An Evaluation of Funding Arrangements for Small and Medium Scale Enterprises (SMEs) in Nigeria

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St Clements University, British, West Indies

By

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PROJECT APPROVAL

This thesis titled “An evaluation of funding arrangements for small and medium enterprises in Nigeria” was executed by Patria Love Ogboru (Mrs) for the award of PhD. It meets the standard of the department of Business and Management Studies, St Clements University, British West Indies.

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DEDICATION

I dedicate this work to my dear father of blessed memory, Chief Deruviesa Governor Uloho, the Otota of Ugheli Kingdom, President General, Eastern Urhobo Traditional Council of Chiefs, Delta State and my Beloved Mother, late Mrs Awhene Uloho for the relentless and keen interest demonstated by them towards my education.

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I wish to acknowledge the support and encouragements I received from my late father, whom by dint of hard work was a very successful industrialist and a civil engineering contractor, who made the education of his children and those of his relations top priority. As a very distinguished and pleasant personality, he placed education as the highest legacy he could as a parent leave behind for his children. To this end, he ensured that all his children, including my humble self, were sent to good schools right from primary, secondary to tertiary institutions. He never denied any of us the golden opportunity to benefit from western education, which he cherished so much. He did this at a time that most female children were rushed into early marriages to enable the male children acquire western education.

To my mother, she strived to ensure that her eight children, all female, imbibed the wise counsel of our father who regarded education as the greatest legacy he bequeaths to his children. While my father saw lack of education as a monumental challenge to anybody, my mother perceived it from the perspective of her female children being educated in order to immortalize her place and name in the great polygamous ULOHO family.

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Above all, I thank the Almighty God for my life and what He is using me to do. It is my prayer that the Ph.D will make me touch many lives to the glory of God.

I feel fulfilled today as I conclude my studies leading to the award of a Ph.D in Financial Management. However, while I thank God for leading me through this rewarding course, how I wish that my parents who have done so much in ensuring my acquisition of quality education, are alive to witness that the purpose of the seed of education they sowed in me right from my childhood has been achieved and bearing fruits luxuriantly to the glory of God.

ABSTRACT

This study which seeks to evaluate the alternative funding arrangement available to the SMEs sector identifies the sector as the key to unlocking the economic potentials of Nigeria. However, the sector is constraints by a number of factors which include among others difficulty in accessing credit facilities, high cost of credit; poor infrastructures, that is, power, transportation, telecommunications; poor linkages among the enterprises, poor technology; poor implementation of government programs and policies toward the development of SMEs sector. The study revealed that the major sources of credit available for the establishment and expansion of SMEs in Nigeria is personal saving, banks and cooperatives. However, the problem associated with bank credits is the demand for collateral, high cost of credit and loans administrative cost. A viable means of promoting self-reliance in economic development as well as introducing diversity into regional, national and local economics is through the deliberate promotion of SMEs and encouraging entrepreneurial spirit and skill in business venture. There are different sources of credit available to the SMEs which include among others financial institutions, government agencies, non-governmental organizations, personal savings, friends and family, international donor agencies, cooperatives. The importance of Small and Medium Scale Enterprises as being crucial to the economic development strategies cannot be over emphasized. It is therefore, important to consider conditions that would ensure sustained growth in this sector. The SMEs should be seen as an important sector of the economy requiring specific incentives to assist its development. Government can accelerate the development of markets for financial services suited to the special characteristics of SMEs by promoting product innovation and building institutional capacity. Improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable especially the microfinance institutions (MFIs). Government can also improve in the provision of infrastructural facilities. Easy accessibility to credit through specialized or development oriented banking or financing institutions and at preferential interest can go a long way to boost the sector.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Before the arrived of the British Colonialists in Nigeria, there were numerous small scale industries and handicraft enterprises based on the available raw materials to meet local and regional demand. The Hausa, Yoruba and Bini people developed significant small-scale manufacture of goods for a variety of trade, social and religious purposes. The West African (including present day Nigeria) manufacturing sector was based on clothing, metal works, ceramics, construction and food processing. While Kano produced textiles and leather goods, iron was being smelted at Nok, in Benue-Plateau region and (now in Jaba Local Government Area of Kaduna State, Nigeria). This traditional manufacture survived well into the colonial period, which understandably failed to provide sustainable basis for industrial change or investment (Synge, 1993). However, the 1962 - 1968 National Development Plan, tried to correct past deficiencies in the nation's industrial sector programme.

Given the poor base of industrialization in the country and increase in direct government investment and promotional measures coupled with an ever increasing demand for foreign manufactured goods abroad, the strategy of Import Substitution Industrialization (ISI) was adopted. The original aim of the strategy was to promote growth and economic diversification as a means of reducing the dependence of the economy on the agricultural sector as the principal earner of foreign exchange. The strategy was adopted also because it was aligned to the potential as well as other known requirements of

ready-made markets. It was limited at its early stage to the replacement of imports of nondurable consumer goods which generally called for the services of unskilled and semi-skilled labor and less application of advanced technological method (Sule, 1986).

In the 1970s, particularly within the context of the 1970 - 1974 National Plan, the Federal Government did not only emphasize the need to maximize value-added to the GDP, but also initiated the establishment of heavy industries in the intermediate and capital goods sector. While it could be said that the first stage of the ISI strategy (which involved the replacement of imported non-durable consumer goods and their inputs with domestic production) was fairly successful, the second stage (which involved the replacement of imported intermediate inputs and producer and consumer durables) was a failure. The industrial policies, especially the credit-incentive and tariff-protection measures, pursued in the 1970s and early 1980s were not conducive to generating the intermediate and capital goods production (Egbon, 1995).

The indigenization decrees were promulgated in 1972 and 1977. The principal aim of the decree was undoubtedly laudable but its implementation was sloppy. Besides creating a class of rich Nigerians, the greatest hindrance to the decree was Nigeria's high level of technological dependence and managerial ability (Egbon, 2004).

In the 1985-1990 National Development Plan, public investments were allocated to large capital and skill intensive projects, particularly heavy and intermediate industries like steel, oil refineries and fertilizers etc. However, besides suffering from protracted and

cost-increasing construction period and low capacity utilization, the Ajaokuta and Delta Steel companies and the various steel mills constituted a burden to the annual budgets due to recurrent losses and the supply of expensive industrial input into the down-stream sectors. For instance, by 1999, the capacity utilization in the Delta Steel Company has fallen below 0.04 percent (Egbon, 2004). This inability of the steel mills to produce at prices sufficiently low to ensure a substantial rate of return on prospective investment also led to a failure to provide the basis of technical skills and knowledge necessary for the development of capital-saving techniques and therefore, reinforced a "state of technical backwardness".

It must also be recognized that while government policy encouraged public ownership of heavy industries through protection and subsidies, no particular attention was paid during Pre-Structural Adjustment Programme (SAP) era to the huge sector of small-scale manufacturing which employed 875,000 persons in 1987 as against modern manufacturing sub-sector that employed 48,000 persons in 1985 (Ekpenyong, 1992). Yet, the Small-Scale manufacturing was expected to mitigate various adverse effects militating against industrial growth, especially in the areas of employment generation, mobilization of local resources, regional dispersion and linking up with other domestic sectors, especially agriculture.

In 1989, a new industrial policy for Nigeria was instituted. A quick comparison of the 1989 'New Industrial Policy' objectives with the industrial objectives in the Fourth National Development Plan revealed that, in terms of policy content, the 1989 industrial policy (for Nigeria) was at least, a consolidation of the fragmentary industrial

policies of the past and a reflection of the inherent and persistent problems of industrial development (Egbon, 1995). However, in terms of emphasis, the small and medium scale enterprise projects, contained in the 1989 industrial policy stood out.

After three decades of Nigeria's pursuit of an industrialization strategy based on import substitution, the weight of the burden on the economy by the import-dependent manufacturing came to light by the early 1980s as the country's foreign exchange earnings declined significantly and the unemployment rate soared. The social and political repercussions of this high rate of unemployment made it inevitable for the industrial sector to aim at partly creating job opportunities and generating income to help alleviate the poverty related problems in Nigeria.

Generally, it can be said that Nigeria witnessed the most sustained and severe economic crisis for about three decades (1978 - 1999) (Egbon, 2004). Several policy packages under different regimes or administration were articulated with a view to engendering economic recovery within a dependent state capitalist model of accumulation rather than encouraging growth through a fundamental transformation of the structure

For many years, Nigerian policy makers had concentrated their emphasis on demand management while paying lip service to the need for a re-examination of the fundamental assumptions on which the real sector is founded. It is true however, that some form of intervention took place, especially in the provision of fiscal incentives to domestic producers. These policies sought to stimulate domestic

production based on tinkering with the tariff regimes, tax incentives as well as attempts aimed at improving the investment climate.

In the same vein, the Central Bank of Nigeria on its part, introduced measures that were meant to ensure the sustainable growth of the Money and Capital Markets that would in turn supply the much needed medium and long term capital for both existing as well as prospective producers. It is equally true that the Central Bank of Nigeria has also been actively involved in influencing the direction and rate of change of key price variables such as exchange rates and interest rates, in order to achieve both domestic and external balances.

However, due to the fact that all these policies were expected to stimulate domestic economic growth through the predominantly import substituting industries, they were rendered ineffective and, in some cases, counterproductive. This led to severe instabilities in the macroeconomic variables. The real sector could not grow fast enough to even arrest the deterioration in per capita income resulting solely from the increased population witnessed in the last several decades. Industries relied heavily on foreign raw materials, machinery and spare parts whose inelastic demand contributed immensely, to exchange rate instability as well as the depreciation of the local currency.

On the other hand, the necessity to import also implies that companies had to pay more Naira in order to get the Dollars needed to pay for those imports. This in turn translates into additional borrowing from the banks, which results in an upward pressure on interest rates. Eventually, this led to higher costs of production for domestic producers and uncompetitive prices for their products as compared to

foreign substitutes. It is not surprising therefore, that a lot of manufacturing companies have been closing down over the last few decades. This is particularly true of the Northern part of Nigeria where the rate of closure is very alarming. Kano and Kaduna is a case in mind especially in the textile and garment industry. The situation becomes even gloomier against the fact that the highest proportion of those industries closed down is made up medium scale industries, which were expected to develop into heavy industries eventually. The situation in some other states that have a significant number of manufacturing concerns is not radically different (Inang and Ukpong, 1992).

The socio-economic costs of these policy failures include job losses accompanied by the stress that they impose on households; reliance on imported products and the loss of foreign exchange concomitant with it, as well as the protracted social tensions, periodically manifested in inter-ethnic and religious strife, over the years.

On the other hand, conventional solutions to the nation's problems such as a return to the logic of autarchy in the hope that domestic industries could grow and thrive under total protection are no longer feasible under the current globalisation frenzy. Import substitution strategies, popular in the 1960s, have proved a woeful failure, creating more problems in the long run than solutions. Yet the economic problems facing the country today are symptomatic of market failures arising from asymmetry of information and structural rigidities.

On the one hand, Nigerian banks and the SMEs do not seem to share the same information. Banks require adequate financial records to enable them assess the profitability profiles of the industries. They also need vital information on the firms' annual budgets as well as their long-term vision for their companies. All these require sound managerial skills which are in most cases, absent in the enterprises in question. Under these circumstances, the banks behave in accordance with the only rational option they have: they become risk-averse.

The small and medium scale operators on the other hand, do not seem to understand the procedures to follow in order to access funds from the banks. Even when they do, the procedures are normally too cumbersome. A wide gulf is therefore created.

This study will, at the end lead to the identification of the basic challenges faced by the small and medium scale producers, the majority of whom still remain as only potential beneficiaries of both external and internal sources of financing SMEs on the one hand, and measures that will ensure their survival as the future engines of growth in Nigeria.

Furthermore, there is a sense in which the SMEs industrial growth strategy could be viewed as an integral part of the National Economic Empowerment Development Strategy (NEEDS), which is a grass-root approach to development through 'mass empowerment'. Indeed, this new approach has already anticipated the needs of the micro-scale and small-scale operators who may have very bright ideas but no collaterals to enable them secure financial assistance from the banks. The NEEDS campaign has already attracted a lot of attention

both within and outside the country. It has also rekindled the hopes of many Nigerian entrepreneurs.

Even the best policies however, may end up failing unless if they are based on sound facts together with an enabling environment. In this regard, policy efforts should subsequently be directed at the small and medium scale industries, with a view to using them as the veritable vehicles for the attainment of growth and development of the Nigerian economy. History is replete with evidences of their contributions to the growth and development of many countries all over the world.

As a result of the above institutional, structural and policy defects in developing the SMEs sub-sector and considering its potentials in containing some of the macroeconomic problems, the Nigerian government had in recent past deepened her drive towards revamping the SMEs sub-sector. The enthusiasm that greeted the 1989 industrial policy was to the extent that the policy was often desirable as representing the beginning of a comprehensive and systematic approach to Nigeria's industrial development through SMEs (Oesterdickhoft, 1991).

It thus seemed as if Nigeria was set to achieve the kind of dynamic industrial success registered by the East and South Asian NICs. However, Cottarelli, et al, (20O1) posit that a number of factors contributed to the relative success of the NICs which included but not limited to, heavy state intervention in both the capital and labor markets and the formulation of sectoral priorities.

Previous initiatives designed to assist small and medium scale industries in Nigeria include (CBN, 2000):

- Mandatory minimum credit allocation by banks to small scale enterprises;
- Introduction of other specialized schemes, including the World Bank SME I and SME II loan programs and the Agricultural Credit Guarantee Scheme Fund (ACGSF).

The financial schemes performed poorly due to inadequate and inefficient infrastructural facilities, over bearing bureaucracy, inefficient administration of fiscal incentives, unstable macro economic environment and bad management (Sanusi, 2001). Yet in 2001, the Central Bank of Nigeria (CBN) launched the Small and Medium Industries Equity Investment Scheme (SMIEIS). The SMIEIS scheme is said to be the banking industry's contribution to government's efforts towards stimulating economic growth, developing local technology and generating employment. Eleven banks in 2002, signed the small and medium enterprise partnership; a private equity set up by a consortium of banks to make equity investments in the SMEs. The SMIEIS requires Nigerian banks to set aside 10 percent of their profit before tax in equity investment to support SMEs (Egbon, 2004). The SMEs in the country cannot continue to stay small and use the traditional business models that have sustained them to date if they want to survive in the increasing competitive world.

The Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) was also formed with a view to facilitating access to credit, technology and market for the SMEs. The participating banks are expected to liaise with SMEDAN. This is in consonance with the adoption of private sector-led development strategy. It is

therefore expected that the flow of funds to this vital sub-sector of the economy will increase.

The critical importance of adequate credit delivery to SMEs stem from the realization that their development is what is required to enable the country's industrial sector meet the contemporary changes of globalization; economic restructuring and poverty alleviation. Bensel (2001) situated the economy of American Industrialization (1877-1900) at the 'bottom' of politics.Political and economic events are fundamentally related. Bensel argued that the rise of manufacturing belt in the United States was essentially as a result of its expropriation of the surplus production of the periphery. This expropriation was advanced by the structure of national politics and directed above all, by the Republican Party. Even in 1953, the United States of America enacted 'the Small Business Act' aimed at government counseling, assisting and protecting the interest of small business concerns in order to preserve them from competitive enterprise.

1.2 Statement of the Problem

In the world over, small businesses face more constraints at start up developmental phases than when established. In Africa, for example, the failure rate of SMEs is 85% out of every 100 companies due to lack of skills and access to capital (Fadahunsi, 1997). It is typical of SMEs in Africa to be lacking in business skills, track record and collateral to meet the existing lending criteria of risk-averse banks (World Bank, 2000). This according to World Bank has created a "finance gap" in most markets between US$50,000 to US$1

million. The small businesses are able to source and obtain micro finance mostly from the informal sector like friends and relations while large or medium enterprises, access these funds from banks. This unequal access to finance by SMEs and large enterprises has undermined the role of small scale business firms in the economic development of African countries at large and Nigerian economy in particular.

The problems of SMEs in Nigeria have been enduring but most of the reforms have exacerbated some of them. As far back as 1977, the Federal Government in its publication 'Small Scale Industries Credit Scheme' identified the basic problems that affected SMEs to be lack of adequate capital and credit facilities for sustaining their growth and development (Ekpenyong, 1997; Utomi, 1997). Institutional credit was known not to be available to SMEs because they are generally considered high credit risks by financial institutions.

A widespread concern is that banking systems in the region (which suppose to be the major financier of SMEs) are not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agriculture sector (Sacerdoti, 2005). It is therefore argued that faster economic growth will not be possible without a deepening of the financial system and in particular, more financial support from the banking sector to the SMEs. It is noted that banks remain highly liquid in many countries and reluctant to expand credit other than to the most credit worthy borrowers which in most cases excludes the SMEs. While Micro Finance Institutions (MFIs) have expanded vigorously in a number of countries, the size of their credit remains limited, so that their support is not on the scale needed

for many small projects. Also, the interest rate on micro-credits is very high, due to large administrative costs in relation to their scale of operations.

The development of SMEs in Nigeria is a step towards building a vibrant and diversified economy (Mahmoud, 2005). However, the lack of access to credit to start or expand small scale enterprises has often plagued that sector of the economy. Most SMEs tend to rely on the personal resources of their owners, and/or loans from friends and relatives to fund the enterprise (Sule, 1986). The expectation has been that, after the initial take off of the small scale enterprises, the business should be able to raise funds from the formal sector especially MFIs or banking industries to expand its operations. This has not been the case for a number of reasons (Sule, 1986; Inang and Ukpong, 1996; Iniodu and Udomesiet, 2004);

- The perception of small and medium enterprises as high risks;
- Inability of the SMEs to prepare acceptable or viable banking business plans;
- Poor record keeping, especially of financial operations which at times make the entrepreneur draw money than expected from the business either for personal or family use;
- Discriminatory cultural practices which at times make it impossible or difficult for women to borrow or own assets or land titles;
- Weak capacity on the part of banks to down-scale their lending to SMEs; and
- High transaction cost of small and of1en segmented loans.

Improving the supply of credit to productive enterprise, in Nigeria should be seen as a priority for the growth of the economy (Iniodu and Udomesiet, 2004). Nigeria is a country characterized by a large number of small-scale businesses, especially in the agriculture, craf1 and manufacturing sub-sector. Small-scale and medium-scale businesses in the country need to have access to appropriate, reliable and efficient sources of credit to be able to operate effectively. The commercial banks which are expected to finance their operations of1en shy away from doing so. Even with the lending rate ranging from 17.6 percent (1988) to 31.2 percent (1992) and averaging 22.7 percent for the period 1987 - 1994 (CBN, 1995), many commercial banks were still reluctant to extend credit to SMEs (Egbon, 2004). They prefer to lend to big businesses and to engage in investment and foreign exchange related transactions which they consider less risky.

It is pertinent to draw attention to the reasons why SMEs are constrained by access to funding of their businesses by both local and international creditors (Ukpong, 1992; Obadina, 1999) to include evidence of high rate of failure of SMEs or what Ukpong called a "high mortality rate" and the support for only unquestionable viable proposals. Unfortunately, many of the requests for finance from small scale businesses (especially) do not show adequate signs of viability of the business for which credit is sought. Some of the businesses do not keep adequate records which would aid in their appraisal for the loan applications. Supporting such businesses would mean easing credits standards and encouraging loans default, because credit decisions are generally made on the basis of a comprehensive analysis of all credit factors, notably; the borrowers managerial ability, responsibility, family

cooperation, continuity, integrity, etc; financial position and progress; earning potential and repayment capacity; and purpose of loan and basis of approval.

Other constraints of the small-scale inability to access funds are the general inability on the part of small scale to provide acceptable collateral/securities to back up their loan request. Collateral availability and projected viability are often inter-related. Usually, viability of the project is used as a criterion for granting loans and for encouraging the supervision of projects with viable potentials. Some of the loans granting agencies lack adequate trained personnel to undertake an objective evaluation of loan application and to monitor and supervise project implementation. There is also the misconception on the part of the operators of small-scale enterprises that credit granted constitute their "share of national cake" and therefore, need not be repaid thus, translating into the problem of poor loan recovery (Iniodu, 1991; Iniodu and Udomesiet, 2004). The World Development Report indicated that small-scale business firms obtain only 19 percent of their financing needs as against 44 percent by medium and large scale enterprises from external sources in developing countries (World Bank, 2000). This is an indication that financing SMEs using external sources is still a major problem in Nigeria and other developing countries.

In terms of policy content, the institutional arrangements to support SMEs are not entirely novel. What is new is the use of new 'nomenclature'. Today, we have SMEDAN, yesterday we had Small Scale Industries Corporation (SSIC). The past government involved a mix of financial institutions in providing funds for SMEs some of which are NACB, NBCI, Peoples' Bank (PB), or Community Bank (CB) as earlier

mention. Some of these banks were merged to form what is today known as National Agricultural Cooperative and Rural Development Bank (NACRDB) whose main aim is credit deliver, to SMEs.

Therefore, Nigeria cannot be said to be short of institutions that could facilitate the development of the SMEs through technical assistance, credit delivery, managerial competence, and provision of infrastructural facilities. The most pervasive constraint for SMEs has been and would remain the lack of finance at reasonable conditions especially from the external sources (Egbon, 2004; CBN, 2005). The SMIEIS which is supposed to operate smoothly is constrained because of the shortfall in the expected contribution from the participating banks. As at August 2003, only 24.5 percent of the collected money has been disbursed with the CBN threatening to sanction defaulting banks (Agusto, 2004).

