives etc.

Table 4.10: The Federal Government Programs designed by government to boost SMEs Survival and Performance are effective in achieving its role.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	8	0	8	4
Agree	7	1	8	4
Undecided	15	2	17	8.5
Disagree	50	12	62	31
Strongly Disagree	70	35	105	52.5
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.10 it shows that 16 respondents which represents 8 percent agree that the federal government programs designed to boost SMEs survival and performance are effective in achieving its role while 167 respondent representing 87.5 percent disagree that such programs are effective in achieving its role and 17 respondent representing 8.5 percent are confuse on the issue.

This signifies that even as government is bumping money into banks to be used for the establishment and support for SMEs survival all is in vain because most of the SMEs entrepreneurs have not been able to lay their hands on such funds.

Table 4.11: There is prospect in SMEs in Nigeria.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	119	26	145	72.5

Agree	13	10	23	11.5
Undecided	10	4	14	7
Disagree	2	4	6	3
Strongly Disagree	6	6	12	6
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.11 it shows that 168 respondents which represents 84 percent agree that there is prospect in terms of business success and profit in SMEs in Nigeria while 18 respondent representing 9 percent disagree that there is prospect in terms of business success and profit in SMEs in Nigeria and 14 others respondents representing 9 percent could decide on whether to agree or to disagree with the statement.

This signifies that there is prospect in the SMEs in Nigeria in terms of Business Success and profit. And this can be achieve if government will make policies that will sustain SMEs and make sure that 90 percent of the SMEs in the country benefit from the funding provide by government for them.

Table 4.12 You are satisfied with the returns in your business.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	8	0	8	4
Agree	7	1	8	4
Undecided	15	2	17	8.5
Disagree	50	12	62	31
Strongly Disagree	70	35	105	52.5
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.12 it shows that 16 respondents which represents 8 percent agree that they are satisfy with the returns in their business 167 respondent representing 87.5 percent

disagree with the statement and 17 respondent representing 8.5 percent are not sure to agree or disagree on the issue.

This implies that most entrepreneurs most entrepreneurs are satisfied with what they are getting out of their business because they don't have any alternative way of getting a better one even though it's not something much but they have to manage it and run the business under-capacity.

Table 4.13 Policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	0	1	1	0.5
Agree	2	0	2	1
Undecided	0	0	0	0
Disagree	13	10	23	11.5
Strongly Disagree	135	39	174	87
Total	150	50	200	100

Source: Field Survey, 2012.

In table 4.13 it shows that 3 respondents which represent 1.5 percent agree that there is no relationship between the SMEs and economic development in Nigeria while 197 respondent representing 98.5 percent do not agree with the statement. Economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations, for creating additional employment and reducing poverty, enhancing the quality of lives and export promotion which are some of the major indicators of economic development. This signifies that Nigerian cannot be an exception to this and this shows

that there is a great deal of relationship between SMEs and economic development of Nigeria.

Question 12

What are the key factors militating against the survival and low performance of your business?

According to the respondents the major key factors militating against the survival and low performance of their business are:

1. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
2. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
3. Lack of access to appropriate technology as well as near absence of research and development

4. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times
5. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
6. Unfair trade practices characterised by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalisation and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
7. The lack of scientific and technological knowledge and know-how, i.e. the prevalence of poor intellectual capital resources.
8. Inability to meet stringent international quality standards, a subtle trade barrier set up by some developed countries in the guise of environmental or health standards. A relevant example is the impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the United States of America markets.
9. The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export.

10. Lack of initiative and administrative framework or linkage to support and sustain SMEs' development, which to a large extent, is also a reflection of poor technological capability or intellectual resource
11. Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organisational set-up, transparent operational system, etc on the part of many founders and managers of SMEs in Nigeria. As a fallout of this, many of the SME promoters purchase obsolete and inefficient equipment thereby setting the stage *ab initio* for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.

4.3 Test of Hypothesis

The chi-square, denoted by the Greek letter χ^2 is often utilised in hypothesis testing when the difference between a set of expected or theoretical frequencies are concerned.