So long as the lending rates do not discriminate between loans with varying degrees of risk and cost, conflicts between government policy objective of a vibrant SMEs sub-sector and the economic consideration of the banking sub-sector would continue to exist. The banks are more interested in resolving the conflict between profitability and liquidity against the background of risks, credit-worthiness and investment opportunities. To the bank need to minimize risk exposures and remain profitable ventures in the absence of suitable collateral to them the allocation of credit to such non-priority areas as commerce, which has a higher and more rapid turn-over on the short term.

To this end most of the schemes established to advance credit to the small and medium-scale businesses like Agriculture Credit Guarantee Scheme Fund (ACGFS); SMIEIS; NACRDB, coupled with financial

institutions and donor agencies assistance have not being able to meet the financial needs of SMEs. Also, information gap as to how such funds could be accessed largely because of illiteracy, poor dissemination of information, and concentration of such activities in the urban centers affects the rate of accessibility by the rural dwellers (Egbon, 1995).

Apart from the "financial gap" constraint of most SMEs, there is also administration constraint on the part of government and power sector problem. It would be fair to say that the Nigerian government in its economic programs, especially from 1999 to date, has reasonably identified measures to overcome major problems affecting the growth of manufacturing sub-sector, however, the benefits of the programme are yet to be realized especially in the area of power generation. The power supply situation in the country had become embarrassing.

Consequently, enterprises incurred huge cost in the provision of alternative sources of power in the course of their business operations. The SMEs that are unable to afford such alternative sources of power will have to depend on the epileptic infrastructural facilities of government. This often contributes to the eventual collapse of many SMEs in Nigeria. For the medium and large enterprises, the additional cost incurred to provide alternative sources of power erodes the competitiveness of locally manufactured goods and made them less attractive to potential foreign investors who may wish to invest in the Nigerian manufacturing ventures (SMEDAN, 2005).

In 2000, average manufacturing capacity utilization rate was 36.1 percent. In 2001, the average capacity utilization rose to 39.6 percent and 44.5 percent in 2004. This modest improvement was however impaired largely by low effective demand for locally made goods, occasioned by

the continued influx of cheaper and better quality imported products. The adverse impact of dumping is heaviest on textiles, footwear, leather, among others (Agusto, 2004). It is therefore clear that there is no level playing ground for local industries especially the SMEs to compete with cheap import due to infantile and uncoordinated pursuit of import liberalization, dumping and inconsistency in government policies.

From the foregoing, we can deduce that the SMEs are faced with credit constraint to start-up and expand their operations. The government policy inconsistencies for the sub-sector have hampered its viability, sustainability and competitiveness in the global market. Also, the power supply situation in Nigeria has made the SMEs sub-sector to operate at a higher cost thus, creating an unfavorable environment to operate resulting to the inability to the sector to contribute meaningfully to the growth of the economy. This is particularly evident in the failure of the SMEs to usher in the needed forward and backward linkages that will help develop the agricultural and industrial sectors of the economy.

In view of the problems that the SMEs will have to contain with in Nigeria, the following basic research questions are raised:

a) What is responsible for policy inconsistencies in the regulation and operations of SMEs?
b) What are the sources of funds available to the SMEs (both internal and external) in Nigeria?
c) What are the appropriate funding mechanisms for SMEs sustainability in Nigeria?
d) Are the available funds, accessible and affordable for the SMEs?

e) How can the constraints encountered by SMEs in the process of accessing funds be addressed?

1.3 Objective of the Study

The main objective of this study is to evaluate the funding arrangements available to SMEs in Nigeria.

The specific objectives are to:

i. examine the sources of funds available for the start-up and expansion of SMEs;

ii. determine the main barriers to credit expansion to the SMEs;

iii. identify sustainable sources of funding SMEs as well as new initiatives for their expansion and development; and

iv. identify ways of improving credit availability and delivery to SMEs sub-sector.

1.4 Justification for Study

This in-depth study into the essential features of the existing micro, small and medium scale industries is justified on the grounds that many policies in the past, which sought to address the problems of the real sector of the Nigerian economy, seemed to have failed. This, it has been realized, was due mainly to their reliance on big "white elephant" projects, which appeared physically impressive but had no linkages with the rest of the economy. In addition, the industrialization strategy adopted then, was neither resource-based nor was it technology-based. It simply relied on the "blind optimism" that the establishment of these industries would eventually lead to the

transfer of appropriate technology and its adaptation to suit the Nigerian environment.

Needless to say, this has failed woefully. Another important reason for this failure is the absence of sound database or information system that would correctly and appropriately inform policy decisions. It was quite simply a period of 'planning without facts', as Kayode, (2004) observed.

The compendium of information accompanying this report is therefore intended to close this information void. By so doing, it will also pave the way for the successful implementation of funding arrangements for SMEs in Nigeria.

The failure of the past industrialization policies favoring medium and large enterprises to stimulate economic growth and development has generated a renewed emphasis on the SMEs as a catalyst to industrialization quest and its resultant effect on economic growth in Nigeria (World Bank, 1995; Olurunshola, 2001; Chizea, 2002). The Nigerian economy in pursuing this agenda placed SMEs development and promotion a top priority.

The SMEs constitute the foundation for the sustained growth and development of the economy. In Nigeria, perhaps the most important challenge facing policy makers in industrial development is the financing and technological upgrading of the myriad of SMEs that formed the back bone of industry and provide the bulk of employment and income generation. Available estimates in the year 2002 suggest that SMEs account for about 76 percent of the work force and 48 percent of all industrial output in value terms in Nigeria (Mahmoud, 2005). Compared to large enterprises, they tend to use less capital per

worker and have the capacity to use capital productively. Their choice of techniques is labour intensive and, therefore, consistent with factor availability paradigm of production techniques. With an upsurge of unemployment rate in Nigeria, a proper take-off of SMEs sub-sector will help reduce the rate of unemployment and increase income generation. The implication is that any attempt to kick-start serious manufacturing activities in Nigeria must focus on the SMEs.

In a recent survey by World Bank of more than 10,000 firms in 80 countries, it was discovered that SMEs were at a competitive disadvantage to larger ones. Small firms lack the financial muscles to struggle against burdensome, taxation and regulation (World Bank, 2000).

The successive governments in Nigeria have continued to articulate policy measures and programme to achieve a sustainable industrial growth and development, through appropriate alternative funding. The sources of funding are broadly classified into internal and external. For most small businesses, internal sources (personal income, friends and relatives or local/informal institutions) of finance constitute a dominant source. External source of finance constitute bank finance and other forms of institutional credit arrangements which in most cases the SMEs are unable to access.

A number of studies on SMEs in Nigeria (Sule, 1986; Inang and Ukpong, 1992; World Bank 1995; Mahmoud, 2005) could not address the issue of alternative funding especially the need for a sustainability funding arrangement for the SMEs sub-sector. This study is significantly devoted or place as its main focus, the examination of the possible alternative funding arrangement availability and sustainable

to the SMEs sub-sector in Nigeria in Particular and African continent in general. In particular, the study incorporates the new policy initiative of the government schemes in recent times in the light of whether such effort will increase the level of credit availability to SMEs.

The study will make proper recommendations based on its findings especially on credit delivery (availability, accessibility and affordability) with a view to strengthen the institutional framework that will be critical in financing the SMEs sub-sector to guarantee its viability and competitiveness in the domestic and global economy.

1.5 Statement of the Hypothesis

The research work sets out to test the following hypothesis:

H_o: Funding arrangements for small and medium scale enterprises do not enhance their growth and expansion in Nigeria.

H_i : Funding arrangements for small and medium scale enterprises have contributed significantly to their growth and expansion in Nigeria.

1.6 Limitations of the Study

The respondents' complain of the bulky and sophisticated nature of the questionnaires vis-a-vis the short period of time given to fill them. As a result of this, some potential respondents adopted nonchalant attitudes towards filling them. Secondly, some operators, especially in the medium-scale industries owned by Lebanese and Indians, concentrated between Lagos, Kano, Kaduna and Sokoto, were out-

rightly hostile. Appeals by the research assistants and in some cases, state coordinators, eventually led to the acceptance of the questionnaires by a few. However, some of the operators still returned the questionnaires uncompleted.

Another problem encountered in the field had to do with the operators' reluctance to cooperate due to (i) suspicion that disclosing information may lead to increased taxation of their corporate profit (ii) Apathy towards government's gesture to assist them. They complained bitterly that many promises were made to them in the past, but none was fulfilled.

As in all research efforts of this nature, time was also a major constraint. This is even more glaring in our own case, since we took off after some others had already completed their fieldwork. In addition, the initial problems we encountered continued to linger on for sometime before they eventually fizzled out.

In view of the implication of these problems on any research effort, consistent attempt were made to mitigate their potentially negative impact on the quality of this study.

In addition, efforts were also made to carryall those team members on board so as to do away with the bitterness that the crisis had generated. Several members of the research team however, became overburdened by the formidable teaching assignments they were given. As such they were not able to be as prolific as they would have wanted to be. They did not however surrender quality in order to achieve quick results. This has only resulted in the few delays encountered in the submission of the reports and had nothing to do with the quality of work.

The myriad of problems encountered during the fieldwork emanating from suspicion, lack of confidence in government and the nonchalant attitudes displayed by some SME operators were minimised and, in most cases resolved, through persuasion. Most operators, especially those falling under the categories of micro and

small-scale industries, became very interested and cooperative on listening to our explanations on the real benefits derivable from the outcome of the economic survey, through the SMIEIS project. It was only in a relatively few companies that even this explanation was met with apathy or outright hostility.

On the whole therefore, there is both hope and confidence that this effort has succeeded in eliminating, or at least minimising, the potentially negative consequences of the problems enumerated above. The overall picture that has emerged out of the survey of existing SMEs in the Northwest zone is quite revealing and also rewarding, as will become self-evident in the subsequent chapters of this report.

1.7 Scope and Organization of the Study

The study evaluates the funding arrangements for SMEs in Nigeria with a view to explore a more sustainable way of credit delivery to SMEs in Nigeria. The scope of this study spread across SMEs businesses across Nigeria especially in the business of furniture making, iron benders, poultry and fisheries, soap and detergent making among others.

To achieve this, the study is structured into six chapters. Apart from the introduction, which this part concludes as chapter one, chapter two is literature review. In this part the related literature will be reviewed, theoretical framework and conceptual issues will be discuss to establish the linkages between finance and SMEs growth and development. Chapter three is methodology which discusses the methodological foundation and data analysis technique. Chapter four is presentation and analysis of data obtained from the field survey. Chapter five is discussion of results and chapter six is summary of major findings, conclusion and policy recommendations

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Development strategists have advocated the progressive use of small and medium enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of the world (Daodu, 1997). Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing (Osinowo, 1997). With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing activities. This requires specific incentives to assist in the development of the SMEs sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally-designed equipment and spares (Ekpenyong, 1992; 1997).

The need to promote a vibrant industrial sector has continued to be a major concern of most governments worldwide especially the developing countries like Nigeria. The reasons for this are centered on the prospects that a developed industrial sector will boost manufacturing production, increase employment generation and efficiency in the sector. Similarly, modern manufacturing processes are characterized by high technological innovations, the development of managerial and entrepreneurial talents and improvement in technical skills which normally promote productivity and better living conditions of the people. The effect of this is that productivity level

will be enhanced, a sustainable level of economic growth will be achieved with the prospect of economic diversification and increased exports. The economy will have the potential of being competitive in the global market (Olorunshola, 2002; Egbon, 2004).

In recognition of these potential role of the sector, successive governments in Nigeria have continued to articulate policy measures and programs to achieve industrial growth and development, including direct participation, alone or jointly with the private sector, interest groups, assistance from external agencies, provision of industrial incentives and adequate finance as stated in the 1988 industrial policy of Nigeria (FRN, 1988). However, the poor performance of the industrial sector, especially when emphasis was on medium and large scale enterprises in the course of implementing the import substitution strategy of the Nigerian government, led to the renewed emphasis or focus on the small and medium enterprises (SMEs) as the driving force in the industrial sector.

The Small and Medium Enterprises play a critical role in both developing and developed countries. Stiglitz and Marilou (1996) argued that the East Asian countries miracle was partly as a result of a vibrant SMEs sub-sector, which triggered the up-surge in exports and subsequent development of the industrial sector. For example, the New Industrialized Countries (NICs) like Singapore, Taiwan, South Korea, Malaysia, Indonesia and China among others, were able to achieve economic growth through the activities of SMEs which later contributed to the transformation of the Large-Scale enterprises. The Republic of China over the years, despite her large population, has

been able to generate employment and income for her teeming population through the activities of the SMEs.

The importance of SMEs sub-sector cannot be overemphasized. The sub-sector contributes significantly in achieving various socio-economic objectives, which include employment generation, contribution to national output and exports, fostering new entrepreneurships and providing a foundation for the industrial base of the economy (Inang and Ukpong, 1992). In low income countries with Gross National Product (GNP) per capita of between US$100 and US$500, SMEs account for over 60 per cent of Gross Domestic Product (GDP) and 70 percent of total employment; in middle income countries, the SMEs produced close to 70 percent of GDP and 95 percent of total employment; and in Organization for Economic Cooperation and Development (OECD) countries, SMEs constitute the majority of firms and contribute over 55 percent of GDP and 65 percent of total employment (Basu, et. aI., 2005).

In most developed countries, efforts to support SMEs growth are over a century and have helped to create an enabling environment for their operations (Sule, 1986). According to Sule, the experience of the developed countries suggests that the key environmental support for SMEs in creating a favorable operational environment through policy framework should include;

- Sophisticated or developed capital markets that offer the full range of financial products, ranging from seed capital to secured debt.
- Public policies that provide incentives to private financial institutions to lend directly to SMEs.

- Comprehensive public delivery system for business development services supplemented by innovative private and non-profit initiatives.
- Public policy that promotes the creation, analysis and dissemination of data on the SMEs sub-sector.
- Legal and regulatory protections that provide incentives for innovation, ease business entry and exit costs, and reduce business risk.
- Tax incentives for SMEs development and expansion.

There are two sources of finance available to SMEs. The internal and external sources (Chizea, 2002), with internal sources as the dominant source of finance for most small-scale businesses. A survey conducted by the World Bank (1995) on business environment in transitional economies showed that the share of internal funding is significantly lower in advanced reforming countries as follows: Estonia 33 percent; Poland 34 percent; and Lithuania 37 percent. In the United States of America, the SMEs of less than two years old, internal finance constitute 54 percent of total financing. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer.

The external sources of financing constitute bank finance and other forms of institutional credit. World Bank (1995) asserts that in India, the sources of external finance include informal channels, credit unions, and commercial banks which play an equally important role in the provision of external finance. These sources are certainly not dissimilar to the complement of sources of external finance available to most businesses in Nigeria. External source of finance must also

include public equity and debt sourced through the Nigerian Stock Exchange (NSE).

There has been an increasing financial need of SMEs which have attracted government attention in the last three decades in Nigeria. The government as a result put in place measures that will facilitate credit availability to the SMEs sub-sector. The government had also sought collaborative effort with bilateral and multilateral agencies and non- governmental organizations (NGOs) in supporting SMEs in Nigeria. For instance, the Federal Government of Nigeria negotiated and obtained the World Bank SME I loan scheme to the tune of US$42 million in 1984. After the adoption of Structural Adjustment Program (SAP) in mid 1986, the government again obtained World Bank SME II loan scheme of US$270 million for the development off SMEs. However, the loan was reduced to US$142 million in 1992. The scheme was said to have generated jobs for over 40,000 people, at the end of disbursement in 1996 (CBN, 2000). The loan was managed by the Central Bank of Nigeria (CBN) and disbursed through a number of participating banks comprising of commercial, merchant and development banks.

Despite the laudable schemes and institutions established like Small Scale Credit Scheme, Peoples Bank Scheme, Community Banks Scheme, Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperative Bank (NACB), National Economic Reconstruction Fund (NERFUND) among others by the Federal Government of Nigeria from the inception of SAP to provide resources (credit in particular) for the development of SMEs, the sub-sector still suffer from shortage of funds either to begin or expand

existing SMEs. Though some of the SMEs are credit worthy to attract loans, the high risk associated with SMEs sub-sector normally serve as an impediment. The provision of collateral for loans continues to pose serious problems. Most entrepreneurs of SMEs live in their own houses in rural communities or in rented properties in towns. Houses or estates in rural areas may not qualify for acceptance as collateral security (Iniodu and Udomesiet, 2004).

Claims recovery and collateral realization are often very weak. The barrier to credit protection is aggravated by the fact that the issuance of titles is extremely slow, due to the absence of appropriate procedures for registration of properties and inadequate resources of property registration offices. Credit recovery is hampered by the mal-functioning and cumbersome legal and judicial procedures (Sacerdoti, 2005).

In an attempt to reposition the SMEs sub-sector by having access to funding, the Agricultural Credit Guarantee Scheme Fund (ACGSF) was established and also government ensued a partnership with well-established financial institutions, to provide financial and technical services to SMEs through a well-developed investment scheme known as Small and Medium Industries Equity Investment Scheme (SMIEIS) which was launched in 2001. The scheme requires all banks to set aside ten (10) percent of their Profit After Tax (PAT) for equity investment and promotion of SMEs. The total amount set aside for the scheme as at December 2005 amounted to N40.7 billion (CBN, 2005).

The Small and Medium Enterprises Development Agencies of Nigeria (SMEDAN) was also formed with a view to facilitating access

to credit, technology and market for the SMEs. The participating banks are expected to liaise with SMEDAN in executing SMIEIS scheme. This is in consonance with the economic development plan or strategy of adopting a private-sector led development strategy. It is therefore expected that the flow of funds to this vital sub-sector of the economy will increase (Egbon, 2004).

However, revamping the SMEs sub-sector, goes beyond policy strategy as the past government effort has demonstrated (Egbon, 1995, 2004; Dangote, 2001). The availability, accessibility and affordability of credit are the major impediments to the development and sustainability of the SME sub-sector in Nigeria (World Bank, 1995, Sanusi, 2001; Essien 2001). It is on this context that the motivation of this study is drawn with a view to examine the alternative and sustainable source of finance for a vibrant small and medium scale business in Nigeria.

2.2 Conceptual Framework

In attempting to conceptualize small and medium enterprises (SMEs) in Nigeria, some points need to be stressed. First, there is no generally accepted definition of small or medium businesses because of the classification of businesses into large, medium or small scale is a subjective and qualitative judgement (Ekpenyong, 1997). Secondly, small businesses are generally quite responsive to their environment and our environment changes fast. Changes in the environment therefore affect what constitutes a small business at a particular point in time. Thirdly, what the definition aims at is to set some limits (lower and upper) that will assist in achieving the set purpose. Such

limits can be in terms of level of capitalization, sales volume, number of employees, etc.

A clear definition may be useful in a particular national context but it may not be practical to attempt a universal definition. An attempt is made to present some definitions of SMEs to demonstrate the divergence in definition across countries.

The Bolton report I published in the UK in 1971 with an expressed aim of eliminating difficulties associated with definition of SMEs at the sectoral level, gives three essential characteristics which any 'small firm' ought to posses. First, by definition, such firm's share of capital ought to be small; Second, it must be managed by its owner(s), who must do so in a personalized way, as opposed to a formalized management structure; and third, it must be independent in that it does not form part of large enterprise and that the owner or manager(s) must be free from outside control in taking principal decisions.

Lim (1992) argued that it is quite possible, for instance, that within the same sector, a business can be 'small' by capitalization and may not be deemed small by virtue of numbers of peopled employed. Therefore definitions and concepts of SMEs continue to evolve according to particular scholars, environment and disciplinary backgrounds as well as their perceptions of present day realities.

Conceptualizing SMEs in some countries and in Nigeria in particular form the basis of this section of the chapter.

In the developed or industrialized countries like United State of America and Canada, small business is defined in terms of annual turn over and the number of paid employees. In 1987 for example, the

manufacturing sector of the United State of America has as small scale business when the number of employees is between 20 and 49, while the medium employ between 50 and 499 employees in the manufacturing sector. In the UK that same year, small business is said to employ between 1 and 99 employees and medium scale 100 to 499 employees in the manufacturing sector. In 1990, Japan level of employment in the small scale ranges between 20 and 49 and medium as 50 to 499 in the manufacturing sector (Ekpenyong, 1997).

In the New Industrialize Countries, the definition of SMEs also varied and is mostly based on the number of employees and the value of assets. In Taiwan, the small scale business was defined as a business with less than 5 employees and the medium as the business with between 10 and 499 employees in 1991 in the manufacturing sector. The South Korea defined small scale enterprise in 1988 as any business that employ 5 to 19 and medium scale enterprises as employing between 20 and 199 without Sectoral specification. In Bangladesh a micro firm employed less than 20, while small firm employed from 20 to 99 in the manufacturing sector without mentioning of medium scale enterprises in 1986. In Bolivia, a small scale employed 1 to 9 and medium scale 10 to 99 employees in 1992 (Hallberg, 1999).

The European Economic Commission (EEC) and the European Investment Bank generally used the following definitions; an SME is any firm with a workforce not exceeding 500, with net assets of less than ECU 75 million, and with more than one third of its capital held by a larger company. These three conditions are said to be cumulative. As such, more than two-third of total employment approximately 50

percent in industry and in excess of 75 percent in service is in the SME sub-sector (Aryeetey, 1995).

The working definition by International Labor Organization (ILO) and United Nations Development Programme (UNDP) for SMEs and large enterprises indicates that: employing less than 5 employees including the owner is a micro enterprise; employing 5 to 20 employees is a small enterprise; employing 21 to 99 employees is a medium enterprise; and employing above 99 employees is a large enterprise (UNDP, 2001). The International Finance Corporation (IFC) defined small scale enterprises as the enterprise employing between 10 and 15 employees and with asset base of less than US$2.5 million. The medium scale employed between 51 and 100 (IFC, 2002).

In Philippines, small industry is defined qualitatively, in terms of employment or asset size. Qualitatively, small scale industries are manufacturing and/or industrial service enterprises in which the owner manager(s) are not actively engaged in production but perform the varied range of tasks involved in guidance and leadership without the help of specialized staff. The employment size is 5 to 99 employees and the asset size of p250,000. In 1986, the definition was drastically changed to cover all enterprises except agricultural farms which have assets of p500,000 to p5million (US$25,000 to US$250,000) (Ekpenyong, 1995).

Given this overview of SME definition by the industrialized and newly industrialized countries, the general consensus has been that the statistical definition of SMEs differs by country and mostly based on the number of employees or the value of assets. However,

one should be overly concerned about the lack of consistency in employment based SME definitions, since the number of employees, viewed in isolation from the size of markets or the economy, may be misleading. For example, a 50 employee firm in the U.S. would be considered 'smaller' (relative to the size of the U.S. economy) than a 50 employee firm in Bolivia or Taiwan. Moreover, other characteristics of the firm, such as the degree of informality or the level of technological sophistication, may matter more than the number of employees as a segmentation factor in advanced countries.

The study will also examine other definition of SMEs in the context of the African countries as Nigerian contemporaries for the sake of clarity. In Ghana, the Ghanaian Enterprise Development Commission defined a small industry as one requiring a loan of not more than c250,000 (if the borrowers equity were 30 percent including land and building). The Bank of Ghana, which operated a Credit Guarantee scheme (CGS), defined a small scale business by its sales volume (turnover) and by size of its investment in plant and equipment. To qualify for the CGS, an enterprise must have annual turnover not greater than c300,000 (three hundred thousand cedis) and plant and buildings valued at no more than c 1 00,000 in 1988. The National Board for Small Scale Industry in Ghana defined Small scale enterprise as a company having an asset valued at c10,000 (excluding land, building and vehicle) and employ 9 persons or less (Okraku and Croffie, 1997).

In Cameroon, the center for Assistance to Small and Medium Scale Enterprises (CAPME) defined SME as a company that is wholly owned and managed by the Cameroonian, owned capital of at least 52

percent in the business, has a turn over equal to or less than 1,000 million CF A, total investment not exceeding 500 million CFA, and short term outstanding cash credit not exceeding 2 million CF A in 1989 (Enquobahrie, 1997, p.88). In Sierra Leone, the National Development Bank (NDB) defined, SME as those with total investment of between Le500,000 and Le1million excluding cost of land but including working capital. While the National Industrial Development Finance Company (NIDFC) defined as SME a business with a capital not exceeding US$5,000 and with employees not exceeding 16 (US$1 = Le680) in 1991 (Rogers-Wright, 1997, p.150).

In a similar manner, various organizations or institutions in Nigeria have at specific times, defined SMEs in different ways but the definitions have as common measures fixed assets, gross output, and number of employees. In the 1979 Credit Guidelines to commercial and merchant banks, the Central Bank of Nigeria (CBN) defined small scale enterprises (excluding general commerce) as enterprises in which total investment (including land and working capital) does not exceed N500,000. In its monetary circular No. 22 of 1988, the CBN redefined small Scale enterprises (excluding commerce) as enterprises in which total investment (including land and capital) does not exceed N500,000 and/or annual turnover does not exceed N5 million. Following the persistence depreciation of the naira, capital investment was raised to N5 million and turnover to N25 million (FRN, 1988).

Also, in 1979, the Small Scale Industries Division of the Federal Ministry of Industries defined small scale industries as enterprises having investment capital (investment in building, machinery, equipment and working capital) of up to N60,000 and

employing not more than 50 persons. This was later revised to embrace any manufacturing, processing or service industry with capital not exceeding N150,000 in machinery and equipment.

The Nigerian bank for Commerce and Industry (NBCI) in the same year defined small scale enterprises as those businesses (for the sake of revolving loan schemes) investing not more than N500,000 (excluding the cost of land but including working capital). In 1985, NBCI redefined small scale enterprises as firms whose capital costs do not exceed N750,000 (including working capital but excluding land). In the 1990 budget, the Federal Government of Nigeria defined small scale enterprises, for the purpose of commercial bank loans, as those enterprises with an annual turnover not exceeding N500,000 and for merchant bank loans, as those with a capital investment of not less than N2 million (excluding cost of land) or a maximum of N5 million. The National Economic Reconstruction Fund (NERFUND) puts the ceiling for small scale industries at N10 million.

Section 37(2) of the Companies and Allied Matters decree of 1990, defined a 'small company' as one with annual turnover of not more than N2 million, and net assets value of not more than Nl million (Ekpenyong, 1997).

The 1995 Monetary, Credit, Foreign Trade and Exchange Rate Policy Guidelines, defined small scale businesses as "those whose total cost excluding cost of land but including working capital is above N1 million but does not exceed N10 million and including cottage industries which was defined as enterprises whose total cost excluding cost of land but including working capital does not exceed N10 million (CBN Monetary Policy Circular No. 29).

In the above definitions, there was no distinction between micro, small and medium scale enterprises. The only distinction was drawn between small and large enterprises. However, in 1997, industries in Nigeria were reclassified by the National Council on Industry as cottage, small scale, medium scale and large scale: by the new classification (Iniodu and Udomesiet, 2004, p. 171);

a. A cottage industry is one which has a total cost, including working capital (but excluding cost of land) of not more than Nl million with a maximum of 10 employees.
b. A small scale enterprise industry is defined as a firm with capital ranging between N4 million and N7 million, and with a labor force of between 11 and 35 employees.
c. A company with a total cost of over N40 million but does not exceed N 150 million, is classified as a medium scale industry.
d. A company with a working capital of more than N150 million and a work force of over one hundred people is classified as a large scale enterprise.

The CBN of recent puts the employment level of the small scale businesses at less than 50 and medium scale businesses as less than 100. In terms of asset-based, small scale has less than N 1 million while medium scale has less than N150 million (IFC, 2002). The SMIEIS defined SME as any enterprise with a maximum asset base of N200 million excluding land and working capital and with the number of employees not less than 10 or more than 300. This definition did not distinct between small scale and medium scale enterprises.

There is the need to define the SME sub-sector and understand the peculiarities that influence the need for assistance and support in

order to ensure the implementation of measures and the provision of adequate services for the promotion and the development of SMEs in the light of diverse definitions. This task however, has been a key problem, and attempts to come up with a standard definition has not been practicable; thus, SME definitions are based on the purpose for which they are sought and vary from country to country or within a country from institutions to institutions, etc. Nevertheless, some basic factors have been considered to define the borders within which SMEs are categorized.

A proper definition of SMEs is important to distinguish between the different categories of the production units in terms of factors like; number of employee, value of fixed assets, production capacity, basic characteristics of the inputs, level of technology used, and capital employed, etc., (Enquobahrie, 1997, p.85). These elements and others help to delineate SMEs target groups and introduce specific policy measures to cater for the needs of the enterprises. For example, a study conducted by the Georgian Institute of Technology (USA) has identified more than 50 definitions in 75 countries and the definitions are dictated by the interest of the user, purpose of the definition and the stage of development of the particular socio-economic environment (Nchari, 1991, p.138).

Therefore, it has become clear even in Nigeria the changing pattern of the definition of SMEs in response to the changing environment. The more stable the economic environment, the more lasting the definition would be; the definition use in this study consider as small scale any business with capital base of between N1 million and N0 million (excluding the cost of land) and employing 10

to 50 employees. The medium scale enterprises is any business with capital base of between N40 million and NI50 million (excluding the cost of land) and employing 50 to 100 employees excluding commerce. On this basis any enterprise short of requirement for the small scale is a micro enterprise while above the medium enterprise is a large enterprise. This choice of definition is adopted based on the definition of Small and medium scale enterprises by the Central Bank of Nigeria in 2000.

2.3 Review of Theoretical Literature

The government in both industrialized and developing countries provides a wide variety of programs to assists SMEs. Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less satisfactory. Many countries both developed and developing have come to realize the role of SMEs in the economic development process. They are seen to be characterized by dynamism, witty innovations, efficiency, and their small size allows for faster decision taking process. The government has formulated public policies to encourage, support and fund the establishment of SME's. Development in SMEs is a sin quo non for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. The SMEs operations are propelled by the dynamic theory, which makes them efficient and prone to constant change (Akabueze, 2002).

2.3.1 The Economic Importance of SMEs

It is often argued that government should promote SMEs because of their greater economic benefits compared to large firms in terms of job creation, efficiency and growth. This theoretical arguments and their empirical evidence are discuss below.

a. Share of Firms and Employment:

In most developing countries, micro and small scale enterprises account for the majority of firms and a large share of employment. In Ecuador, for example, firms with fewer than 50 employees accounted for 95 percent of firms and 55 percent of employment in 1980; in Bangladesh, enterprises with fewer than 100 workers accounted for 99 percent of enterprises and 58 percent of employment in 1986 (Hallberg, 1995).

The relative importance of small producers varies significantly across countries and within a given country, across stages of development over time. Comparative studies of manufacturing show a common pattern in the transformation of the size distribution of firms as industrialization proceeds. In low income countries, the vast majority of firms are micro and small, scale, existing along side a few large scale enterprises. In middle income countries, medium scale enterprises account for a relatively larger share of production and employment. In most countries, the trend toward larger firm size continues as per capita income increases (Snodgrass and Biggs, 1996). The exceptions to this rule are found in Asia. In Taiwan or China for example, the size distribution of firms has remained relatively constant over the past 30 years, even as the structure of production

changed from labor-intensive manufacturing to high-tech computer industries. On average, however, small scale enterprises playa declining role as countries develop.

b. Labor Intensity:

Small firms employ a large share of the labor force in many developing countries, but the question is whether they are more labor demanding than the large firms (for a given scale of production). Many argued that, within industries, SMEs are more labor intensive than large firms (Little, et. al, 1987, Snodgrass and Biggs, 1996). However, the evidence suggests that the enterprise scale is an unreliable guide to labor intensity. Many small firms are in fact more capital intensive than larger firms in the same industry (ibid, p.314). Labor intensity exhibits more variation across industries than among firm-size groups within industries, leading some authors to suggest that efforts to make economic growth more labor-demanding should focus on altering the pattern of demands in favor of labor-intensive industries rather than on supply side efforts to change the size distribution of firms (Storey and Johnson, 1987; Nasar, 1994; Haltiwanger, 1999). The fact that SMEs employ a large share of the labor force in developing countries may be more a reflection of the product composition of production in those countries than an inherent labor-intensity of small firms.

c. Job Creation:

Apart from labor-intensity, it is often argued that SMEs are important for employment growth, that is, job creation. Here again,

the evidence may not support the conventional wisdom. While gross job creation rates are substantially higher for small firms, so are gross destruction rates. This is because small firms exhibit high birth rates and high death rates, and many small firms failed to grow. In developed countries, net job creation rates (gross job creation less gross job destruction) do not exhibit a systematic relationship to firm size (Storey and Johnson, 1987; Davis, et. al, 1993). For example, in the US between 1973 and 1988, despite the widespread belief, to the contrary, small manufacturing firms did not consistently create more jobs on a net basis (after allowing for jobs eliminated and firms that went out of business) than large firms (Nasar, 1994; Hallberg, 1999). There is evidence that the same conclusion holds for developing economies (Sacerdoti, 2005).

Since small firms have higher gross jobs creation and destruction rates than the large enterprises, SMEs may offer less job security than larger firms. Yet it appears that job destruction during recessions is lower in SMEs than in large enterprises, perhaps due to greater wage flexibility in SMEs. In other words, SME owners may temporarily accept lower compensation during recession in order to hold on to their business (Haltiwanger, 1999).

d. Efficiency of the Enterprise

Measures of enterprise efficiency (for example, labor productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as management skill and technology, and the effects of the policy environment. In the US and

UK manufacturing sector, industries in which larger firms have a greater market share have greater productivity growth. Most studies on developing countries show that the smallest firms are the least efficient, and there is evidence that both small and large firms are relatively inefficient compared to medium scale firms (Little, et. al., 1987).

It is often argued that SMEs are more innovative than larger firms. In developed countries, SMEs often follow 'niche strategy', using high product quality, flexibility, and responsiveness to customer needs as means of competing with large-scale mass producers (Snodgrass and Biggs, 1996, p.33). Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time and larger firms may have more resources to adopt and implement them (Aes, et al, 1999).

e. Wages and Benefits

While there are many exceptions to the basic pattern, the weight of evidence suggests that larger employers offer better jobs in terms of wages, fringe benefits, working conditions, and opportunities for skills enhancement, as well as job security (Davis, et al, 1993). In low income countries like Nigeria, small enterprises have much lower productivity levels than larger firms, and this is reflected in the lower wages and non-wage benefits paid by SMEs compared to larger firms. There is evidence that this divergence in labor productivity and wage rates between small and large firms narrows as industrialization proceeds (Basu, et al, 2005), though in most industrialized countries

like U.S. and U.K., the gap in wages paid by small and large plants has widened over the past twenty years.

f. Social, Political and Equity Justifications

The SMEs are often said to contribute to a more equal distribution of income or wealth. The SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income. However, SME owners and workers are unlikely to be the poorest of the poor, so that SME promotion may not be the most effective poverty alleviation instrument. In addition, the strategy of promoting SMEs to achieve equity objectives may be less effective than more direct methods, for example, income transfers (Hallberg, 1999).

In reality, the desire of governments to promote SMEs is often based on social and political considerations rather than on economic grounds. Often SMEs are (or perceived to be) the domain of certain ethnic groups or political constituencies such as women in traditional societies, some society or family inherited traits in producing some goods like hide and skin in northern Nigeria, Iron smelting in the middle belt part of Nigeria (Ekpenyong, 1997). Sometimes the growth of small firms is seen as part of a democratization process and increased social stability, or as an instrument of regional development.

Thus, it is often argued that SME promotion is justified on grounds of the job-creating prowess of SMEs or of their greater efficiency and growth. Attempts are often made to draw a causal link between SMEs and poverty alleviation so as to justify policies and subsidies in favor of SMEs. But the empirical evidence supporting

many of these claims according to Hallberg (1999) is very mixed, making it difficult to justify SME promotion on the basis of inherent economic benefits of smallness.

The real reason that developing country governments should be interested in micro enterprises and SMEs is because they accounted for a large share of firms and employment, in other words, "they are there" (Little, et al, 1987). It is enough to recognize that micro enterprises and SMEs are the emerging private sector in poor countries, and thus form the base for private sector-led growth.

2.3.2 Policy Biases, Market Distortions and Size Distribution of Firms

The size distribution of firms evolves overtime within the broader context of economic development and the evolution of industrial production. As countries develop, the share of agriculture declines with a corresponding growth in industry and services, and average plant size increases (Snodgrass and Biggs, 1996). The size distribution of the firms responds to changes in the composition of production cost, transportation cost, (that change the spatial concentration of production and market size), and transactions costs (in turn a function of the legal and regulatory framework, institutional development, etc.). There is no "ideal" size distribution of firms, but rather an 'equilibrium' size distribution determined by resource endowments, technology, markets, laws, and institutions (Hallberg, 1999).

What determines the size of an individual firm, and thus the size distribution of firms in an economy, has three main factors in a review of the industrial organization literature:

a. Economies of Scale

Technology-based economies of scale determine the minimum efficient scale of production. Economies of scale of production, along with diseconomies of scale of organization technology, determine efficient firm size. The size distribution of firms is then determined by a combination of efficient firm size, and the product composition of production in the economy (which in turn depends on resource endowments).

b. Transactions Costs

In the theory of the firm originally developed by Coase (1937, 1988), the firm is viewed as an alternative to the market, a mechanism of allocating resources and structuring transactions (contracting, bargaining, etc.). Transactions for which the market is a highly costly form of governance are withdrawn from the market and internalized by the firm, thus increasing the size of the firm. The nature and size of transactions costs can change over time. For example, new communications technologies may lower the costs of transacting with suppliers, leading firms to out source activities previously handled internally.

c. Market Structure

The size distribution of the firms reflects the distribution of market power as well as segmentation and distortions in input and output markets that determine cost differentials between large and small firms. Some of these give an added advantage to larger firms. For example, the fixed costs and transactions costs associated with

regulations. Others can give SMEs an advantage. For example, small firms may be legally exempted from labor market policies such as minimum wages or social benefits, permitting them to hire labor more cheaply than large enterprises.

Some of the factors that determine the equilibrium size distribution of firms, technology-determined economies of scale, resource endowments, and consumption patterns are all in a sense "natural" determinants of firm size that are usually not targets of government intervention. Others, transactions costs, some types of fixed costs, the degree of competition, and segmented and distorted markets are influenced by policy and institutional factors that are within the realm of public policy (Wynarczyk, et al, 1993), for example;

- For markets to allocate resources efficiently, all market participants must have the same relevant information. In the real world, this assumption seldom holds and the resulting market failures can create biases against small firms. In credit markets, it is difficult or costly for banks to obtain information on the credit worthiness of potential SME clients. If lenders perceive the risk of lending to that clientele to be greater than it actually is, they will charge higher interest rates or refrain from lending to that clientele altogether.
- Even if credit risks are correctly priced, usury laws may prevent banks from charging interest rates that will cover the high unit cost of lending to small firms. In addition, imperfect competition in credit markets may cause banks to focus on larger and more profitable clients.

- SMEs demand for non-financial services such as training or consultancy may be low because they do not recognize that these services can raise their productivity and growth. In other words, because of lack of information or the risk that these benefits will not occur. As a result, SMEs tend to use fewer external sources of advice than larger firms.
- Laws governing the use of property as collateral often exclude moveable assets, such as, machinery or livestock. Since moveable assets often comprise a greater share of the assets of smaller firms compared with larger ones, this has a particular negative impact on access to credit by SMEs.
- Some policies and regulations may be biased de factor in favor of smaller firms, for example, when they are excluded from or neglected by the administration of tax and labor laws. Others are biased against SMEs, for example, exports and investment incentives often require a minimum level of exports or investment to participate.
- Beyond its nature as a public good and source of market failure, the fixed cost of acquiring information can create a cost disadvantage for small firms. For example, the ability of SMEs to enter and compete effectively in export markets is discouraged by the high fixed cost of acquiring information on foreign buyers, distribution channels, quality standards, and new technologies.

2.3.3 Implications for SME Development Strategy

The preceding analysis of the economic rationale for the support of SME suggests that SME development strategy is in reality just a "private development strategy" (Hallberg, 1999), recognizing that the majority of firms are small, that they may face different constraints and opportunities than large firms, and that the types of institutions and instruments best suited to their needs may be under provided in distorted and segmented markets. It points to government intervention toward the elimination of policy biases, by:

- Addressing the market failures that create cost disadvantages for SMEs, restrict their assess to markets, and inhibit the development of markets for a diverse range of financial and non-financial services appropriate for small firms;
- Improving transaction efficiency in financial, product, and input markets relevant to SMEs, by facilitating access to information and developing mechanisms to manage risk;
- Reconsidering public policies and regulations that discriminate against small firms or produce fixed costs that create a competitive disadvantage for them; and
- Investing in public goods, that open market access and build enterprise competitiveness, including infrastructure (information, communications, power, water and transport), as well as education and technology development.

This approach contrasts with traditional SME promotion strategies, which rely heavily on the direct and subsidized provision of financial and non-financial services to SMEs. It places much greater emphasis on creating an enabling environment for SME

competitiveness, and on developing markets for SME-relevant services rather than substituting for them. It attempts to broaden the coverage and impact of government programs by using the private sector to deliver services, and focusing scarce public resources on facilitating market transactions and investing in public goods.

At the institutional level, the emerging approach to SME development has many parallels to the recent revolution in micro finance. In micro finance, it has been recognized that overall financial sector reform was necessary but not sufficient to bring financial services to the poor. The provision of financial services to the low-income segment of the market was accelerated by developing innovative products and delivery mechanisms suited to that segment of the market. To achieve long term viability of micro finance institutions, the approach emphasizes institutional strengthening, cost-effective delivery and management, and the charging of interest rates sufficient to cover the costs of small scale lending. In the same vein, recognizing that SMEs may need different types of services, institutions, and delivery mechanisms than larger firms, the government can accelerate market development by promoting innovation and building institutional capacity.

2.3.4 Institutional and Environmental Support Approaches to SMEs

The economic and business justification for public intervention or support for SMEs development can be broken into three critical areas which are the business environment, business development services, and more importantly, financial services.

2.3.4a Business Development

The performance of all firms, small or large is affected by the business environment in which they operate. A stable macroeconomic, an open trade and investment regime, and a competitive financial sector establish the fundamental conditions for a vibrant private sector. Well developed physical infrastructure like transportation, warehousing and port facilities, communications networks, expands markets and facilities transactions throughout the productive sector. Social infrastructure investments in education and health care build the capacities of the productive sector workforce.