χ^2 is denoted by the formula

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

For the purpose of accuracy, the contingency tables which are crossed classified tables that depicts observed frequencies of a sample when there are r numbers of rows and c columns in the table will be used. Computations of Respondent's frequencies are made using probability rules and the sum of expected frequencies. In this analysis, 0.5% or

0.005 is used as level of significance while the degree of freedom (df) given as $(r - 1)(c - 1)$ will be utilised to determine the critical value under the significant level.

Decision Rule

For the fact that we are testing the null hypothesis, if the computed X^2 value is greater than the critical value under the level of significance., we reject the hypothesis otherwise we accept it.

Hypothesis One

H₀: Policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria.

H₁: Policies implemented for SMEs have a positive relationship on the survival of SMEs in Nigeria.

Table 4.14 Policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	0	1	1	0.5
Agree	2	0	2	1
Undecided	0	0	0	0
Disagree	13	10	23	11.5
Strongly Disagree	135	39	174	87
Total	150	50	200	100

Source: Field Survey, 2012.

Strongly Agree

Small Scale Entrepreneurs: $f_{ei} = \frac{1 \times 150}{200}$

$$200$$

$$= \underline{7.228571429}$$

Medium Scale Entrepreneurs: $f_{eii} = \frac{1 \times 50}{200}$

$$= \underline{3.771428571}$$

Agreed

Small Scale Entrepreneurs: $f_{ei} = \frac{2 \times 150}{200}$

$$= \underline{7.228571429}$$

Medium Scale Entrepreneurs: $f_{eii} = \frac{2 \times 50}{200}$

$$= \underline{3.771428571}$$

Undecided

Small Scale Entrepreneurs: $f_{ei} = \frac{0 \times 150}{200}$

$$= \underline{7.228571429}$$

Medium Scale Entrepreneurs: $f_{eii} = \frac{0 \times 50}{200}$

$$= \underline{3.771428571}$$

Disagreed

Small Scale Entrepreneurs: $f_{ei} = \frac{23 \times 150}{200}$

$$= \underline{7.228571429}$$

Medium Scale Entrepreneurs: $f_{eii} = \frac{23 \times 50}{200}$

$$= \underline{3.771428571}$$

Strongly Disagree

Small Scale Entrepreneurs: $f_{ei} = \frac{174 \times 150}{200}$

$$= \underline{7.228571429}$$

Medium Scale Entrepreneurs: $f_{eii} = \frac{174 \times 50}{200}$
 $= \underline{3.771428571}$

Using the formulae $X^2 = \sum \frac{(f_o - f_e)^2}{f_e}$ we then calculate as follows

Table 4.15

Variables	Respondent	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
Strongly Agree	Small Scale Entrepreneurs	0	0.75	-0.75	0.5625	0.75
	Medium Scale Entrepreneurs	1	0.25	0.75	0.5625	2.25
Agree	Small Scale Entrepreneurs	2	1.5	0.5	0.25	0.1667
	Medium Scale Entrepreneurs	0	0.5	-0.5	0.25	0.5
Undecided	Small Scale Entrepreneurs	0	0.75	-0.75	0.5625	0.75
	Medium Scale Entrepreneurs	1	0.25	0.75	0.5625	2.25
Disagree	Small Scale Entrepreneurs	23	31.5	-8.5	72.25	2.2937
	Medium Scale Entrepreneurs	19	10.5	8.5	72.25	6.8810
Strongly Disagree	Small Scale Entrepreneurs	125	115.5	9.5	90.25	0.7814
	Medium Scale Entrepreneurs	29	38.5	-9.5	90.25	2.3442
Total						18.9668

If c = column and r = row, the degree of freedom $df = (r-1)(c-1)$

If r = 5

c = 2

$$df = (5-1)(2-1)$$

$$= 4*1$$

$$df = 4 \Rightarrow 14.860$$

Table 4.16: Chi-Square Table.

df	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589

10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188
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Checking the chi-square of $df = 4$ under the level of significance of 0.005, we will get the critical part to be 14.860.