Nevertheless, there are certain aspects of the business environment that are of particular relevance to SME competitiveness (Hagnauer 1999): those that affect market access, the costs of acquiring information, transactional efficiency and risk, and the fixed costs of doing business. In most countries, these SME specific aspects of the business environment would include some or all of the following;

- barriers to entry and non-competitive behavior in markets where SMEs are potentially competitive;
- expensive and time-consuming regulatory requirements such as licensing and registration;
- the legal framework for commercial transactions and the resolution of disputes, that can affect transactions with unknown firms;
- laws governing the protection of business and intellectual property, and the use of property as collateral;

- tax structures that distort incentives and discriminate against small firms;
- labour market rigidities that make hiring and firing workers difficult and expensive, and limit the flexibility and mobility of the labor force;
- infrastructure that opens access to information and markets, particularly transportation, markets facilities and communications infrastructure; and
- official and unofficial levies that discourage small enterprises from growing and becoming formal.

The fact that a regulation raises the cost of doing business does not necessarily mean that the regulation should be softened or eliminated. Environmental regulations, for example, impose a cost on the business sector, but these costs may be outweighed by the social benefits of improved environmental quality. Nevertheless, when doing the cost-benefit analysis of such regulations, one factor to consider is how the burden is distributed across different types of firms. In some cases, adding flexibility in the implementation of regulations can be an important way to ease the burden on small enterprises.

2.3.4b Business Development Services

Business Development Services (BDS) include a wide variety of non- financial services such as labor and management training; extension, consultancy, and counseling; marketing and information services; technology development and diffusion; and mechanisms to Improve business linkages through subcontracting, franchising, and

business clusters. Theses services form an important part of the "market support structure" that helps build SME competitiveness.

Traditionally, government and donors provide BDS through public institutions or non-governmental organizations, often on a free or subsidized basis. There is a general consensus that publicly provided business development services suffer from being too general and supply driven, of poor quality, with insufficient awareness of cost control. Since both the quantity and quality of publicly provided or publicly funded services are limited by the amount of subsidies available, program coverage tends to be low, typically only 5 to 10 percent of the target population of SMEs. Systematic monitoring and evaluation of program impacts are rarely done (SMIEIS, 2002).

The emerging strategy for BDS focuses on developing markets for services that are appropriate to and demanded by SMEs, rather than on the direct provision of BDS by governments and donors (Steel, et. al., 2000). The lesson of recent experience show that facilitating the provision of services by private providers and stimulating the demand for them by small enterprise clients is an effective way to raise the coverage, quality, and sustainability of services, and to increase their impact on small enterprise performance. The shift toward market provisions of BDS reflects a move toward a "systems approach". The starting point for BDS market development is an understanding of the existing market: what is currently provided and by whom (including informal and indigenous producers); the characteristics, needs and willingness-to-pay of small enterprises; and the nature of market failures that constraint market development. Often, the delivery and price of services may not be easily visible,

since SMEs tend to rely on inter-firm relationships and informal sources of information rather than formal, external service providers.

Supply-side interventions to promote BDS market development can be used to extend and replicate models of financially sustainable and cost-effective services. Demand-side intervention, such as matching grants may be justified on a temporary basis if markets are underdeveloped because small enterprises lack knowledge (or perceive high risks) of the benefits of BDS. Nevertheless, the success of demand-side subsidies should be judged by whether they develop rather than distort markets. In general, it is believed that subsidies are less distortionary at the pre-delivery stage (for example, market assessment, product development) and post delivery stage (monitoring and evaluation) than at the BDS transaction.

As in micro finance, the challenge in BDS is to develop low-cost service 'products' and delivery mechanisms that meet the needs and willingness-to-pay of the smallest scale clients. BDS institutions can often achieve lower cost and higher quality when they involve the private sector in the delivery of services, through industry associations, linking larger firms to SMEs through buyer or supplier relationships, and, other SMEs themselves. Recent advances in information and communications technology as well as improved internet access offer opportunities to lower the cost of information, training, marketing, and business linkages. Standardized or group approaches for some services (such as basic business diagnostics) can be a cost effective way of delivering services, though they may be inappropriate for more sophisticated services to larger clients (such as technology upgrading services for medium-scale firms). Indicators of

performance of BDS organizations themselves can provide a solid base for appraisal, evaluation, and improved design of future intervention.

Efforts to develop private BDS markets should be complemented with a reduction and rationalization of public sector involvement. Reducing the traditional government role in service provision will take time, but can be encouraged by requiring steady increases in cost recovery to achieve financial sustainability; more business-like institutional management; using the private sector to deliver services; and more rigorous impact evaluation tied to budgetary allocations.

2.3.5 Subsidies, Market Development and Market Distortion

When designing intervention to develop markets for SME services, it is important to bear in mind the basic principle that subsidies distort markets. If their long-term objective is to promote the development of markets, one should ask whether their market development effect out-weights their market distortion effect. In turn, this depends upon whether the subsidy leads to a solution to the market failure that inhibited market development in the first place (Hallberg, 1999).

It is a common fallacy that demand side subsidies such as matching grants are "demand-led" or "demand-driven" support. While these programs have the advantage of allowing the SME client to choose among service providers (sometimes subject to certification by the government or program administrator), true market demand refers to the willingness of an SME to pay for services offered, in the

context of the resources and alternatives available to the SME. A justification for demand-side and supply-side subsidies can be made if they encourage market development in the long run.

Whether support in the market for SME services make sense depends upon whether their market development effects outweigh their market-distortions effects. In turn, this depends upon whether the subsidy leads to a solution to the problem that inhibited market development in the first place. When deciding when and how to intervene or support, governments and donors need to begin with a good understanding of the structure and performance of existing markets. If the willingness to pay for support services is thought to be too low, could this be because SMEs don't understand their true value, or because of the poor quality or inappropriate design of existing services? Are there few providers of services in the market because of a lack of knowledge of appropriate products, or because subsidized public institutions are crowding out private providers? Subsidies that are not targeted to the specific market failures constraining BDS market development are likely to be more distortionary than developmental, and since they do not solve the underlying problem, they may be more difficult to remove.

2.4 Financing Small and Medium Scale Enterprises

The SMEs often complain that their growth and competitiveness are constrained by a lack of access to financing and the high cost of credit. Recent events in Latin America and East Asia lend credence to the argument that SMEs are more likely than larger firms to be denied new loans during a financial crisis (World Bank,

2000). In most countries, because competition in the banking sector is limited, banks have not been under pressure to improve their lending to smaller clients. In addition, SME access to the formal financial sector is constrained by the high risks and transactions costs, real or perceived, associated with commercial lending to that segment of the market. Lenders are faced with a lack of reliable information on borrowers, difficulties in enforcing contracts (the result of inadequate legal frameworks and inefficient court systems), and the lack of appropriate instruments for managing risk (Hallberg, 1999). Often, the problem is compounded by supervisory and capital adequacy requirements that penalize banks for lending to enterprises that lack traditional collateral.

In the traditional approach to SME development, governments have provided credit to SMEs through first-tier development banks, second-tier credit facilities channeled through banks and other financial institutions, and portfolio requirements on banks, often supplemented by credit guarantee schemes. Subsidized interest rates and guarantees were common in the past and continue to be used in many countries. In part, this reflects a presumption that the high cost of credit is the main constraint facing SMEs, even though there is evidence that SMEs care more about access to credit than its cost (Sakai and Takada, 2000). The traditional approach of subsidized credit also may have been a reflection of the importance of state-owned banks in developing countries financial markets.

Direct and subsidized credit programs have done little to achieve what should be their fundamental objective, which is, increasing the access of small enterprises to financial services.

Instead, they inhibit the development of sustainable financial institutions and often foster a "non-repayment culture" among enterprises. Low rates of loan recovery push ex-post subsidies even higher than those intended in credit programs. Credit subsidies also create distortions in financial markets, since they discourage firms from using non-credit forms of financing. The traditional approach has failed to deal with the fundamental problems that raise the cost of credit and make banks reluctant to serve SMEs; the high risks and transaction costs (real or perceived) associated with commercial lending to the small scale segment of the market (Sacerdoti, 2005).

A market-oriented strategy for improving SME access to financing focuses on reducing the risks and transactions costs associated with this segment of the markets, strengthening the capacity of financial institutions to serve smaller clients, and increasing competitive pressure in financial markets. The aim is to increase the number of financial institutions that find lending to SMEs to be profitable, and therefore sustainable. Elements of this strategy would include:

- reducing barriers to entry, for example, by reconsidering capital adequacy requirements and prudential regulations that may be inappropriate for financial institutions serving smaller clients;
- reducing the risks associated with lending to small businesses, focusing on laws governing the enforcement of contract, forfeiture and collection of collateral, and the use of movable assets as collateral;
- developing the policy, legal, and regulatory frameworks that are essential to the development of innovative financial institutions

and instruments, including venture capital, small equity investments, and leasing;

- promoting innovation in specialized lending technologies that reduce the administrative costs associated with credit application, monitoring, and payment;
- strengthening the capacity of financial institutions to evaluate SME creditworthiness in a cost-effective manner, for example, through the use of credit scoring techniques; and
- providing information on the credit worthiness of potential borrowers, through the establishment of credit bureaus, and ways to help SMEs prepare business plans and financial projections.

2.5 Empirical Literature

In traditional SME interventions such as directed credit programs and/or technical assistance, the evaluation of the results of the support approach frequently has been limited to measurement of program inputs or program outputs, for example, the number of loan granted the number of clients served by a business advisory program, or the amount of market information provided. Attempts to measure the impact of support or intervention on SME and its performance are infrequently done and are plaque by measurement and methodological problems.

Improving the developmental impact of SME strategies will require much more attention to monitoring and evaluation of interventions. The trend away from public provision of services and

towards the development of markets calls for different approaches to the evaluation of the success or failure of intervention.

The institutional performance should ensure proper coverage (outreach), in terms of the number of individuals, enterprises, and organizations reach by an intervention, financial sustainability, which refers to the extend which the service can be provided without dependence on subsidies, and cost effectiveness, with the objective of providing a service (of a given type and quality) at the lowest possible cost; the market development should include the number, distribution and quality of service providers, types and quality of instruments available in the market, risks and transaction costs, the price of services and subsidy incidence, awareness and willingness to pay for services on the part of SMEs; on economic impact, the indicators of the intervention should be the magnitude and durability of the effect of the service on SME performance (productivity, sales, exports, etc.), and the developmental impact of the intervention at a Sectoral or economy wide level. Measuring the impact of credit support on the development of markets for financial and non-financial services is a critical need of the new approach to SME support.

Fadahunsi (1997) argued that until recently, government policies, strategies and programs in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labor intensity of the small scale enterprises and the low cost for creating jobs. SMEs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They

generally require limited capital and they can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and diluting monopoly.

The significant contributions of SMEs to the economy of Asian countries are evident in the role that SME sub-sector plays in that region. For example SMEs represent 99.4 percent of total industries in Indonesia and generating 93 percent employment (1974); 99.4 percent in Japan and generating 8.4 percent of employment (1985); 96.6 percent in Korea and 49.3 percent employment generation (1980); 92.0 percent in Hong Kong (1981); 90 percent in Philippines and generating 61.2 percent employment (1983); 90 percent in Thailand and generating 72.2 percent employment (1988). SMEs in Philippines and Thailand accounts for 47.4 and 30 percent of total value added respectively (Fadahunsi, 1997). The unique feature of the Asian region is the emergence of a large number of NGOs and Voluntary Organizations promoting SMEs particularly in India, Bangladesh, Nepal and Philippines.

A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995). The semi formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit

needs of small businesses in small scale (Ekpenyong, 1995; Aryeetey, 1995).

More than 50 percent of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plcs, the sole proprietor owns more than 60 percent of the capital stock. This clearly demonstrates that little institutional credit has been received by SMEs (Odetola, 1997). A study conducted by Odetola (1997) on the sources of investment financing for SMEs in Nigeria, found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents.

In a similar study by Cowrie Consultants (1995) cited in Odetola, (1997) covering Northern Nigeria, Lagos and Western Nigeria, and Eastern Nigeria, the source of business finance from personal savings was 26.6 percent, 37.04 percent and 32.14 percent for the regions respectively. From friend sources it was 30.59 percent, 19.53 percent and 32.14 percent respectively. From bank sources it was 35.29 percent, 33.33 percent and 21.42 percent respectively. From government agencies it was 8.82 percent, 7.83 percent and 3.57 percent respectively; while trade groups and cooperatives was 5.88 percent, 11.02 percent, and 7.14 percent respectively.

Okraku and Croffie (1997) argued that in Ghana SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40 percent at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity for loans. At the enterprise level, SMEs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices.

Evaluating the impact of intervention on SME performance can benefit from the use of a logical framework that clearly defines the program's objective and links activities and inputs to outcomes and impact. However, many of the often repeated justifications for the scale-based enterprise support have little empirical evidence. But whether their actions are based on myth or reality, government in both developing and industrialized countries do intervene to promote SMEs Their SME assistance strategies often try to achieve a combination of equity objectives (alleviating poverty, and addressing social, ethnic, and gender inequalities); and efficiency objectives (raising the productivity and profitability of the business or firms). The confusion

created by multiple objectives often leads government to over-subsidize services that could be provided by the market (Hallberg, 1999). Added that direct provision of credit and non-financial assistance to SMEs tend to substitute for markets rather than dealing with the underlying causes of market underdevelopment.

Consequently, the supports for SME through the development of markets for financial and non-financial services are only successful if their market-development effects outweigh their market-distortion effects. In turn, this depends upon whether the support resolves the underlying problems that constrain market development. This underscores the need to begin with a good understanding of the structure and performance of existing markets and to build upon institutions and inter-firm or business networks that are already in place.

2.5.1 Profile of SMEs and Sources of Finance

Rapid industrial growth and development that is SMEs driven has become the focus of economic development policies in Nigeria because of its potential benefits. It enables a country to utilize fully its factor endowments and to depend less on the external sector for its growth and sustenance. The three industrial sub-sectors in Nigeria are manufacturing, mining and electricity. However, much emphasize shall be laid on the manufacturing sub-sector, which forms the spring board for SMEs development in Nigeria (Sanusi 2001).

i. Evolution and Composition of SMEs

Prior to Nigeria's independence in 1960, the pre-dominant economic activities were agricultural production and marketing of imported goods (Oesterdiekhoff, 1991; Egbon, 2004). Early manufacturing activities predating independence were limited to semi-processing of primary agricultural products as an adjunct to the trading activities of foreign companies. The agro-based manufacturing units that were established included vegetable oil extraction and refining plants, tobacco processing, pottery, wood carving, mat making, raffia crafts, saw milling, starch-making, dying. Much later, textiles, breweries, cement, rubber processing, plastic products among others were produced. The private indigenous entrepreneurs relied on local or crude technologies for the production of light consumer goods in small scale and cottage units that were scattered across the country.

Nigeria's manufacturing sub-sector is comprised of a wide range of industrial activities by SMEs which produce a range of products like food, beverages, chemicals, tyres, detergents, wooden and metal furniture, rubber products, bottle water, and soap among others. The consumer goods industries dominate the manufacturing sub-sector accounting for 70 percent value added and 75 percent employment generation (CBN, 2000). In terms of relative size, the small and medium industries constitute 65 percent, while medium and large scale industries represent 31 percent and 4 percent respectively (see Table 2.1)

Table 2.1 Structure of Enterprise Establishments (percentage)

Activity	Size Composition			Ownership Structure			
	Micro (2)	Medium (3)	Large (4)	Solo Proprietor-Ship	Cooperative	Partnership	Others (5)
(i)Agriculture, Forestry & Fishing	43.0	54.0	3.0	-	-	-	-
(ii) Mining & Quarrying	30.0	55.0	15.5	40.0	47.0	6.0	7.0
(iii)Manufacturing	66.0	31.0	4.0	82.0	12.0	6.0	1.0
(iv) Electricity, Gas and Water	25.0	51.0	24.0	15.0	30.0	4.0	51.0
(v) Consumption	42.0	48.0	11.0	50.0	41.0	9.0	1.0
(vi) Wholesale & Retail	76.0	23.0	1.0	75.0	16.0	7.0	1.0
(vii) Transport, Storage and Communication	47.0	47.0	6.0	36.0	45.0	10.0	9.0
(viii) Financing, Insurance & Real Estate	51.0	45.0	4.0	37.0	48.0	12.0	4.0
(ix) Community, Social & Personal Services	68.0	1.0	1.0	81.0	9.0	8.0	2.0
	66.0	32.0	3.0	75.0	16.0	7.0	66.0

Source: CBN, 2000.

ii. Ownership Structure of SMEs

The manufacturing sub-sector has as participants, both private and public sectors of the economy. The public-owned industries accounted for 66.7 percent of total investments in intermediate and capital goods industries in 1990 (UNDP, 2001). Also, the public sector (Federal and State Governments) were involved in many joint ventures and wholly-owned investment or projects in the consumer goods manufacturing industries.

The private sector investments remain concentrated in the consumer goods enterprises and have grown faster than the intermediate and capital goods industries because of its relatively simple technology and lower capital investment required for establishment. Large foreign corporations and indigenous firms sponsored most of the intermediate and consumer good manufacturing units (CBN, 2000). The sole proprietorship accounted for 75 percent of total enterprises, cooperative joint venture and partnership represented 16 and 7 percent respectively (see Table 2.2).

Table 2.2 Nigeria Geographical Distribution of Establishments (percentage)

Regions 1/	Western	Eastern	N/Western	N/Eastern	Total
(A) By Ownership:					
Sole Proprietorship	48	29	12	11	100
Private Ltd company	40	30	15	15	100
Public Ltd company	44	29	13	14	100
Co-operative	57	23	9	11	100
Statutory	9	40	49	2	100
Government Owned	25	62	5	8	100
Not Classified	28	51	10	11	100
(B) By Size 2/					
Micro-Enterprise	51	25	13	11	100
Small Scale Enterprise	39	38	12	11	100
Medium Scale Enterprise	41	28	16	15	100
Large Scale Enterprise	54	21	14	11	100

Source: CBN, 2000.

The structure of the manufacturing sub-sector has a dualistic `formation. There are a large number of informal small enterprises and a few formal modern firms that use much of modem technology unlike the former that used simple technology and characterized by relative ease of establishment and operating capacity.

The analysis of manufacturing sub-sector structure by size shows that small scale enterprises constituted 66 percent, medium scale enterprises 31 percent and large scale enterprises 3 percent. In terms of output, their contribution was 85, 10 and 5 percent respectively in the year 2000 (CBN, 2005). The geographical distribution shows a heavy concentration of business activities in the western and eastern regions of the country (Table 2.2)

iii. The Development and Growth of SMEs

The apparent failure of the large-scale import substituting industries to ensure sustained growth and development and the increasing awareness of the potential role of SMEs in the economy, led to a shift in the government priority to emphasize the promotion of SMEs. The potentials of SMEs among others include employment generation, enhancing flexibility in production and rapid market responses, establishing linkages between agriculture and industrial sectors, accelerating the development of rural sector, stimulating entrepreneurship and promoting domestic resource utilization, mitigation of rural-urban drift and contribution to manufactured

exports. The SMEs have experienced expansion in contrast to the collapse of many medium and large scale enterprises in the post-SAP era in Nigeria. A review of the impact of SAP indicated that SMEs could respond flexibly under difficult and changing conditions, while large scale enterprises continued to experience under utilization due to their heavy import dependence (World Bank, 1994).

Table 2.3 Sectoral Distribution of SME 1 Scheme Beneficiaries

Sector	New	Existing	Total	% Shares of Each Sector
Manufacturing	53	64	117	63.0
Agro-Allied	20	8	28	15.0
Industrial Support Services	5	15	20	11.0
Transportation	2	8	10	5.0
Agriculture	2	4	6	3.0
Mining/Quarrying	3	3	6	3.0
Total	**65**	**102**	**187**	**100.0**

Source: CBN, 2000

Table 2.4 Nationwide Distribution of SME: II Scheme Beneficiaries

State	Number of Projects
Lagos	**53**
Anambra	**25**
Abia	**16**
Imo	**10**
Kano	**8**
Ogun	**7**
Edo	**7**
Oyo	**6**
Ondo	**5**
Delta	**5**
Kwara	**5**
Rivers	**5**
Bauchi	**4**
Osun	**4**
Akwa Ibom	**3**
Niger	**3**
Cross River	**2**
Enugu	**2**
Kaduna	**2**
Plateau	**2**
Benue	**1**
Sokoto	**1**
Total	**187**

Source**:** CBN, 2000

CHAPTER THREE: METHODOLOGY

3.0 Introduction

To ensure proper collection and analyses of data in this study, the researcher resolved to collect both primary and secondary data. This aim at making sure that all the relevant materials or information required for the study were acquired and utilized. Therefore, this chapter is designed to articulate various research methodologies, sampling procedures employed and its justification, research population or sample size used and also the statistical techniques used for the analyses of the data.

This chapter basically explains the basic research methods employed to undertake this study using appropriate statistical techniques of chi-square, and equally test for goodness of fit.

3.1 Research Methods and Justification

The selection of a primary method of investigation is a key consideration for this study. The study has as its basic consideration the funding arrangement at present that is available to the SMEs and whether such arrangement is sustainable. The basic research method suggestively should therefore, be a normative-survey research method (Osuala, 2005). The study has carefully observed the distinctive criteria for chosen the above survey method in the investigation of our research problem.

Despite the inestimable contributions brought forward through the use of scientific method in research (quantitative method), it has fostered a naive faith in the substantiality and intimacy of facts (Osuala, 2005). The human element has become recognized

increasingly as a critical and determining factor in the definition of truth and knowledge in research. The epistemological underpinnings of the quantitative motive hold that there exist definable and quantifiable "social facts" (Kerlinger, 1964). This view point stands in opposition to the fact that reality cannot be subsumed within numerical classification.