Decision

The calculated value was 18.97. Therefore our critical value of 14.860 is less than our calculated value of 18.97 we therefore reject the null-hypothesis which says that Policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria and accept the alternative hypothesis which states that Policies implemented for SMEs have a positive relationship on the survival of SMEs in Nigeria.

Hypothesis Two

H₀: There is no prospect in SMEs in Nigeria.

H₁: There is prospect in SMEs in Nigeria.

Table 4.17 There is prospect in SMEs in Nigeria.

Variables	Small scale entrepreneurs	Medium scale entrepreneurs	Total	Percentage
Strongly Agree	119	26	145	72.5
Agree	13	10	23	11.5
Undecided	10	4	14	7
Disagree	2	4	6	3
Strongly Disagree	6	6	12	6
Total	150	50	200	100

Source: Field Survey, 2012.

Strongly Agree

$$\begin{aligned} \text{Small Scale Entrepreneurs: } f_{ei} &= \frac{145 \times 150}{200} \\ &= \underline{108.75} \end{aligned}$$

$$\begin{aligned} \text{Medium Scale Entrepreneurs: } f_{eii} &= \frac{145 \times 50}{200} \\ &= \underline{36.25} \end{aligned}$$

Agreed

$$\begin{aligned} \text{Small Scale Entrepreneurs: } f_{ei} &= \frac{23 \times 150}{200} \\ &= \underline{17.25} \end{aligned}$$

$$\begin{aligned} \text{Medium Scale Entrepreneurs: } f_{eii} &= \frac{23 \times 50}{200} \\ &= \underline{6.25} \end{aligned}$$

Undecided

$$\begin{aligned} \text{Small Scale Entrepreneurs: } f_{ei} &= \frac{14 \times 150}{200} \\ &= \underline{10.5} \end{aligned}$$

$$\begin{aligned} \text{Medium Scale Entrepreneurs: } f_{eii} &= \frac{14 \times 50}{200} \\ &= \underline{3.5} \end{aligned}$$

Disagreed

$$\begin{aligned} \text{Small Scale Entrepreneurs: } f_{ei} &= \frac{6 \times 150}{200} \\ &= \underline{4.5} \end{aligned}$$

$$\begin{aligned} \text{Medium Scale Entrepreneurs: } f_{eii} &= \frac{6 \times 50}{200} \end{aligned}$$

$$= \underline{1.5}$$

Strongly Disagree

Small Scale Entrepreneurs: $f_{ei} = \frac{12 \times 150}{200}$
 $= \underline{9.00}$

Medium Scale Entrepreneurs: $f_{eii} = \frac{12 \times 50}{200}$
 $= \underline{3.00}$

Using the formulae $X^2 = \sum \frac{(f_o - f_e)^2}{f_e}$ we then calculate as follows

Table 4.18

Variables	Respondent	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
Strongly Agree	Small Scale Entrepreneurs	119	0.75	-0.75	0.5625	0.75
	Medium Scale Entrepreneurs	26	0.25	0.75	0.5625	2.25
Agree	Small Scale Entrepreneurs	13	1.5	0.5	0.25	0.1667
	Medium Scale Entrepreneurs	10	0.5	-0.5	0.25	0.5
Undecided	Small Scale Entrepreneurs	10	0.75	-0.75	0.5625	0.75
	Medium Scale Entrepreneurs	4	0.25	0.75	0.5625	2.25
Disagree	Small Scale Entrepreneurs	2	31.5	-8.5	72.25	2.2937
	Medium Scale Entrepreneurs	4	10.5	8.5	72.25	6.8810
Strongly Disagree	Small Scale Entrepreneurs	6	115.5	9.5	90.25	0.7814
	Medium Scale Entrepreneurs	6	38.5	-9.5	90.25	2.3442

Total	17.704
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If c = column and r = row, the degree of freedom $df = (r-1)(c-1)$

If r = 5

c = 2

$df = (5-1)(2-1)$

= 4*1

df = 4 => 14.860

Table 4.19: Chi-Square Table.

df	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750

6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188

Checking the chi-square of $df = 4$ under the level of significance of 0.005, we will get the critical part to be 14.860.