The qualitative research has to this extent assumed a very important role especially in the social or human sciences. Qualitative research places stress on the validity of multiple meaning, structures and holistic analysis, as opposed to the criteria of reliability and statistical compartmentalization of quantitative research. However, there emerged in the 1970s a school of thought who began to agree that both methods are required, since no one method can answer all questions and provide insights on all issues. Each (qualitative and quantitative) offer a different perspective but no one perspective exhausts the realm of 'reality' whatever that may be.

Qualitative forms of investigation are based on the recognition of the importance of the subjective experiential life-world of human beings. The task of the qualitative methodology is to capture what people say and do, as a product of how they interpret the complexity of their environment, to understand events from the view point of the participants makes this form of investigation more applicable and desirable for this study. It is the life-world of SMEs businesses in Nigeria as the participants that constitute the investigative field of this study. Osuala (2005) described this emerging form of research as being considerably relevant, since there can be little meaning, impact or quality in an event isolated from the context in which it is found.

Therefore while the study may at a point in time use quantitative method, the basic research method employed for this study is the qualitative methods which are concerned with processes rather than consequences, with the wholeness rather than independent variables, and with meaning rather than behavioral statistics. Interest is directed towards context-bound conclusions that could potentially point the way to new policies and program initiatives. This perhaps may be constraint by time required for data collection, analysis and interpretation. This impediment has been duly considered and a considerable time was given in this study in order to examine holistically and aggregately and interpret reactions and responses of the respondents.

3.1.1 Types of Data Use in the Study

Scientific problems can be solved only on the basis of data and a major responsibility of the investigator is to set-up a research design capable of providing the data necessary for the solution of the study problem. The more clearly and thoroughly a problem and its ramifications are identified, the more adequately the study can be planned and carried to a successful completion. It is not wise to select a topic, no matter how adequate, if circumstances render the collection of data required for its solution impossible.

The data used in this study are classified into two types, that is, the primary and secondary data.

3.1.1a Primary Data

Data collected for a specific purpose are known as primary data. The collection of facts and figures as designed in the

questionnaire for this study and interview of the respondents is the source of primary data for this study. The essence of obtaining such data is to ensure that the exact information wanted for the study was obtained. Terms were carefully defined so that as far as it is humanly possible, misunderstanding on the relevant data to be collected is avoided.

3.1.1b Secondary Data

Occasionally, data are collected for some other purpose mostly for administrative and policy reasons, and form part of the information or data used in this study which are referred to as secondary data. These materials were obtained for purposes other than this study. It is used, however, for compiling quite a large number of statistics relating to various variables and indices or indicators in the economy. Secondary data must be used with caution. Such data may not give the exact kind of information needed, and the data may not be in the most suitable form. Great attention must be paid to the precise coverage of all information in the form of secondary data.

3.1.2 Methods of Data Collection

Among the various methods available, the ones used specifically for this study are discussed below;

3.1.2a Questionnaire:

Survey testing represents the most systematic program conducted. The questionnaire is perhaps, the most used and the most abused survey instrument (Osuala, 2005). Osuala argued that, too often, it is used to provide a pooling of ignorance in situations where only an experimental method can provide a meaningful answer. Questionnaire really constitutes the first attempt at scaling. The

questionnaires are advantageous when ever the sample size is large enough to make it uneconomical for reasons of time or funds to observe or interview every subject. The greatest difficulty with questionnaires that are distributed to the subjects or potential respondents is the probable bias which exists when less than the total number in the sample actually responds to the questionnaires.

The questionnaires designed are in two parts. The first part is a classification section. This requires such details of the respondent sex, age, occupation etc. The second part possesses the questions relating to the subject matter of the inquiry. The responses for this second part form the basis of our data presentation and analysis. This represents purely the primary source of data collection.

The questionnaire designed contains both open and closed questions. The open questions give the respondent freedom to decide the aspect, detail and length of his answer. It enables the respondents to give a more adequate presentation of his particular case and convey flexibility in his choice. The closed questions on the other hand are designed to keep the questionnaire to a reasonable length and this encourages response and validity in terms of the representativeness of the returns. It minimizes the risk of misinterpretation unlike the former. It also permits easier tabulation and interpretation by the researcher. The question on whether to use either open or closed questionnaire can be resolved on the basis of validity, reliability and usability, and in as much as the problem under review is varied and complex, a combination of the two is better than the exclusive use of one. This study employed the use of both open and closed questionnaires.

3.1.2b Personal Interview

Personal interviewing is another method this study employed to collect primary data. It is very similar in nature and purpose to the questionnaire. As a research method, the interview is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions. These questions are both structured and unstructured similar to the open and closed questions of the questionnaire respectively as discuss earlier. The form of the opening interview is crucial, nevertheless, to win those who are less willing to cooperate. The aim of the large scale survey through the interview is to attain uniformity in the asking of questions and recording of answers.

3.1.2c Documentary

This method of data collection is based on observations or informal conservations. They are usually incomplete and biased, but in certain cases are very useful. This method reveals other facts that may not be obtained through interviews and administering of questionnaires. More so, many facts and relevant information can also be sourced from past records either in text books, periodicals or journals, various statistical and informational materials from different institutions or agencies etc. This form of data collection constitute the secondary source of data collected for this study and help immensely in literature review and background of study that constitute the foundation of this study.

3.2 Instruments or Tools Used in the Study

The basic analyses used in this study are the conventional instruments that are frequently employed for statistical analyses and measurement in most studies. These tools of analysis are tables which are used for the presentation of information and data in a tabular form either those acquired from the field or from the archives (documentation). The charts (bar and pie charts) are equally used to present the information displaying their trend or movement over time and space.

3.3 Research Population and Sample Size

The first step in obtaining a sample is to define the population. This means identifying the characteristics which members of the study group have in common and which is used to identify units of a particular group. In selecting samples for this study that meets conditions of randomness, the researcher, having identified the problem, defined the characteristics of the population which will provide the sample information in the course of this survey as the business operators in the SMEs sub-sector spread across Nigeria. The questionnaire was prepared and distributed to ensure fair and equitable distribution and response from the respondents which was expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis.

Three factors determine the size of an adequate sample: these are nature of population, types of sampling design and degree of precision desired. Using a sample that is too large is a waste of resources while using a sample that is to small means getting results

that are likely to be lacking in validity. This study tried to balance these two issues by distributing relatively adequate number of questionnaires amounting to two thousand (2,000) in which one thousand five hundred were completed and returned. The survey field was subdivided based on the six geo-political zones in Nigeria (that is, South South, South-West, South-East, North-Central, North-West, and North East) for fair representation. Thus, the sample size for this study is one thousand five hundred on which all the analyses in this study will be based.

3.4 Sampling Procedure Employed

No concept is as fundamental to the conduct of research and the interpretation of its results as sampling. Except when a complete census or survey is taken, research is almost invariably conducted by means of a sample, on the basis of which generalizations applicable to the population from which the sample was obtained are reached.

Sampling is taking any portion of a population as a representative of the population. The sample methods employed in this study is the random sampling, which draw a portion of a population so that each member of the population has an equal chance of being selected. In other words, in a random sampling all possible samples of fixed size have the same probability of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member.

The random sampling technique used in this study make possible the conduct of otherwise impossible studies by selecting

representative units from the population, the results of which are used to draw inferences about the total population. To achieve this, a system used to draw our samples include defining our population, obtaining a list of units in the population, determine the size of the sample so that all characteristics of the population are presented and drawing units from the list which serve as representative of the total population.

The major factor that prompts the choice of this sampling technique is to obtain external validity. In addition, sampling serves the practical purpose of making possible the study of problems which otherwise could not be undertaken at a reduced cost. In other words, since in sampling data are collected from only a small fraction of the aggregate, expenditures are smaller than if a complete survey or census is attempted. With large populations as the case of this study, accurate results enough to be useful were obtained from samples that represent only a small fraction of the population.

There was also greater speed in the collection and analyzing process for a sample than for the total population. The study of total population is impractical, whereas sampling makes possible the conducting of large scale studies. Also, there is greater accuracy in the processing of the data when the volume of work is reduced.

The population of this study comprised the totality of the SMEs sub-sector which has certain defined characteristics in common especially in the developing countries. The units of the population are always alike in some significant aspects. The relevance of using random sampling technique emanated from the crucial role it plays in

a study with a large population, sampling was the most convenient method of collecting data.

In all the states covered, questionnaires were distributed in such a way as to cover the geopolitical character as well as the spread of SMEs in the states. Most of the questionnaires were however lodged with SMEs located around the state capitals/metropolis. This is in view of the fact that these places had the largest concentration of SMEs in the states. Nevertheless, efforts were made to ensure that other parts of the states where SMEs are located were also adequately covered. Efforts were also made to ensure that all categories of SMEs including Micro industries were included in the sample. The selection of the particular SMEs for study was based on the willingness of the operators to cooperate.

The type of information required in the study was clearly spelt out under the objective of the study. The pre-designed questionnaire provided; was meant to elicit the required information in an analyzable form. The Questionnaires were designed and administered by lodgement, and they were retrieved after some days. The country was stratified according to the geographical locations.

3.5 Statistical Technique Used

The statistical technique used in analyzing the data in this study IS the chi-square tests. The chi-square, denoted by the letter X^2, is frequently used in testing a hypothesis concerning the difference between a set of observed frequencies of a sample and a corresponding set of expected or theoretical frequencies. A chi-square is a sample statistic and is computed as follows;

$$X^2 = \sum \frac{(Fo - Fe)^2}{fe}$$

The chi-square test examines the extent to which the frequencies that are actually observed in the study differ from the frequencies that are expected if the null hypothesis is correct.

The practical steps used in calculating the value of X^2 in the study are;

i. The observed frequencies were arranged in a tabular form reflecting rows, columns and the total number of observations (N).

ii. The expected frequency for each of the cells in the table is calculated. The formula for calculating the expected frequency is given below;

E = Row Total x Column Total divided by total number of observation.

Where the row total refers the row total for the cells and the column total refers to the column total for the cell.

iii. The quantity $(F\ 0 - F\ e)^2 / Fe$ is calculated for each cell.

iv. The value of X^2 was calculated by assuming the $(F\ 0 - F\ e)^2 / Fe$ value found in step (iii).

The significance of the obtained X^2 value was evaluated by consulting a table of critical value of X^2. The critical X^2 value indicates the value that the obtained X^2 must equal or exceed to be significant at the 10 percent, 5 percent and 1 percent level of significance. The critical value of X^2 for any given study depends on the degrees of freedom. The degrees of freedom (df) refers to the number of scores that are free to vary. In the table of categories for a chi-square test, the number of df is the number of cells in which the frequencies are free to vary once we know the row totals and the column totals. The df for chi-square is easily calculated as follows;

Df =(R - 1) (C - 1)

where R is the number of rows and C is the number of columns in the table.

The chi-square test is extremely useful and is used frequently in all of the behavioral or social sciences. The calculational formula described is generalizable to expand studies in which there are more categories on either of the variables (Osuala, 2005).

3.6 Methodological Difficulties

The first major difficulty encountered in the course of this study had to do with complaints from respondents over the bulky nature of the questionnaire vis-a-vis the short period required to fill it. Considering the fact that most operators of SMEs are usually very

busy people, sparing one hour or there about to fill the questionnaire was to them, a waste of valuable time. Some complained that the time given to complete the questionnaire was too short as they should need to either cross-check their records or even seek clearance from their Head Offices. Consequently, in some instances, some respondents were either totally indifferent to the exercise or even demanded money before filling the questionnaires.

The second major difficulty encountered was the outright loss of confidence in government policies especially regarding the funding of SMEs generally. Many of them complained that they had made several attempts in the past to secure assistance from banks and other funding agencies, but without success. For many of them, government policies are usually mainly on paper with little or no effort made towards implementation.

They therefore saw this exercise as one of those many attempts by government to merely document their operations and problems, but without any assurance that they will benefit from them eventually. This problem also affected the quantity and quality of responses received.

The third problem had to do with refusal to provide information on some key issues in the questionnaire. For some of them, such pieces of information are sensitive to their operations and are therefore regarded as 'business secrets'. This problem was more acute among foreign owned SMEs. Some Lebanese and Chinese owned SMEs refused to fill either parts or whole questionnaires administered on them. Some of the parts that were not filled include the ones on turnover; levels of education of workers; capacity of their plants, level

of investment and cost of production. Some of them thought that the release of such information could affect the amount of taxes to be imposed on them eventually as well as regulation of the prices of their products to their disadvantage. The issue of regulation/enforcement with respect to minimum wage came up as most of them employ casual workers. This in turn, affected the level of responses received.

Other general problems observed in the course of the study that are confronting SMEs operation include:

(a) High rate of interest charged by banks.

(b) Very little or no information about SMIEIS and how to acquire assistance through the scheme.

(c) Lack of support/incentives from all tiers of government

(d) Preference for foreign products by consumers over what is locally produced.

(e) Harsh government policy against SMEs generally

(f) Lack of effective monitoring and control by government

From all indications, the enthusiasm shown by the micro, small and medium scale business operators in the Northwest geopolitical zone, shows that they are quite willing to utilize the new opportunities offered. All information on the scheme should therefore be made available to all the stakeholders through the relevant agencies. Finally, the country has great potentials for the development of SMEs in view of its vast resource endowments. Thus, the adoption of resource-driven strategy of industrialisation will, no doubt help to reduce the level of unemployment and also increase the pace of industrialization in the country .

CHAPTER FOUR: PRESENT A TION AND ANALYSIS OF DATA

4.1 Analysis of Pattern of Lodgements and Retrievals among the Regions (States)

The pattern of lodgements and retrievals of questionnaire, in accordance with the different industrial classes, i.e. micro, small and medium scale industries, provides very useful insights into the most dominant types of industries and the spatial concentrations of such industries in Nigeria.

Accordingly, an attempt is made here, to summarize these response patterns as revealed by the results of the survey. It should however be appreciated, right from the on-set, that what governed the proportional lodgements between the small and medium scale industries was the degree of spread across the country.

A total of 2000 questionnaires were lodged across the various industries in all the regions, out of which 1500 were completed and retrieved, representing 75% retrieval rate. Out of the 2000 questionnaires administered 314, 1,500 and 186 were distributed to Micro, Small and Medium scale industries respectively. The numbers of questionnaires retrieved from Micro, Small and Medium scale industries are 118, 1,320 and 62 respectively. This represents a retrieval rate of 37.57% for micro scholar industries, 88% for small scale, and 33.33% for Medium scale industries. This is quite consistent with the open enthusiasm that they displayed during the conduct of the fieldwork (see table 4.1 and 4.2 below):

Table 4.1: Distribution and retrieval of Questionnaires: Micro Scale Enterprises.

Micro Scale Industry				
No.	**Regions**	**Lodgement**	**Retrieval**	**% Response**
1.	North - East	40	8	6.7
2.	North - West	60	42	35.7
3.	North - Central	50	16	13.6
4.	South - West	60	32	27.1
5.	South - East	47	13	11.0
6.	South - South	57	7	5.9
TOTAL		314	118	100

Source: Survey Report 2007

Table 4.2: Distribution of respondents by lodgements and retrievals: Small Scale Enterprises

Small Scale Industry				
No.	**Regions**	**Lodgement**	**Retrieval**	**% Response**
1.	North - East	220	203	15.4
2.	North - West	330	318	24.0
3.	North - Central	220	189	14.3
4.	South - West	300	277	21.0
5.	South - East	230	202	15.3
6.	South - South	200	131	10.0
TOTAL		**1500**	**1320**	**100**

Source: Survey Report 2007

The several medium scale industries that are still functioning, many are owned by foreigners such as Lebanese, Chinese and Indians who generally refused to accept the questionnaires that were meant for them. Several of them who, as a result of the fervent appeals by the research assistants, eventually accepted them, returned the questionnaires either partly completed or wholly uncompleted. However, since the survey was intended to cover a certain minimum number of industries in each state, some questionnaires initially meant for several medium scale industries ended up being lodged with smaller industries that were more cooperative (see Table 4.3 below).

Table 4.3: Distribution of responding SMEs by lodgements and retrievals: Medium Scale Enterprises

Medium scale Industry				
No.	**States**	**Lodgement**	**Retrieval**	**% Response**
1.	North - East	40	6	9.7
2.	North - West	20	13	21.0
3.	North - Central	30	9	14.5
4.	South - West	40	16	25.8
5.	South - East	23	10	16.1
6.	South - South	43	8	12.9
TOTAL		**186**	**62**	**100**

Source: Survey Report 2007

Table 4.4: Distribution of respondents by lodgements and retrievals: All Regions

All Regions				
No.	**States**	**Lodgement**	**Retrieval**	**% Response**
1.	North - East	300	217	14.5
2.	North - West	400	373	24.9
3.	North - Central	300	214	14.4
4.	South - West	400	325	21.5
5.	South - East	300	225	15.0
6.	South - South	300	146	9.7
TOTAL		**2000**	**1500**	**100**

Source: Survey Report 2007

On the other hand, the region that recorded the highest response rate under the micro industries group is South-West region with 16, followed by North-West region with 13; North-Central 9, South-East 10 and the lowest response of 8 came from South - South. The North-West and South-West recorded the highest number of response from both small and medium enterprises. This may not be unconnected with the fact that the two commercial cities in Nigeria Lagos and Kano fall into this regions.

An analysis based on the responding industries by size and major lines of business is equally revealing. The analysis here is aimed at identifying those industries that are active under the most vibrant economy.

The preliminary analysis proceeds with an examination of the general picture portrayed. Accordingly, the most glaring impression emanates from the Food, Beverages and Tobacco sector which recorded 149 companies or producing firms, representing almost 26 percent of all the responding businesses in the regions. It is by far the most dominant sector. It is followed by other (unclassified) businesses that have 99 firms, representing 17 per cent of all the responding firms. Those under the Wood and Wood Products also made an impressive showing with a total of 73 companies representing 12.6 per cent of all companies that responded.

The least dominant line of business or sector is the Electrical and Electronics sector in which only a total of six companies responded to the questionnaires administered. It is followed closely by Chemicals and Pharmaceuticals which accounted for only 1,6 percent of total response. In other words, the most important businesses in the

regions in general are, in order of their importance, Food, Beverages and Tobacco; Basic Metals and Iron and Steel and Fabricated Metals, Wood and Wood Products; Textiles, Wearing Apparels; Information and Communication Technology and Plastic and Rubber Products. All other businesses accounted for less than 20 percent of the total responding firms.

However, there is a large group of unclassified businesses, 99 of them and representing 17 percent of all responding enterprises, that when properly re-classified, might lead to the identification of more important business lines or sectors in the economy.

The general picture is not significantly different from that emanating from an examination of the micro industries. Under this general pattern, the three most dominant sectors or lines of business are Food, Beverages and Tobacco; Basic Metals, and Wood and Wood Products.

Under the small-scale industries, the three most dominant sectors include Food, Beverages and Tobacco, Wood and Wood Products, and Textiles and Wearing Apparels, Basic Metals Iron and steel and Fabricated Metals. The last two sectors indicated an equal representation of 9.6 percent each out of the total responding companies in the sector.

4.2 Characteristics of Responding SMEs

4.2.1 Proportional Distribution of Respondents by Size and Sector

The survey report on the regions revealed the distribution of the responding lines of business with respect to their size, i.e. micro, small and medium-scale enterprises in the whole zone. Top among these lines of business is the Food, Beverages and Tobacco with 149 firms. Basic Metals, Iron and Steel and Fabricated Metals sector follows with 78 firms.

Table 4.5: Distribution of responding SMEs by major lines of business: All Regions

Major Line of Business	Number	Percentage
Food, Beverages and Tobacco	149	25.7
Textile, Wearing Apparels etc.	45	7.8
Wood and Wood Product	73	12.6
Pulp, Paper and paper Products	16	2.6
Chemicals and Pharmaceuticals	9	1.6
Non-Metallic Minerals Product	14	2.4
Plastic and Rubbers Products	21	3.6
Electrical and Electronics	6	1.0
Basic Metal, Iron and Steel and Fabricated	78	13.4
Motor Vehicles and Miscellaneous	11	1.9
Information and Communication Technology (lCT)	28	4.8
Solid Minerals Mining/Processing	13	2.0
Others	99	17.1

Source: Field Survey, 2007

An analysis of the distribution along industry size indicates that Food, Beverages and Tobacco sector tops the list among the micro industries. It had 78 firms under the micro scale, as compared to 68 in the small-scale and three in the medium-scale. Other lines of business

include; Basic Metals, Iron and Steel and Fabricated Metals, 53 firms; Wood and Wood Products, 45; and unspecified other lines of business in the micro sector, 45 firms (see Table 4.6).

Table 4.6: Distribution of responding SMEs by major lines of business and industry: Micro Scale Enterprises

Micro Scale Enterprises		
Major Line of Business	**Number**	**Percentage**
Food, Beverages and Tobacco	78	24.8
Textile, wearing Apparels etc.	25	8
Wood and Wood Product	45	14.3
Pulp, Paper and paper Products	9	2.9
Chemicals and Pharmaceuticals	4	1.3
Non-Metallic Mineral Products	7	2.2
Plastic and Rubbers Products	17	5.4
Electrical and Electronics	6	14.9
Basic Metals, Iron and Steel and Fabricated	53	16.9
Motor Vehicles and Miscellaneous Assembly	4	1.3
Information and Communication Technology (ICT)	15	4.8
Solid Minerals Mining/Processing.	5	1.6
Other Specify	46	14.6

Source: Field Survey 2007

Under the small-scale industries, the Food, Beverages and Tobacco still led with 68 firms representing about 27 percent of the firms in this category. Others are Basic Metal, Iron and Steel and Fabricated Metals 24, repressing 9.6 percent in the category and Wood and Wood Products 27, representing about 10.7 percent of the total number of firms under the small-scale category (see Table 4.7 below).

Table 4.7: Distribution of Responding SMEs by Major Lines of Business and Industry Size: Small Scale Enterprises

Small Scale Enterprises		
Major line of Business	**Number**	**Percentage**
Food, Beverages and Tobacco	68	27.3
Textile, wearing Apparels etc.	24	9.6
Wood & Wood Products	27	10.8
Pulp, Paper and paper Products	9	3.6
Chemical & Pharmaceuticals	5	2.0
Non-Metallic Mineral Products	7	2.8
Plastic & Rubbers Products	5	2.0
Electrical & Electronics	-	-
Basic Metal, Iron & Steel & Fabricated.	24	9.6
Motor Vehicles & Miscellaneous.	6	2.4
Information and Communication Technology	14	5.6
Solid Minerals Mining/Processing	7	2.8
Others	53	21.3

Source: Field Survey 2007

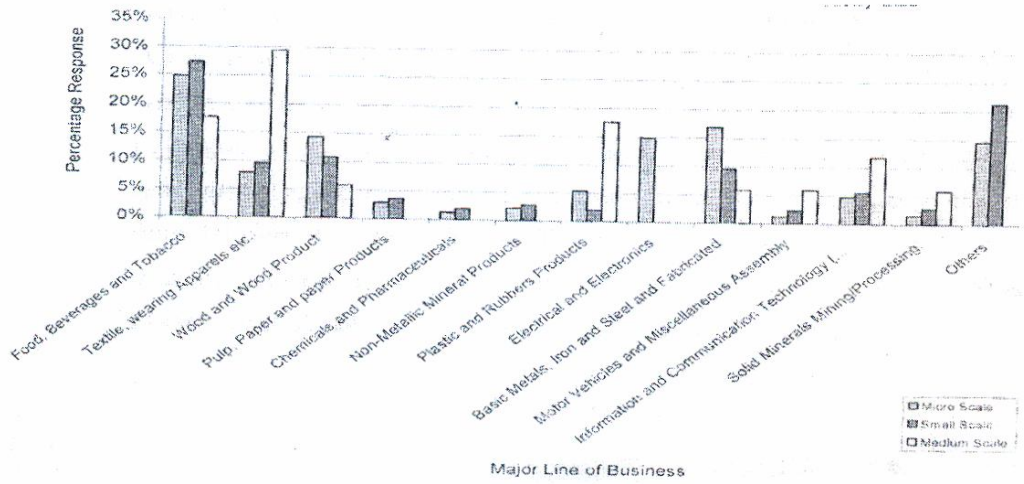
It is clear from the forgoing that the medium-scale category was relatively small. It had about 17 firms in all, with Textiles, Wearing Apparels, Footwear and Leather Products having the highest frequency with 5 firms, representing 29.4 percent. The Basic Metals sector, Wood and Wood Products, Motor Vehicles and Miscellaneous Assembly, as well as Solid Minerals Mining/Processing had one industry each under the medium-scale industrial category (see details in Table 4.8 below).

Table 4.8: Distribution of Responding SMEs by Major Lines of business Industry Size: Medium Scale Enterprises

Medium Scale Enterprises		
Major line of Business	**Number**	**Percentage**
Food, Beverages and Tobacco	3	17.6
Textile, Wearing Apparels etc.	5	29.4
Wood and Wood Products	1	5.9
Pulp, Paper and Paper Products	-	-
Chemicals and Pharmaceuticals	-	-
Non-Metallic Mineral Products	-	-
Plastics and Rubber Products	3	17.6
Electrical and Electronics	-	-
Basic Metals, Iron & Steel and Fabrication	1	5.9
Motor Vehic1es and Miscellaneous	1	5.9
Information and Communication Technology (ICT)	2	11.8
I Solid Minerals Mining/Processing	1	5.9
I Others	-	-

Source: Field Survey 2007

Figure 1: Distribution of Responding SMEs by Major Lines of Business and Industry Size 35%



4.2.2 Year of Establishment

The survey has indicated that the years of establishment of the enterprises in the regions ranged from one to thirty years. There is an indication that most of the firms were established between one to fifteen years ago as shown by the survey results. In the Information and Communication Technology sector, for example, 39 percent of the industries were established in the last five years. Plastic and Rubber Products recorded 33.3 percent, Non-Metallic Mineral Products accounted for 28 percent. Other business lines that fall under the 5-10 year range include the following: Solid Minerals Mining/Processing 53.8 percent of the firms, Motor Vehicles and Miscellaneous Assembly 45.5 percent and Plastic and Rubber Products as well as Electrical and Electronics with 33.3 percent of the firms each. Other firms that were set up between eleven to fifteen years are Pulp, Paper and Paper Products, 26.7 percent of the firms;

Non-Metallic Mineral Products, 28.6 percent and Basic Metals, Iron and Steel and Fabricated Metals, 25.6 percent.

However, the distribution of industries that were established between sixteen to thirty years ago has relatively fewer industries. Apart from Chemicals and Pharmaceuticals, Electrical and Electronics which claimed 33.3 percent each, and Basic Metals, Iron and Steel and Fabricated Metals which claimed 15.4 percent and 10.7 percent respectively, other lines of business under this category claimed less than 10 percent of the firms. The peculiarity of the above distribution is that most Food, Beverages and Tobacco firms in addition to those under Plastic and Rubber Products, Non-Metallic, Electrical and Electronics, Motor Vehicles, Information and Communication Technology and Solid Minerals, are established less than ten years ago.

The oldest firms in the regions are found under the Basic Metals, Iron and Steel and Fabricated Metals sector, and these were established more than thirty years ago.

An analysis of the distribution based on year of establishment by major lines of business under the different industrial classes shows that in the micro scale industry, the trend did not deviate significantly away from the general pattern of distribution described above. All the major lines of business claimed to have been established between 1-10 years ago. Apart from Plastic and Rubber, Electrical and Electronics and Solid Minerals, only a few of the major lines of business claimed to have been established between 11-15 years ago. Prominent among these industries are firms in the Textiles, Wearing Apparels, Wood and Wood Products, Pulp, Paper and Paper Products and Basic

Metals, Iron and Steel and Fabricated Metals with an average of 25 percent of all the firms. Very few industries indicated that they were established over 20 years ago. Just as it was observed in other industries, only firms under Basic Metals, Iron and Steel and Fabricated Metals claimed to have been established over 30 years ago. Among the small scale industries under Food, Beverages and Tobacco, Textiles, Wearing Apparels etc, Chemicals and Pharmaceuticals, Motor Vehicles and Miscellaneous Assembly and Solid Minerals Mining/Processing sectors, a significant proportion of the responding companies claimed to have been established only 10 years ago. Another significant proportion also claimed to have been established within 11 to 20 years ago. For example, Textiles, Wearing Apparels and Non-Metallic Mineral Products sectors had about 31.6 percent and 28 percent of the firms respectively. On the other hand, Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, and Basic Metals Iron and Steel Fabricated Metals sectors or lines of business, indicated a long history of establishment of between 25 to 30 years.

Many of the firms under the medium-scale category did not respond to this section of the questionnaire. But the dominant impression is that under Food, Beverages and Tobacco and Textiles, Wearing Apparels and few other lines of business that responded to this portion, most of the firms were established between 1-10 years ago. In general therefore, it appears that most of the industries were established less than 21 years ago; the only exceptions being those companies under Basic Metals, Iron and Steel and Fabricated Metals, which indicated an average age of 30 years or more.

The survey report on distribution in terms of the regions yielded the pattern of frequencies of the responding firms, under the different lines of business as well as along industry size. Top among the lines of business is the Food, Beverages and Tobacco with 149 firms. Basic Metals, Iron and Steel and Fabricated Metals followed it with 78 firms spread across the whole regions.

However, other unspecified lines of business accounted for 99 industries. The least among the industrial sectors in the zone indicated only six firms under the Electrical and Electronics sector.

An analysis on the basis of industrial size, i.e. micro, small and medium scale industries revealed that Food, Beverages and Tobacco sector top the list in the number of firms in the micro sector. It represented 78 firms; 68 in the small-scale and three in the medium scale. Other firms with relatively high representation under the micro industries are Basic Metals, Iron and Steel and Fabricated Metals (53), Wood and Wood Products (45) and other unspecified lines of business under the micro industries, 46 firms.

In the small-scale industry, the Food, Beverages and Tobacco sector still top the list, with 68 firms representing about 27 percent in this category. Others are Basic Metals, Iron and Steel and Fabricated Metals, 24 representing 9.6 percent in the category, and Wood and Wood Products 27, representing about 10.7 percent of the total industrial firms under the small-scale category. It is clear in view of the above, that the medium-scale category has relatively fewer firms. Out of the total of 17 firms identified, the Textiles, Wearing Apparels, Footwear and Leather Products sector had the highest number of firms, i.e. 5, representing 29.4 percent of the total in the category. The

Basic Metals, Iron and Steel and Fabricated Metals, Wood and Wood Products, Motor Vehicles and Miscellaneous Assembly as well as Solid Minerals Mining/ Processing had one industry each under the medium-scale industries.

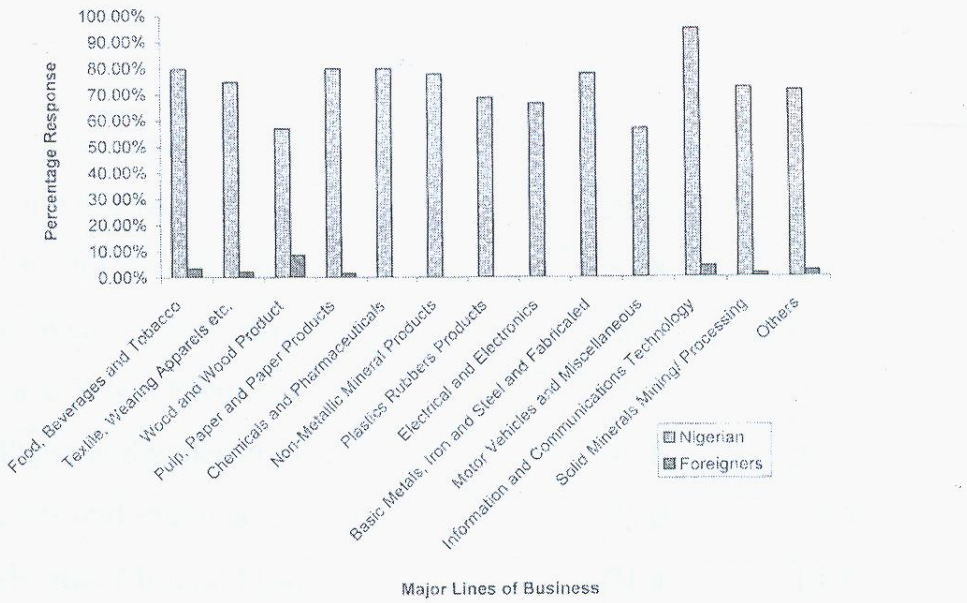
In this section analysis of many of the industries were made in each region an attempt to find out whether they are owned either by Nigerians or foreigners. The regional survey reflected different features for different major lines of business. Most prominent among these businesses was the Information and Communication Technology (lCT) sector in which on average, Nigerians owned 95.2 percent of the responding firms; Pulp, Paper/Paper Products and Chemicals/Pharmaceuticals both indicated 80.0 percent Nigerian ownership. Food, Beverages and Tobacco showed that 79.8 percent of 101 the firms were owned by Nigerians, and Basic Metals, Iron and Steel and Fabricated Metal indicated 78.1 percent Nigerian ownership (for details, see Table 1.9 below).

Table 4.9: Distribution of responding SMEs by average ownership structure

All Average Ownership		
Major line of Business	**Nigerian %**	**Foreigners %**
Food, Beverages and Tobacco	79.8	3.5
Textile, Wearing Apparels etc.	74.7	2.2
Wood and Wood Product	57.1	8.6
Pulp, Paper and Paper Products	80.0	1.5
Chemicals and Pharmaceuticals	80.0	-
Non-Metallic Mineral Products	77.8	-
Plastics Rubbers Products	68.8	-
Electrical and Electronics	66.7	-
Basic Metals, Iron and Steel and Fabricated	78.1	-
Motor Vehicles and Miscellaneous	57.1	-
Information and Communication Technology (ICT)	95.2	4.5
Solid Minerals Mining/Processing	72.7	1.5
Others	71.6	2.5

Source: Field Survey Report 2007

Figure 2: Distribution of Responding SMEs by Ownership Structure



Similarly, an examination of the average ownership structure under the micro and small scale industries shows a similar pattern of distribution in that only Non-Metallic Mineral Products, ICT and Others had a small percentage of foreigners, while most were dominated by Nigerians. Nigerian ownership under the micro-scale industries was absolute as Table 4.10 below indicates.

Table 4.10: Distribution of responding SMEs by average ownership structure: Micro-scale Enterprises

Micro Scale Enterprises		
Major line of Business	**Nigerian %**	**Foreigners %**
Food, Beverages and Tobacco	81.8	18.2
Textile, Wearing Apparels etc.	66.7	3.3
Wood and Wood Product	79.5	2.3
Pulp, Paper and paper Products	77.8	2.2
Chemicals and Pharmaceuticals	75.0	25.0
Non-Metallic Mineral Products	71.4	14.3
Plastic & Rubbers Product.	76.9	3.2
Electrical & Electronics	66.7	3.3
Information and Communications	80.0	20.0
Basic Metal, Iron and Steel and Fabricated	63.0	4.3
Motor Vehicles and Miscellaneous Technology	-	-
Solid Minerals/Mining Processing	-	-
Others	-	-

Source: Survey Report 2007

As for the small-scale industries, the firms under Textiles, Wearing Apparels accounted for 8.3 percent of the firms under foreign ownership; Plastics and Rubber Products accounted for 20.0 percent; ICT 25 percent; others 2.6 percent foreign ownership; unclassified others were dominated by Nigerians (for details see Table 4.11).

Table 4.11: Distribution of responding SMEs by average ownership Structure: Small-scale Enterprises

Small Scale Enterprises		
Major line of Business	**Nigerian %**	**Foreigners %**
Food, Beverages and Tobacco	79.4	2.3
Textile, Wearing Apparels etc.	66.7	8.3
Wood and Wood Product	54.2	2.4
Pulp, Paper and paper Products	50.0	-
Chemical & Pharmaceuticals	50.0	50.0
Non-Metallic Mineral Products	66.7	33.3
Plastics and Rubbers Products	80.0	20.0
Electrical and Electronics	-	-
Basic Metals, Iron and Steel and Fabricated	80.0	20.0
Motor Vehicles and Miscellaneous	66.7	33.3
Information and Communications Technology	75.0	25.0
Basic Metal, Iron and Steel and Fabricated	63.0	4.3
Motor Vehicles and Miscellaneous Technology	60.0	71.8
Solid Minerals/Mining Processing	20.0	2.6
Others	-	-

Source: Survey Report 2007

Furthermore, it is observed that proportional number of responses from medium-scale industries is comparatively low. As was also common to the micro and small-scale industries, Nigerians dominated the medium scale industry wholly. Food, Beverages and Tobacco and Information and Communication Technology (lCT), both indicated 100 percent Nigerian ownership while Textile/Wearing Apparels showed 60 percent Nigerian ownership. The general impression one gets from an analysis of the data generated is that Nigerian ownership is dominant in all the categories of industries.

Table 4.12: Distribution of responding SMEs by average ownership structure: Medium Scale E .

. **Medium Scale Enterprises**		
Major line of Business	**Nigerian %**	**Foreigners %**
Food, Beverages and Tobacco	100	-
Textiles, wearing Apparels etc.	60	-
Wood and Wood Products	-	-
Pulp, Paper and paper Products	-	-
Chemicals and Pharmaceuticals		-
Non-Metallic Mineral Products	-	-
Plastics and Rubbers Products	-	-
Electrical and Electronics	-	-
Basic Metals, Iron and Steel and Fabricated Metals	-	-
Motor Vehicles and Miscellaneous	-	-
Information and Communications Technology (ICT)	-	-
Solid Minerals/Mining Processing	-	-
Others	-	-

Source: Survey Report 2007

4.2.3 Legal Status

The legal status of the firms was analysed in terms of whether they are sole proprietorships, partnerships, cooperatives, limited liability companies or unclassified others. Accordingly, these were viewed against the major business lines. The result revealed that 66.4 percent of the firms in the Food, Beverages and Tobacco sector; 46.7 percent in Textiles, Wearing Apparels, Footwear and Leather Products; 58.9 percent in Wood and Wood Products; 33.3 percent in Pulp, Paper and Paper Products, are all under sole proprietorships. Similarly, industries under Chemicals and Pharmaceuticals amounting to 22.2 percent; Non-Metallic Mineral Products 50.0 percent; Plastic

and Rubber Products 38.1 percent; Electrical and Electronics 66.7 percent; Basic Metals, Iron and Steel and Fabricated Metals 61.5 percent; Motor Vehicles and Miscellaneous Assembly 45.5 percent; Information and Communication Technology 39.3 percent; Solid Minerals/Products 61.5 percent and unclassified others, 41.5 percent fell under sole proprietorships in the zone. This implies that industries under the Food, Beverages and Tobacco, Textiles, Wearing Apparels, Footwear and Leather Products, Non-Metallic Mineral Products, Electrical and Electronics, Basic Metals, Iron and Steel and Fabricated Metals as well as Solid Minerals Processing are predominantly sole proprietorships.

A breakdown by industry size revealed that for the micro, small and medium industries, 73.1 percent, 60.3 percent and 33.3 percent of the firms in these categories respectively, were owned by sole proprietors under the Food, Beverages and Tobacco sector. Similarly, 73.3, 37.0 and 0 percent representing micro, small and medium scale industries were under sole proprietorships in the Wood and Wood Products. Under the Pulp, Paper and Paper Products sector, sole proprietors owned 55.6 percent of the micro enterprises. The small and medium scale industries recorded no response under this line of business.

In the Chemicals and Pharmaceuticals sector, 25.0, 20.0 and zero percent of the industries under the micro, small and medium industries respectively, were under sole proprietorships. For the Non metallic/Mineral Products, 71.4, 28.6 and zero percent of he firms, representing micro, small and medium industries respectively, are also sole proprietorships. In the Plastic and Rubber Products sector, 38.5

percent of the firms are sole proprietorships and 40.9 percent are micro and 33.3 percent small scale and 33.3 percent medium scale industries.

The Electrical and Electronics sector accounted for 66.7 percent of the micro industries while small and medium industries recorded no response. Sole proprietorships also included 69.8, 41.7, and 100 percent of the firms representing micro, small and medium industries in the Basic Metal, Iron and Steel sector. Motor Vehicles and Miscellaneous Assembly recorded 50.0 percent for both micro and small-scale industries while medium scale industries recorded none. Information and Communication Technology (lCT) recorded 46.7, 27.3 and 50.0 percent respectively as sole proprietorships under the micro, small and medium scale industries. Solid Minerals Processing indicated 8.0, 57.1 percent and none for the micro, small and medium industries respectively as being sole-proprietorships.

Other industries not included in any of the major business lines considered here indicated that 50.0, 49.1 and none-fall under sole proprietorships under the micro, small and medium industries respectively. The table (4.13) below provides a summary.

Table 4.13: Pattern of Distribution of Sole Proprietorship by Business line

Business Line	Sole Proprietorship (%)		
	Micro Industries	Small Industries	Medium Industries
Food, Beverages and Tobacco	73.1	60.3	33.3
Textile, Wearing Apparels, Footwear	17.1	31.6	-
Wood and Wood Products	73.3	37.0	-
Pulp, Paper and Paper Products	55.6	-	-
Chemical and Pharmaceuticals	25.0	20.0	-
Non-metallic Mineral Products	71.4	28.6	-
Plastics and Rubber Products	38.5	40.9	33.3
Electrical and Electronics	56.7	-	-
Basic Metal, Iron and Steel	69.8	41.7	100
Motor Vehicles and Miscellaneous Assembly	50.0	50.0	-
Information/Communications Technology	46.7	27.3	50.0
Solid Minerals/Mining Processing	8.0	57.1	-
Others	50.0	49.1	-

Source: Survey Report 2007.

Partnerships, according to survey reports, are less prominent in the regions. This category of legal status represents less than 10 percent of all the different lines of business except in the Wood and Wood Products sector.

It was observed that in the regions, 7.4 percent of the firms under Food, Beverages and Tobacco were formed under partnerships; Textile, Wearing Apparels and Leather Products 13.3 percent; Wood and Wood Products 16.4 per cent; Pulp, Paper and paper Products 0 percent; Chemicals and Pharmaceuticals 11.1 percent; Non-Metallic Mineral Products 0 percent; Plastic and Rubber Products 4.8 percent; none for Electrical and Electronics; Basic Metals, Iron and Steel And

Fabricated 7.7 percent; none for Motor Vehicles and Miscellaneous Assemblies; 10.7 percent for Information and Communication Technology (lCT); Solid Minerals Mining and Processing 0 percent; Others 8.1 percent.