Decision

The calculated value was 17.704. Therefore our critical value of 14.860 is less than our calculated value of 17.704 we therefore reject the null-hypothesis which says that there is no prospect in SMEs in Nigeria and accept the alternative hypothesis which states that There is prospect in SMEs in Nigeria.

4.4 Summary of Findings

Looking at the above test of hypothesis, it is observed that in hypothesis one the null hypothesis was rejected which therefore dispute the fact that policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria and so therefore it is concluded that policies implemented for SMEs have a positive relationship on the

survival of SMEs in Nigeria also the null hypothesis of hypothesis two was also rejected which states that there is no prospect in SMEs in Nigeria and the alternative hypothesis which says that there is prospect in SMEs in Nigeria is accepted. It is also concluded that:

1. That out of hundred of thousand of most enterprise in both manufacturing and the service sub sector in Nigeria are being dominated by the small scale enterprise.
2. That most enterprise in Nigeria needs less than 100,000 naira as a start up fund which must of such business is the small scale business.
3. That most enterprise in Nigeria need less than 100,000 naira fund to sustain their business which must of such business is the small scale business.
4. That SMEs have contributed immensely to development of the Nigerian economy in the provision of employment, export promotion, and thus reducing poverty and enhancing the quality of lives etc.
5. That the major key factors militating against the survival and low performance of their business are: Lack of easy access to funding/credits, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates, bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government etc.
6. That even as government is bumping money into banks to be used for the establishment and support for SMEs survival all is in vain because most of the SMEs entrepreneurs have not been able to lay their hands on such funds.

7. That there is prospect in the SMEs in Nigeria in terms of Business Success and profit.
8. That most entrepreneurs most entrepreneurs are satisfied with what they are getting out of their business.
9. That most of the SMEs that in Nigerian are between 1 to 5 years old.

That the policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigerian.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Looking at the hypotheses it is observed that policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria and that there is prospect in SMEs in Nigeria.

SMEs have been fully recognized by governments and development experts as the main engine of economic growth & development and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability. SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification, growth and dispersal. In most countries, including the developed countries like Japan, USA, UK, etc, SMEs account for well over half of the total share of employment, sales, value added and hence contribution to GDP.

A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile SME sub-sector. With over 160 million people, vast

productive and arable farmland, rich variety of mineral deposits and other natural resources, Nigeria should have been a haven for SMEs.

It is difficult to fathom out the reason why the SMEs would not lead Nigeria to the socio-economic development and industrial transformation as the same has led other countries to their industrial developments and quality living standards.

The findings of this research point to two main causative factors as to why Nigerian SMEs are performing below standard. One is 'internal' and relates to our attitudes, habits and way of thinking and doing things while the other relates to our environment including our educational system, culture, government, lack lustre approach to policy enunciation and poor implementation among others. The solution to the problems of Nigerian SMEs can only be realized if both the leaders and the citizens concertedly work together. The government has to take the lead by extending the current reforms to the educational and industrial sectors especially as regards good policy formulation and implementation, imports reforms, transportation sector reforms, revamping the infrastructural facilities, value reorientation and reduction of bribery and corruption to the barest minimum if not total eradication. Given efficient and effective execution of all these as well as the political will and good leadership and good followership, the SME sector will certainly be an effective tool for a rapid industrialization of the Nigerian economy.

Small and Medium Enterprises (SMEs) in Nigeria are largely not properly structured, are informal, labour intensive, have centralized or concentrated management, are basically involved in trading activities and disorganised as a result of low-level capacity in

management, marketing and technical know-how as well as low level knowledge of legal and regulatory practices, policies and accounting practices.

The SME sector in Nigeria is replete with a multitude of problems some of which are intrinsic to it while others such as the lack of an enabling environment in terms of poor or non-existent infrastructure like bad roads, water, power, and access to finance are largely external.

Past successive governments in Nigeria have attempted to address the problems of SMEs, which is a pointer to the fact that the government has all along appreciated the crucial role and significance of SMEs as the ‘soul’ of economic growth and development and hence industrialization. SMEs represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and the stemming of rural-urban migration. To a large extent, Nigeria’s ability to realize the Millennium Development Goals (MDG) hinges on her ability to revamp and reinvigorate the SME sector.

In the past forty years or so, the government had established various support institutions specially structured to provide succour and to assist SMEs to contend with some of the hurdles along their growth path. Some of these specialized institutions include the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the National Economic Reconstruction Fund (NERFUND), the Nigerian Export-Import Bank (NEXIM), the National Directorate of Employment (NDE), Industrial Development Coordinating Centre (IDCC), Peoples Bank, Community Banks,

Construction Bank, Family Economic Advancement Programme (FEAP), State Ministries of Industry SME schemes, the Nigerian Agricultural and Cooperative Development Bank (NACDB), etc.

These support institutions and other incentives created by the government notwithstanding, policy instability and reversals in addition to high turnover and frequent changes in government have impacted negatively on the performance of the primary institutions responsible for policy formulation, monitoring and implementation resulting in distortions in the macro-economic structure, low productivity and dismal performance of SMEs.

Other major problems which have contributed to the poor performance of SMEs include: limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, street urchins' harassments, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth, weak demand for products arising from low and dwindling consumer purchasing power, incidence of multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business and poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.

As a result of the plethora of poor managerial cum low entrepreneurial skills, SMEs in Nigeria have not been able to maximally benefit from the equity participation investment scheme (SMIEIS) instituted by the Bankers Committee since 2001. As at July 31, 2009, only about 30% of the N30 billion in that fund has been accessed by deserving SMEs. Many of the SMEs that applied for the SMIEIS fund did not even have a well-articulated business plan, not to talk of vision, mission, focus, management profile, financial projections and the rest of the pre-requisites for embarking on an enterprise development.

5.2 Conclusion

Contrary to the generally believed notion or assumption, this research found out that access to finance or capital is not the only greatest problem facing SMEs in Nigeria. Some other greatest or worst problem confronting SMEs in Nigeria are limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, street urchins' harassments, over-dependence on imported raw materials and spare parts, poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth, weak demand for products arising from low and dwindling consumer purchasing power managerial capacity. Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development. If one has the entire funds in the world and does not have the capacity to

manage that fund and does not have the necessary information as to what he/she should do, the money would go down the drain.

The top ten key problem areas facing SMEs generally in Nigeria in descending order of intensity include management problems, access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, environmental factors related problems, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and the non-availability of raw materials locally.

The mortality rate among SMEs in Nigeria is very high within their first five years of existence. The reasons for the high mortality rate include the following among others: Many prospective entrepreneurs do not have a clear vision and mission of what they intend to do. Many of the SMEs are not business specific and hence have no focus and are easily blown away by the wind.

They tend to emulate or copy other successful SMEs without any planning of their own. Many fail to plan well and waste a lot of resources on brochures and other non-essentials as a result of no focussed and logical procedure or articulated plan of actions. Other mistakes by start up SMEs include placing advertisements without quality and commensurate goods and services to match, promoting themselves (promoters) instead of the business per se, promoting the business in the wrong environment, quitting at experiencing a slight setback or disappointment, not researching the market well ahead of commencement, not being original and stopping marketing too soon.

The rate of growth of SMEs in Nigeria is stunted due to the following key reasons: lack of entrepreneurial spirit and drive, fear of failure of the enterprise, fear of starvation for a few months after quitting a paid job, inability to produce or pay for a feasibility study or business plan, mind set that “it will not work” or “I won’t succeed” and the likes.