A breakdown of the analysis by industry size, i.e. micro, small and medium industries, indicated that in Food, Beverages and Tobacco sector, only 7.7 percent of the Micro Scale Firms, 7.4 percent of small scale firms and 0 percent of medium scale firms are owned by partnerships.

Furthermore, partnership structure in Textile, Wearing Apparels and Footwear is represented 14.3 percent of micro, 15.8 percent of small scale and none of the firms under medium industries. On the other hand, Wood and Wood Products accounted for 11.1 percent for micro; 25.9 percent for small and none for medium scale industries. Chemicals and Pharmaceuticals accounted for 25.0 percent under the micro sector, none for both small and medium scale industries. Plastic and Rubber Products accounted for 7.7 percent under micro and none for small and medium scale industries. None of the firms in the Electrical and Electronics sector under both micro and medium scale industries was a partnership. Partnerships under the Basic Metals, Iron and Steel sector accounted for 5.7 percent under micro, 12.5 percent under small scale and none under medium scale industries. There were no firms under the Motor Vehicles and Miscellaneous Assembly sector that were partnerships. Information and Communication Technology accounted for 6.7 percent of the firms under micro, 18.2 percent under small scale and none under medium scale industries. There were no partnerships also in the Solid minerals and

Mining/Processing sector. Among the unclassified others, 4.3 percent of the firms under micro, 11.3 percent under small-scale industries were partnerships. None of the firms under the medium scale industries fell under this category.

Table 4.14: Pattern of Distribution of Partnerships by Business Line

Business Line	**Partnership (%)**		
	Micro Industries	**Small Industries**	**Medium Industries**
Food, Beverages & Tobacco	7.7	7.4	-
Textile, Wearing Apparels, Footwear	14.3	15.8	-
Wood and Wood Prod	11.1	25.9	-
Pulp, Paper and Paper Prod	-	-	-
Chemical and Pharmaceuticals	25.0	-	-
Non-metallic Mineral	-	-	-
Plastic & Rubber Prod	7.7	-	-
Electrical and Electronics	-	-	-
Basic Metal, Iron & Steel	5.7	12.5	-
Motor Vehicles	-	-	-
Information and Communication Tech.	6.7	8.2	-
Solid Minerals Mining	-	-	-
Others	4.3	11.3	-

Source: Survey Report 2007

It was observed that most of the industries in the regions were not owned by cooperatives. Yet cooperative unions are at a vantage position to directly link industries with domestic sources of raw materials at relatively low prices. Furthermore, raising the level of 'domestic supply' requires a grassroots approach, which based on experience elsewhere in this country and abroad, is best achieved through cooperation.

The preponderance of a high level of illiteracy, combined with inadequate public enlightenment have been isolated as factors which prevented many people in the regions from taking full advantage of cooperative unions.

Consequently, only 4 percent of the firms under the Food, Beverages and Tobacco were cooperatives; and another paltry 4.4 percent of those falling under Textiles, Wearing Apparels, Footwear and Leather Products were also cooperatives. Other business lines like Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, Plastics and Rubber Products, Motor Vehicles and Miscellaneous Assembly had no cooperative firms at all.

About 14.3 percent of Non-Metallic Minerals Products firms were owned by cooperatives in the regions while Electrical/Electronics surprisingly accounted for 16.7 percent. The survey also indicated clearly that such industries were common in Kano and Kaduna, Aba, Lagos States among others and were mostly cooperatives because of their relatively high capital requirement and the operators' inability to acquire financial support from banks and government agencies. In addition, 5.1 percent of the firms under Basic Metals, Iron and Steel and Fabricated Metals as well as 3.6 percent of those firms under Information/Communication Technology and 7.7 percent under Solid Minerals, Mining and Processing were all under cooperatives. Unclassified others constituted 5.1 percent.

An analysis of the industries by their size indicated that 2.6 percent of the micro industries under the Food, Beverages and Tobacco sector fell under cooperatives. Small-scale industries accounted for 5.9 percent while medium scale industries had none.

The Textile, Wearing Apparels sector had 4.8 percent of the firms under micro, 5.3 percent under small scale and none for the medium scale industries as cooperatives. In contrast, under Wood and Wood Products there was none for micro industries, 11.1 percent for small-scale industries and 100 percent for medium scale industries. This result may appear contradictory if we compare it with the general pattern of distribution for small and medium scale industries. Both the literature and survey evidence indicated that due to the high capital requirement of the Wood and Wood Products sector, as well as the lack of credit availability, the legal status of the medium scale industries would be less likely to fall under sole proprietorships, partnerships and limited liability companies. Thus, the 100 percent recorded for cooperatives indicates that individuals or small business firms pulled their resources together to engage in the business of Wood and Wood Products.

None of the companies under the Chemicals and Pharmaceuticals sector surveyed was a cooperative. In the Non-Metallic Mineral Products sector, only 38.6 percent of small-scale industries and none of the medium scale industries belonged to cooperatives. The Plastic and Rubber Product sector also recorded none for micro, small and medium industries. As for Electrical/Electronics, 16.7 percent of the industries were under micro and none under small and medium industries belonged to cooperatives. Under Basic Metal, Iron and Steel and Fabricated Metals 1.9 percent of micro, 12.5 percent of small-scale firms fell under cooperatives. Medium scale industries recorded nothing. The Motor Vehicles and Miscellaneous Assembly sector had no

partnerships. In the Information and Communication Technology sector, only 9.1 percent of the small-scale industries fell under cooperatives. In the Solid Minerals, Mining/Processing sector, only 2.0 percent of micro and none under small and medium scale industries belonged to cooperatives. The unclassified others accounted for 2.2 percent for micro, 7.5 percent for small scale and none for medium scale industries.

The table 4.15 below provides a detailed summary of the legal status of firms under cooperatives analysed by industry size.

Table 4.15: Legal Status: Cooperatives by Business lines

Business Line	**Cooperatives (%)**		
	Micro Industries	**Small Industries**	**Medium Industries**
Food, Beverages & Tobacco	2.6	5.9	-
Textile, Wearing Apparels, Footwear	4.8	5.3	-
Wood and Wood Products	-	11.1	100
Pulp, Paper and Paper Products	-	-	-
Chemical and Pharmaceuticals	-	-	-
Non-metallic Mineral	-	38.6	-
Plastic & Rubber Products	-	-	-
Electrical and Electronics	16.7	-	-
Basic Metal, Iron & Steel	1.9	12.5	-
Motor Vehicles/Miscellaneous	-	-	-
Information/Communication Technology	-	9.1	-
Solid Minerals Mining/Processing	20.0	-	-
Others	2.2	7.5	-

Source: Field Survey 2007.

Both the two kinds of limited liability companies, viz., private and public, existed under both the small and medium scale industries. It was observed that in the regions, limited liability companies that engaged in the Chemicals and Pharmaceuticals business accounted for 66.7 percent of all limited liability companies within the sector. It is followed by Plastic and Rubber Products with 38.1 percent; Information/Communication: 35.7 percent; Textile, Wearing Apparels and Footwear: 28.9 percent; Non-Metallic Mineral Products 28.6 percent; Motor Vehicles and Miscellaneous Assembly 27.3 percent; Solid Minerals, Mining and Processing: 23.1 percent; unclassified others 19.2 percent while the Food, Beverage and Tobacco sector accounted for only 15.4 percent of all the firms within the sector.

Breaking down the analysis by industry size indicated that the highest proportion of limited liability companies fall under medium scale industries with 66.7 percent, followed by small-scale industries with 19.1 percent and lastly, micro industries with only 10.3 percent.

Continuing the analysis on the basis of size distribution indicated that the highest proportion of 100 percent of medium-scale industries under the Textiles fall under limited liability companies. This was followed by small-scale firms under the same sector with 36.8 percent, and only 4.8 percent of micro industries under Textiles, Wearing Apparels etc fall under limited liability companies.

Under the Pulp, Paper and Paper Products sector however, 22.2 percent of micro industries and 66.7 percent of the small-scale industries are all limited liabilities. No company under this line of business that falls within the medium-scale industries was a limited liability company.

On the other hand, 50.7 percent of the micro industries as well as 80 percent of the small-scale firms are under the category of limited liabilities in the Chemicals and Pharmaceuticals sector. Under Non--Metallic and Mineral Products, it was observed that 71.4 percent and 42.9 percent of the micro and small-scale industries respectively are limited liabilities.

Under the Plastic and Rubber Products sector, 38.5 percent of the firms under micro, 60.0 percent under small scale and none under medium scale industries fall under limited liabilities. Only 16.7 percent of micro industries under Electrical and Electronics are limited liability companies. Both small and medium scale industries had not featured at all. Basic Metals, Iron and Steel and Fabricated Metals indicated that 18.9 percent of the firms under micro, 29.2 percent under small scale and none under medium scale industries are limited liabilities as well.

Under the Motor Vehicles and Assembly sector, 35.0 percent of the firms under micro, 33.3 percent under small scale, and none under medium scale industries is a limited liabilities. This is understandable since the Motor Vehicles and Miscellaneous Assembly sector fell under heavy industries, well outside the scope of this study. Information and Communication Technology (lCT) outfits appeared to be the most sophisticated, they are more evenly distributed across the different industrial groups: micro 33.3 percent; 36.4 small and 50.0 percent medium industries. The Solid Minerals, Mining/Processing sector was dominated by small-scale industries. Under this, 28.6 percent of the firms, and 100 percent of them under medium scale, are limited liabilities. The table 4.16 below summarizes

the distribution of limited liability companies along industry size and major lines of business.

Table 4.16: Pattern of Distribution: Limited Liability by Business line and Enterprise Size

Business Line	Limited Liability Company (%)		
	Micro Industries	Small Industries	Medium Industries
Food, Beverages & Tobacco	10.3	19.1	66.7
Textile, Wearing Apparels, Footwear	4.8	36.8	100.0
Wood and Wood Products	11.1	22.2	-
Pulp, Paper and Paper Products	22.2	66.7	-
Chemical and Pharmaceuticals	50.0	80.0	-
Non-metallic Mineral	14.3	42.9	-
Plastic & Rubber Products	38.5	60.0	-
Electrical/Electronics	16.7	-	-
Basic Metal, Iron & Steel	18.9	29.2	-
Motor Vehic1es/Miscellaneous	35.0	33.3	-
Information/Communication Technology	33.3	36.4	50.0
Solid Minerals Mining/Processing	-	28.6	100.0
Others	17.4	23.8	-

Source: Survey Report 2007.

The legal status of companies that could not be classified into sole proprietorships, partnerships, cooperatives or limited liability companies is found under 'others'. In the regions, it was observed that several firms under the Wood and Wood Products, Chemicals and Pharmaceuticals, Electrical and Electronics, Motor Vehicles and Miscellaneous Assembly, Information and Communication Technology and Solid Minerals, Mining/Processing sectors claimed

that they did not belong to any of the legal status categories enumerated above. However, 4.0 percent under Food, Beverages and Tobacco sector; 4.4 percent under Textiles, Wearing Apparels and Footwear; 13.3 percent under Pulp, Paper and Paper Products; Non-metallic 7.1 percent; Plastic and Rubber products 14.1 percent; Basic Metals, iron and Steel 1.3 percent and others 3.0 percent all were under the unclassified legal status categories.

Table 4.17: Distribution of Responding SMEs by Legal Status and Major Line of Business

Business Line	Others (%)		
	Micro Industries	Small Industries	Medium Industries
Food, Beverages and Tobacco	2.6	5.9	-
Textile, Wearing Apparels, Footwear and Leather Products	-	10.5	-
Wood and Wood Products	-	-	-
Pulp, Paper and Paper Products	1l.1	16.7	-
Chemical and Pharmaceuticals	-	-	-
Non-metallic Mineral	14.3	-	-
Plastic and Rubber Products	7.7	-	66.7
Electrical and Electronics	-	-	-
Basic Metal, Iron & Steel	-	4.2	-
Motor Vehicles/Miscellaneous	-	-	-
Information/Communication Technology	-	-	-
Solid Minerals Mining/Processing	-	-	-
Others	2.2	3.8	-

Source: Field Survey 2007.

A general summary of the foregoing analysis indicates that sole proprietorship is the dominant company status for micro scale

industries in the regions. This is also the same for small-scale industries, while limited liability companies dominated medium scale industries. The survey also indicated by inference, that the sources of finances for companies incorporated in the regions are mostly from individual savings, partnerships and banks.

The general picture emanating from an analysis of the legal status of firms against business lines is that:

(i) Sole proprietorships are most common in the Food, Beverages and Tobacco, Wood and Wood Products, Non-Metallic Mineral Products, Basic Metal, Iron and Steel and Fabricated Metals and to a lesser extent, the ICT sectors.

(ii) Partnership, as mentioned earlier, is not a popular form of company incorporation in the regions especially north-west and north-east. But they still featured more prominently than cooperatives.

(iii) Cooperatives performed only slightly worse. Those sectors with 20 percent and above include Solid Minerals Mining/Processing, under micro industries as well as Wood and Wood Products under the medium industries group.

(iv) Limited liabilities are common to the Chemicals and Pharmaceuticals (80 percent), Plastics and Rubber Products (38.5 percent) and ICT (33.3 percent) all under micro industries. Limited liabilities are however more common under the small-scale industries engaged in Chemicals and Pharmaceuticals (80 percent), Pulp, Paper and Paper Products (66.7 percent), Plastic and Rubber Products (60 percent), Textiles, Wearing Apparels (36.8 percent),

ICT (36.4 percent) and Motor Vehicles and Miscellaneous Assembly (33.3 percent).

The picture is however slightly more interesting when the medium-scale industries are examined more closely. It was observed that 66.7 percent of the companies in the Food, Beverages and Tobacco industry that fall under medium-scale are, in fact, limited liabilities. Likewise 100 percent of the entire Textiles, Wearing Apparels firms under the medium-scale category are also limited liabilities. The same is true of the medium-scale companies engaged in Solid Minerals Mining and Processing (100 percent). ICT scored 50 percent. It has been observed however that some companies did not fall under any of the legal status categories examined above. Those that featured significantly under the 'others' category are: Pulp, Paper and Paper Products are (11.1 percent), Non-Metallic Mineral Products (14.3 percent) both under the micro industries.

In addition, Textiles, Wearing Apparels (10.5 percent), Pulp, Paper and Paper Products (16.7 percent) under small-scale industries as well as Plastic and Rubber Products (66. 7 percent) fall under limited liabilities.

4.3 Production Input

4.3.1 Human Resources

A profit maximizing industrial concern always tries to maximize profit by minimizing cost in its operations. A variable cost item that could raise the cost of production is labour cost, which normally increases with the level of employment. Since labour is a

variable factor it enables firms to increase or decrease their level of employment in order to maximise profits. For the purpose of this survey however, it is more important at this juncture, to examine the changing levels of employment between the period of inception and the present. In this regard, it was observed that the micro scale industries were the most important vehicles for employment generation, even though there was, on the aggregate, a slight decline in the number of people employed between inception and present of about 2.6 percent. Total employment in this industrial category stood at about 28,000 workers at inception. It however, declined slightly to 27,300 at present.

An analysis on the basis of business lines revealed that the Food, Beverages and Tobacco sector employed the highest number of people under the micro scale industries. The sector also recorded a slight decline of 2.8 percent in the number of people employed between inception (13,144 workers) and present (12,772 workers).

The second most important employer of labour, the Basic Metals Iron and Steel sector also recorded a decline in its employment of almost 6 percent between inception (4,824 workers) and present (4,536 workers). The third most important employer, still under the micro scale industries, is other unclassified line of business which also recorded a decline of 3.5 percent in its level of employment between inception (3,944 workers) and present (3,808 workers).

There were however, some strategic sectors or lines of business that recorded positive changes in their levels of employment. These include Wood and Wood Products which recorded an increase of 3.4 percent in its level of employment between inception (3,886 workers)

to the present (4,020 workers). Pulp Papers and Paper Products recorded an increase of 4.0 percent and chemicals and pharmaceuticals also 4.0 percent. The most impressive increase in the number of workers employed however, took place in the Information and Communication Technology sector which recorded an increase of over 13 percent between inception (575 workers) to the present (625 workers) see table 4.18 below.

Table 4.18: Changes in Employment between Inception and the Present by Lines of Business: Micro Scale E

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S/N	Major Line of Business	Micro Scale Enterprises		
		At inception	At present	% Changes
1	Food Beverages and Tobacco	13,144	12,772	-2.8
2	Textile, Wearing Apparels	960	864	-10.0
3	Wood and Wood Products	3,886	4,020	3.4
4	Pulp, Paper and paper Products.	104	117	4.0
5	Chemical & Pharmaceutical	35	49	4.0
6	Non-Metallic Mineral Products	99	99	0.0
7	Plastic & Rubber Products	270	216	-20
8	Electrical & Electronics	36	30	-16.7
9	Basic Metal, Iron, Steel etc	4,824	4,516	-6.0
10	Motor Vehicles & Assembly	100	100	0.0
11	(I CT)	575	625	13.0
12	Solid Minerals Mining Processing	64	64	0.0
13	Others	3,944	3,808	-3.5
	Total	**28,041**	**27,300**	**-2.6**

Source: Survey Report 2007

The small scale industries, in contrast, have portrayed a far more optimistic picture. Here again, the most important employers of labour are those firms under the Food Beverages and Tobacco sector.

These firms collectively increased their level of employment by 18.2 percent between inception (550 workers) and the present (650 workers). This is followed by Textiles, Weaving Apparels sector which also recorded an increase of 18.2 percent in the number of people employed between inception (143 workers) and the present (169 workers). Wood and Wood Products as well as Solid Minerals, Mining/Processing sectors recorded 40 percent and 14.3 percent increases in their levels of employment respectively. Only two sectors recorded negative changes in their levels of employment. These are the Iron, Metals and Steel and Other unspecified sectors both of which employed very few workers comparatively.

It is very important to note however, that on the aggregate, the small scale industrial group recorded and increase of 10.6 percent in its level of employment between inception (1,194 workers) to the present (1,320 workers) (see table 4.19 below).

Table 4.19: Changes in Employment between Inception and at Present by Lines of Business: Small Scale Enterprises

S/N	Major Line of Business	Small Scale Enterprises		
		At inception	At present	% Changes
1	Food Beverages and Tobacco	550	650	18.2
2	Textile, Wearing Apparels	143	169	18.2
3	Wood and Wood Products	30	42	40.0
4	Pulp, Paper and paper Products.	40	40	0.0
5	Chemical & Pharmaceutical	40	40	0.0
6	Non-Metallic Mineral Products	90	90	0.0
7	Plastic & Rubber Products	90	90	0.0
8	Electrical & Electronics	0.0	0.0	00.0
9	Basic Metal, Iron, Steel etc	20	10	-50.0
10	Motor Vehicles & Assembly	90	90	0.0
11	(lCT)	25	25	0.0
12	Solid Minerals Mining Processing	56	64	14.3
13	Others	20	10	-50.0
	Total	**1,194**	**1,320**	**10.6**

Source: Survey Report 2007

The general picture emerging from the medium scale industries is not as clear-cut as the last two. This is due to the relatively poor response from the operators in addition to the relatively small number of firms surveyed. On the whole, the impression portrayed is that of a dormant or declining sector (see table 4.20 below).

Table 4.20: Changes in Employment between Inception and at Present by Lines of Business: Medium Scale Enterprises

S/N	Major Line of Business	Medium Scale Enterprises		
		At inception	At present	% Changes
1	Food Beverages and Tobacco	100	100	0.0
2	Textile, Wearing Apparels	100	100	0.0
3	Wood and Wood Products	100	100	0.0
4	Pulp, Paper and paper Products.	0.0	0.0	0.0
5	Chemical & Pharmaceutical	0.0	0.0	0.0
6	Non-Metallic Mineral Products	0.0	0.0	0.0
7	Plastic & Rubber Products	100	100	0.0
8	Electrical & Electronics	0.0	0.0	0.0
9	Basic Metal, Iron, Steel etc	100	100	0.0
10	Motor Vehicles & Assembly	100	100	0.0
11	(lCT)	100	100	0.0
12	Solid Minerals Mining Processing	100	100	0.0
13	Others	0.0	0.0	0.0
	Total	**800**	**800**	**0.0**

Source: Survey Report 2007

As a result of the foregoing, an analysis on the aggregate, by industrial size must be conducted with caution. On the one hand, the micro scale industries which are the dominant employers of labour in the regions are not the main focus of this study. On the other hand, medium scale industries have not responded comprehensively to the questionnaires administered on them. Consequently, this study on the "Small and Medium Scale Industries" must therefore draw its fundamental conclusions regarding the changes in employment between inception and the present, from the experiences of the small

scale industries. This will lead to the articulation of better policies relevant to the SMEs as a whole (see table 4.21 below).