Capacity building especially in terms of business knowledge, self confidence, skills and attitude, acquisition and development of entrepreneurial spirit and right business motivation and ability to set goals are imperatives for entrepreneurial success. Infrastructure has remained the greatest problem of the manufacturing subsector of SMEs in Nigeria. Power supply poses the greatest challenge as most of them have turned to generating sets for regular power supply at a debilitating cost. Many also have to contend with constructing their own road network and providing their own water system also at huge costs.

Many SMEs in Nigeria are not aware of the existence of SMEDAN, the various sources of funds for SME development, the incentives available for them, the legal and regulatory requirements, how to source funds from banks or even the basic procedure for promoting an enterprise. Majority of SME promoters are averse to going into partnership schemes and also to equity participation by banks under the SMIEIS programme. The ‘me’ syndrome as opposed to ‘us’ has remained a major bottleneck and setback for SMEs in Nigeria. This widely spread phenomenon is driven by the innate mistrust and selfishness on the part of the SME promoters most of whom do not even trust their staff with the

result that delegation of duties and giving of responsibilities to subordinates are at the lowest level.

Many of the SMEs do not keep records for fear of tax obligations and also in a bid to conceal their performance from competition or even staff. Other shortcomings of Nigerian SMEs include interpersonal skills, inability to carry along people working with them to bring their desire to pass, team-playing skills, proper communication, planning skills, goal setting skills, negotiation and decision making capabilities, management of finance, managing customers, managing marketers, managing employees, and future growth. Many of the SMEs surveyed neither have strategic plan nor succession plan.

Many SME promoters in Nigeria are also negatively affected by the following killing attitudes: short-term orientation, shallow thinking and quick-fix expectations and poor corporate governance. With the dismantling of trade barriers as part of globalisation, SMEs in developing countries are facing intense competition from industries of other countries, which have enabling environment for production, distribution and marketing. The environment in which SMEs in Europe, South East Asia and America operate provides stable power and water supply, standard road and rail network, efficient water and air transport system, advanced technology, modern communication facilities, efficient and responsive financial system and above all good governance. Unless Nigeria puts its policies right, many SMEs may not survive this global competitive drive.

There are however some opportunity windows which discerning Nigerian SME promoters can leverage on and take advantage of to grow. The liberalization of trade

through WTO Agreements has provided awareness through which SMEs could access international markets. Another opportunity is the African Growth Opportunity Act (AGOA), which favours exports from African countries to the United States of America. Currently many SMEs in Nigeria are yet to tap into this opportunity.

5.3 Recommendations

Driven by the findings in this research, SMEs in Nigeria have a long way to go for the sector to be relevant, focused, productive enough, and play the crucial role it is expected to in relation to contributing to the growth and development of the economy of Nigeria.

The following are recommendations for making SMEs in Nigeria virile and vibrant through the creation of an enabling environment for optimum performance:

1. The federal government should establish Industrial Development Centres (IDCs) in every state of the federation, revamp old ones, and make all of them functional.
2. It should establish Industrial Parks (IP) in all the 774 Local Government Areas in the Country

3. The government should establish SME clusters in relevant sectors in areas that have comparative advantage for such sectors such as Auto Parts Cluster in Nnewi, Leather Products Cluster in Kano, Apple Processing Cluster in Plateau, Export Clusters for Cocoa in Ondo, Cashew Crushing Plant in Oghe, etc.
4. The government through the Central Bank of Nigeria should establish the much-awaited National Credit Guarantee Scheme for SMEs, which should guarantee at least 80 percent of loans needed by small and medium enterprises in Nigeria.
5. The government should tackle accelerated development and upgrade of rural/urban road and rail network, water and air transport system and other infrastructural facilities head on and review tariff in favour of local manufacturers especially the SMEs.
6. The government should as a matter of urgency effect appropriate reforms in the customs as well as in the ports operations to reduce the number of agencies involved and make the clearing of goods more efficient.
7. It (the government) should continue to vigorously tackle corruption and bribery and institutionalise transparency, accountability and due process in the conduct of government business.
8. There should be a renewed emphasis on science and technical education and the introduction of entrepreneurial studies in all the Nigerian Universities. Entrepreneurial studies should be compulsory and taught up to the four hundred level in the Universities. Quite relatedly, the dichotomy between technical

education/qualification such as the Higher National Diploma (HND) and Bachelors Degree should be abolished. In fact, those with requisite technical and functional educational qualification should be given an edge or incentive in the labour market. ix. If SMEs are to increase their investments substantially, the question of risk capital for the sector becomes of utmost importance especially in the long term. The government should therefore stimulate the development of Venture Capital Market for SMEs through the provision of specific tax incentives for venture capitalists.

9. The government should establish a National Rehabilitation Fund to provide resuscitating funds to viable but ailing SMEs.
10. The government should reduce the tax rate for SMEs to zero percent (0%) within their first three years of life and then to 20% from the fourth year and beyond. SMEs located in rural areas should enjoy 10% tax rate from their forth year of operation.
11. The government should provide special and appropriate grants and tax incentives to SMEs, which provide their own basic infrastructure like Power, Road and water. This will help to reduce the respective SMEs' cost of production and make them more competitive.

SMEDAN should be given the responsibility of initiating, in liaison and consultation with SMEs, trade and professional associations such as NASME, SMI, Chambers of Commerce, formulating and coordinating policies, incentives and support for SMEs

promotion and development in Nigeria. It (SMEDAN) should also provide managerial and technical advice, information and training services at subsidized rates to existing and prospective entrepreneurs. SMEDAN should strengthen the ties between SMEs and larger enterprises as well as government institutions especially in the area of patronage of locally manufactured goods and services.

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Appendix I

Department of Business Administration,
Faculty of Administration,
Ahmadu Bello University,
Zaria.
25th April, 2012.

Dear Sir/Madam,

I am an MBA Student in the above Department of Ahmadu Bello University, Zaria. As one of the requirement of partial fulfilment for the award of master degree in business administration (MBA) I am required to submit a researchable project.

In this regard, I have chosen your organisation to be one of my case study. To enable me collect the data necessary for writing the project, I am requesting you to please fill the attached questionnaire by simply ticking the provided boxes. I assure you that any information collected will be used for academic purpose only, and be strictly confidential.

Thanks for your co-operation

Oluwagbenga Asuni HAKEEM
MBA/ADMIN/00363/2010 – 2011
Researcher

Questionnaire

1. What is your sex?

a. Male

b. Female

2. What group of enterprise do your business fall into?

a. Small Scale Enterprise

b. Medium Scale Enterprise.

c. Large Scale Enterprise.

3. How long have you been in this business.

a. 1 – 5 years

b. 6 – 10 years

c. 11 – 15 years

d. 16 – 20 years

e. 21 – 25 years

f. 26 – 30 years

4. Environmental effect on small and medium scale enterprise development.

a. Favourable

b. Undecided

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c. Unfavourable

5. Minimum of how much do you need to start this type of business?

a. Less than 100,000 naira

b. 100,000 – 1million

c. Above 1million

6. How much do you need to sustain your business?

c. Within 50,000 – 100,000

d. Within 100,000 – 1million

e. Above 1million

7. SMEs have a positive impact on the development of Nigeria Economy.

a. Strongly Agree

b. Agree

c. Undecided

d. Disagree

e. Strongly Disagree

8. Federal Government programs designed by government to boost SMEs

Survival and Performances are effective in achieving its role.

- a. Strongly Agree
- b. Agree
- c. Undecided
- d. Disagree
- e. Strongly Disagree

9. There is prospect in SMEs in Nigeria.

- a. Strongly Agree
- b. Agree
- c. Undecided
- d. Disagree
- e. Strongly Disagree

10. You are satisfied with the returns in your business.

- a. Strongly Agree
- b. Agree
- c. Undecided
- d. Disagree

e. Strongly Disagree

11. Policies implemented for SMEs have a negative relationship on the survival of SMEs in Nigeria.

a. Strongly Agree

b. Agree

c. Undecided

d. Disagree

e. Strongly Disagree

12. What are the key factors militating against the survival and low performance of your business?