Table 4.21: Changes in Employment between Inception and the Present by Lines of Business (All Enterprises)

S/N	Major Line of Business	All Enterprises		
		At inception	At present	% Changes
1	Food Beverages and Tobacco	13,794	13,522	-2.0
2	Textiles, Wearing Apparels	1,203	1,133	-5.8
	Wood and Wood Products	4,016	4,162	3.7
4	Pulp, Paper and paper Products	144	157	9.0
5	Chemicals and Pharmaceuticals	75	89	18.7
6	Non-Metallic Mineral Products	189	189	0.0
7	Plastic and Rubber Products	460	406	-11.7
8	Electrical and Electronics	36	30	16.7
9	Basic Metals, Iron, Steel etc	4,944	4,646	-6.0
10	Motor Vehicles and Assembly	290	290	0.0
11	Information and Communications Technology (lCT)	700	750	7.1
12	Solid Minerals Mining Processing	220	228	3.6
13	Others	3,964	3,818	-3.7
	Total	**30,035**	**29,420**	**-2.0**

Source: Survey Report 2007

The small and medium scale industries in the regions made use of permanent, temporary, casual and apprentice staff members in their operations. However, the categories of staff varied among firms. For example, some enterprises might decide to use few permanent staff members in combination with many casual and temporary staff, while others might use more permanent staff. In the Chemicals and Pharmaceuticals line of business in those regions, about 43 percent of

the staff strength was made up of permanent staff, with temporary (29 percent), casual (14 percent) and apprentice (14 percent). The companies under Electrical and Electronics line of business hired about 45 percent permanent staff while about 36 percent were temporary workers. On its own, Textiles, Wearing Apparels sector hired 45 percent permanent workers while 23 percent were temporary. About 41 percent of staff members in the Pulp, Paper and Paper Products firms are permanent staff while 18 percent are temporary and apprentices with each having about 23 percent as casual employees. This shows that more importance is attached to permanent employment.

Table 4.22: Distribution of responding SMEs employment by major line of business

S/N	Major Line of Business	All %			
		Permanent	Temporary	Casual	Apprentices
1.	Food, Beverages and Tobacco	35.6	30.1	22.6	11.7
2.	Textiles, Wearing Apparels	44.5	23.8	17.4	14.3
3.	Wood & wood Products	32.3	25.0	20.7	21.9
4.	Pulp, Paper and Paper Products	40.9	18.2	22.7	18.2
5.	Chemical & Pharmaceuticals	42.9	28.6	14.3	14.3
6.	Non Metallic Mineral Products	23.6	23.6	47.0	5.8
7.	Plastics & Rubber Products	40.5	29.7	16.2	13.5
8.	Electrical & Electronics	45.4	36.4	9.1	9.1
9.	Basic Metal, Iron & Steel & Fabricated Metals	37.3	22.7	15.3	26.4
10.	Motor Vehic1es & Miscellaneous Assembly	23.8	23.8	23.8	28.5
11	Information & Communication Tech (lCT)	37.0	27.8	11.1	24.1
12	Solid Mineral Mining/ Processing	36.8	31.6	21.1	10.5
13.	Others	37.0	24.1	20.4	18.5

Source: Survey Report 2007

An analysis by industry size revealed that the highest permanent staff recruitment was observed in the Textiles, Wearing Apparels sector, with 49 percent. Other lines of business with relatively high ratios of permanent staff are Chemicals and Pharmaceuticals, 47 percent; Pulp, Paper and Paper, Products 47 percent; Plastic and Rubber Products as well as Electrical and Electronics with 45 percent each. The lowest proportion of the permanent staff recruitment was found in the Non-metallic Mineral

Products. This shows that in the micro industries, about half of those employed fell under the permanent category while the rest fall under the categories of temporary, casuals and apprentices. However, the survey also showed that firms under the Chemicals and Pharmaceuticals line of business did not engage the services of any apprentice. Significantly high level of apprentice employment in the micro industries are in the Wood and Wood Products sector with about 22 percent and Motor Vehicles and Miscellaneous Assembly with about 29 percent.

Table 4.23: Distribution of responding SMEs employment by major line of business

S/N	Major Line of Business	Micro Scale Enterprises %			
		Permanent	**Temporary**	**Casual**	**Apprentices**
1.	Food, Beverages and Tobacco	42.5	29.7	17.5	10.3
2.	Textile, Wearing Apparels	48.6	21.6	16.2	13.5
3.	Wood & wood Products	36.5	23.4	18.7	21.5
4.	Pulp, Paper and Paper Products	46.7	20.0	20.0	13.3
5.	Chemical & Pharmaceuticals	47.1	28.6	14.3	0.0
6.	Non Metallic Mineral Products	20.0	20.0	50.0	10.0
7.	Plastics & Rubber Products	45.8	25.0	16.7	12.5
8.	Electrical & Electronics	45.8	36.4	9.1	9.1
9.	Basic Metal, Iron & Steel & Fabricated Metals	41.1	24.3	15.0	19.6
10.	Motor Vehicles and Miscellaneous Assembly	42.9	14.3	14.3	28.6
11	ICT	40.6	28.1	12.5	18.7
12	Solid Mineral Mining / Processing	44.4	33.3	11.1	11.1
13.	Others	42.7	19.5	21.9	15.9

Source: Survey Report 2007

In the small-scale industrial concerns, the scenario appears different with respect to some lines of business. While 42 percent of employment in Non-metallic business was casual staff, about 40 percent in the Plastic and Rubber Products was permanent staff. The highest employer of casual labour was in the Basic Metals, Iron and Steel and Fabricated Metals with 37 percent.

Table 4.24: Distribution of responding SMEs employment by major line of business

S/N	Major Line of Business	Small Scale Enterprises %			
		Permanent	Temporary	Casual	Apprentices
1.	Food Beverages and Tobacco	26.74	30.5	30.5	12.4
2.	Textile, Wearing Apparels	31.8	31.8	22.7	13.7
3.	Wood & Wood Products	24.6	28.1	24.6	22.8
4.	Pulp, Paper and Paper Products	28.6	14.3	28.6	28.6
5.	Chemical & Pharmaceuticals	28.6	28.6	14.3	28.6
6.	Non Metallic Mineral Products	28.6	28.6	42.9	0.0
7.	Plastics & Rubber Products	40.0	40.0	10.0	10.0
8.	Electrical & Electronics	-	-	-	-
9.	Basic Metal, Iron & Steel & Fabricated Metals	27.9	18.6	16.3	37.2
10.	Motor Vehicles & Miscellaneous Assembly	16.6	33.4	25.0	25.0
11	Information & Communication Technology (lCT)	38.8	22.2	11.1	27.8
12	Solid Mineral Mining / Processing	30.0	30.0	30.0	10.0
13.	Others	31.25	28.7	18.7	21.3

Source: Survey Report 2007

Responses from the medium-scale firms were relatively few in the North-East, North-Central and South-South. That notwithstanding, it was observed that apprentice employment constituted about 67 percent of employment in the Food, Beverages and Tobacco line of business with no single permanent staff. Temporary staff employment constituted about 33 percent. Only Textiles, Wearing Apparels etc, indicated the existence of permanent staff of about 7.5 percent. Plastic and Rubber Products with no permanent staff in the medium-scale

industries shared their staff strength in the proportion of 33 percent each to temporary and casual workers. In addition, 100 percent of the staff in the ICT sector is just temporary workers.

Table 4.25: Distribution of responding SMEs employment by major line of business

S/N	Major Line of Business	Medium Scale Enterprises %			
		Permanent	Temporary	Casual	Apprentices
1.	Food, Beverages and Tobacco	-	33.3		66.7
2.	Textiles, Wearing Apparels etc	7.5	0.0	-	
3.	Wood & Wood Products	-	-		
4.	Pulp, Paper and Paper Products	-	-		
5.	Chemicals and Pharmaceutical s	-	-		
6.	Non- Metallic Mineral Products	-	-		
7.	Plastics & Rubber Products	-	33.3	33.3	
8.	Electrical & Electronics	-	-		
9.	Basic Metals, Iron & Steel & Fabricated Metals	-	-		
10.	Motor Vehicles & Miscellaneous Assembly	-	-		
I 1	Information and Communica-tion Technology (lCT)	-	100.0		
12	Solid Mineral Mining / Processing	-	-		
13.	Others	-	-		

Source: Survey Report 2007

Other unspecified lines of business in the micro and small-scale firms had a fair share of employment across all the employment categories.

Table 4.26: Distribution of responding SMEs skill category of Employment by major line of business and industry size

S/N	Major Line of Business	Small Scale Enterprises (%)		
		Skilled	Semi skilled	Unskilled
1.	Food, Beverages & Tobacco	33.1	39.0	28.0
2.	Textiles, Wearing Apparels	33.4	29.6	37.0
3.	Wood & Wood Products	33.1	37.8	31.1
4.	Pulp, Paper and Paper Products	22.2	22.2	55.6
5.	Chemicals & Pharmaceuticals	60.0	20.0	20.0
6.	Non-Metallic Mineral Products	41.7	36.3	25.0
7.	Plastics & Rubber Products	33.3	33.3	33.3
8.	Electrical & Electronics	-	-	-
9.	Basic Metals, Iron & Steel & Fabricated Metals	32.4	37.8	29.7
10	Motor Vehicles and Miscellaneous Assembly	18.2	54.6	27.3
11	Information & Communication Technology (ICT)	38.1	33.3	28.6
12	Solid Mineral Mining/Processing	42.9	42.9	14.3
13.	Others	38.9	40.3	20.8

Source: Survey Report 2007

About 100 percent of the employment in the Motor Vehicles and Miscellaneous Assembly sector under the medium-scale enterprises are semi-skilled, while those employees in the Basic Metals, Iron and Steel and Fabricated Metals under the medium-scale industries were locally trained. Food, Beverages and Tobacco had 40 percent of skilled and unskilled employment in the medium-scale industries.

Table 4.27: Distribution of responding SMEs skill category of Employment by major line of business and industry size

S/N	Major Line of Business	Medium Scale Enterprises (%)		
		Skilled	Semi Skilled	Unskilled
1.	Food Beverages and Tobacco	40.0	20.1	40.0
2.	Textile, Wearing Apparels etc.	50.0	50.0	-
3.	Wood & wood Products	-	-	-
4.	Pulp, Paper and Paper Products	-	-	-
5.	Chemical & Pharmaceuticals	-	-	-
6.	Non Metallic Mineral Products	-	-	-
7.	Plastics & Rubber Products	33.3	-	66.7
8.	Electrical & Electronics	-	-	-
9	Basic Metal, Iron & Steel & Fabricated Metals	-	-	100
10	Motor Vehicles & Miscellaneous Assembly	-	100	-
11	Information & Communication Technology (ICT)	-	-	-
12	Solid Mineral /Mining Processing	-	50	-
13.	Others	-	-	-

Source: Survey Report 2007

The staffing situations in most business organizations are categorized into junior, intermediate and senior/management positions. In the micro scale industries, a significant proportion of employments are made at the junior staff category with Chemicals and Pharmaceuticals sector having 75 percent, Electrical and Electronics 66 percent, Wood and Wood Products 60 percent, just to mention those with high ratios.

In the small-scale sector, the percentage distribution in employment was high in the junior staff category so also the Motor Vehicles and Miscellaneous Assembly with 50 percent for junior

category. The Solid Minerals Mining/Processing and the Non-Metallic Mineral Products sectors had about 50 percent and 43 percent employment at the senior levels respectively.

In general, all categories of employment beginning from junior, intermediate and senior manager had maintained a relatively fair share of total employment, but the junior category had a highest share. Furthermore, the micro-scale industries had the highest percentage of junior staff members compared to the other industrial categories. This means that the micro scale industries are characterised by junior level employment.

All available raw materials mentioned in the filled and retrieved questionnaires were identified and classified according to most important raw materials sources and also according to major lines of business. Three basic classifications were made: first, second and third most important raw materials and their sources.

In all the regions, the general impression regarding the availability of raw materials is that Food, Beverages and Tobacco industries sourced the highest percentage of their first important raw materials locally. Similar trend applied to the Wood and Wood Products, Non-Metallic and Mineral Products, Basic Metal, Iron and Steel and Fabricated Metal; Motor Vehicles and Miscellaneous Assemblies sectors. However, the same could not be said of Plastic and Rubber Products; Information and Communication Technology; Chemicals and Pharmaceuticals and Pulp, Paper and Paper Product sectors. The latter group indicated very low level of local sourcing of raw materials. Industries with average performance in terms of local sourcing of first most important raw materials are the Textile,

Wearing Apparels and Footwear, Electrical and Electronics, Solid Minerals and 'others' sectors.

The breakdown of our findings revealed that 64.4 percent of the firms under the Food, Beverages and Tobacco sector sourced their most important raw materials locally, but imported only 8.7 percent of them. About 58.9 percent of those under the Wood and Wood Products sector sourced their most important raw materials locally while only 2.7 percent are imported. This is closely followed by 57.1 percent of the Non-metallic Mineral firms, which sourced their most important raw materials locally but imported only 14.3 percent of them. For Textile, Wearing Apparels, Footwear and Leather Products, it was observed that 40.0 percent of the raw materials are locally obtained while 8.9 percent are imported; Pulp, Paper and Paper Products claimed that 26.7 percent of these raw materials are obtained locally and 20.0 percent imported; Chemicals and Pharmaceuticals claimed 22.2 percent sourced locally and 44.0 percent imported; in Plastic and Rubber Products 9.5 percent obtained are locally while 14.3 percent are imported; while in Electrical and Electronics 33.3 percent are obtained locally, respondents in this line of business did not indicate the proportion of import; Basic Metals, Iron and Steel 47.4 percent of raw materials obtained locally, while 11.5 percent imported; Motor Vehicles and Miscellaneous Assembly 45.5 percent obtained locally and 27.3 percent imported; Information and Communication Technology 21.5 percent obtained locally while 10.7 percent imported; Solid Minerals 30.8 percent obtained locally while none imported; Others: 34.4 percent obtained locally and 15.2 percent imported.

Peculiarities may be observed in connection with Electrical and Electronics, and also Solid Minerals Mining/Processing because a reasonable percentage of the respondents did not indicate the specific levels of raw materials that they imported. But literature available, in addition to profiles generated, indicated that at least 70 percent of their raw materials are imported.

Breaking down the analysis by industry size revealed that most of the sectors under the micro industries sourced their most important raw materials locally. Specifically, the Wood and Wood Products sector; Food, Beverages and Tobacco as well as and Non-metallic and Minerals sectors showed impressive performance in terms of local sourcing of their most important raw materials. Similar characteristics are also found in these sectors under the small and medium scale industries. But a slight deviation was noticed with respect to the Chemicals and Pharmaceuticals sector under the small-scale industries as well as the Information and Communication Technology sector under the medium scale industries where imports ranked above locally sourced raw materials. However, sectors with average or low levels of raw materials sourced locally include Plastic and Rubber Products, Pulp, Paper and Paper Products, Basic Metals and Iron and Steel and Information and Communication Technology under the micro industries. Similar trend was observed in the small and medium scale industries where, for instance, the same sectors performed very low in terms of local sourcing of raw materials. In the case of micro industries, it was observed that the amount of raw materials imported and those sourced locally are equal; the same is true of the Motor

Vehicles and Miscellaneous Assembly and the Information and Communication Technology sectors.

Detailed analysis of the distribution indicated above shows that 60.0 percent of the respondents in the Wood and Wood Products sector sourced their most important raw materials locally, while only 4.4 percent imported theirs. It was further observed that 57.7 percent of the companies in the Food, Beverages and Tobacco sector sourced their most important raw materials locally while only 7.7 percent imported theirs. The Non-Metallic sector indicated that 57.1 percent of companies sourced their raw materials locally while 14.3 imported their own. Under the Basic Metals, Iron and Steel sector, 49.1 percent of the companies sourced their raw materials locally while 11.1 percent imported. Almost 43 percent of the firms under the Textile, Wearing Apparels sector sourced their most important raw materials locally while only 9.5 percent depend on imported materials. The Electrical and Electronics sector indicated that 33.3 percent of the firms surveyed, sourced their raw materials locally while no importations are made. Under the Motor Vehicles and Chemicals sectors it was indicated that 25.0 percent of the companies respectively, sourced their raw materials locally; while 25 percent of each of them imported their most important raw materials. The remaining sectors other than the business lines cited above indicated that 30.4 percent of their companies sourced their raw materials locally while only 17.4 percent imported. About 13.3 percent of the industries belonging to the Information and Communication Technology claimed that they sourced their raw materials locally, whereas 13.3 percent imported. Firms under the Solid Minerals sector

did not indicate whether their raw materials were sourced locally or imported under the micro industries. About 7.7 percent of those under the Plastic and Rubber Products sector indicated they sourced their raw materials locally while 7.7 percent also indicated they imported.

Similar characteristics as above were observed for the small-scale industries. For example, 70.6 percent of the firms in the Food, Beverages and Tobacco sector sourced their most important raw materials locally; only 10.3 percent imported. It is followed by Non-metallic sector in which 57.2 percent of the firms sourced their raw materials locally and 14.3 percent imported. Solid Minerals did not indicate the sources of their raw materials for micro industries but claimed that 57.1 percent of the firms sourced their raw materials locally, while there are no importations. About 55.5 percent of the firms under the Wood and Wood Products sector sourced their raw materials locally and there are no importations. Motor Vehicles sector indicated that 50.0 percent of the companies sourced their raw materials locally while 33.3 percent imported. Basic Metal, Iron and Steel sector indicated that 45.9 percent of the companies sourced their raw materials locally while 12.5 percent imported. Pulp, Paper and Paper Products companies indicated that 33.3 percent of them sourced their raw materials locally while another 33.3 percent imported.

For the medium scale industries under the Food, Beverages and Tobacco, Wood and Wood Products and the Motor Vehicles sectors, it is evident that 100.0 percent of their companies sourced their raw materials locally. Information and Communication Technology sector under the same industrial category indicated that 50.0 percent of these companies sourced their most important raw materials locally, while

another 50.0 percent imported. About 33.3 percent of the Plastic and Rubber Products sector imported their most important raw materials; none sourced locally (see chart 3 below).

Observations were also made for the second most important raw materials of the three industrial sectors sampled. Survey report indicated that the general trend in the Northwest Zone did not deviate significantly from the data obtained for the first most important raw materials. For example, the Food, Beverages and Tobacco, Wood and Wood Products, Motor Vehicles and Miscellaneous Assembly and the Non-Metallic Minerals Products sectors are found to have sourced higher percentages of their second most important raw materials locally. Sectors that performed averagely include the Basic Metal, Iron and Steel and Fabricated Metals, Textile, Wearing Apparels and Footwear, and Chemical and Pharmaceuticals. Sectors with very low local sourcing of second most important raw materials are the Pulp, Paper and Products, Plastic and Rubber, Information and Communication Technology, Solid Minerals Mining/Processing and others.

The data generated from the survey indicated that 50.3 percent of the companies under the Food, Beverages and Tobacco sourced their second most important raw materials locally. Only 6.7 percent of the companies import the materials. They are followed by those under the Wood and Wood Products sector, which indicated that 42.4 percent of the companies sourced their second most important raw materials locally while only 2.7 percent imported. In addition, 36.4 percent of the companies under Motor Vehicles sector indicated they sourced their second most important raw materials locally; only 18.2

percent imported. However, 44.4 percent of those under the Chemicals and Pharmaceuticals sector indicated they imported their second most important raw materials, while only 22.2 percent of them sourced theirs locally.

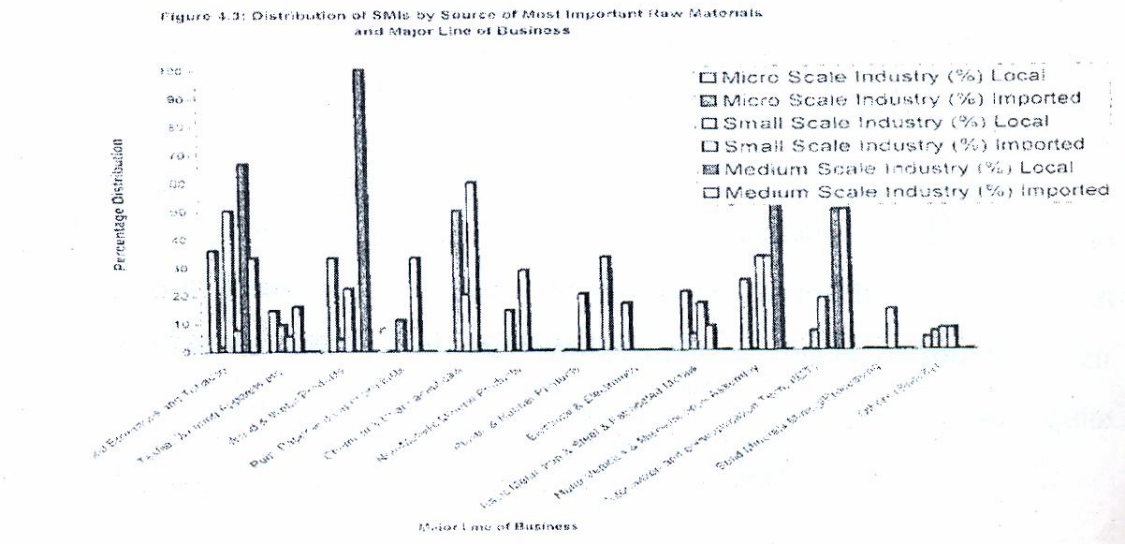
Both sectoral and industrial analyses revealed that the Food, Beverages and Tobacco sector in the micro, small and medium scale industries topped the list in terms of local sourcing of their second most important raw materials. The Wood and Wood Products and Basic Metals, Iron and Steel sectors came second. Low local sourcing of raw materials is common in such sectors as the Pulp, Paper and Paper Products, Textiles/Wearing Apparels, Chemical and Pharmaceuticals; Non-metallic and Mineral Products; Electrical and Electronics; Basic Metal and Steel; Motor Vehicles, Information and Communication Technology and Other sectors.

The survey indicated that a higher percentage of the companies under Food, Beverages and Tobacco, Wood and Wood Products and Motor Vehicles sectors, sourced their third most important raw materials locally. However, Textile/Wearing Apparels, Non-metallic Minerals, Pulp and Paper products, Plastic and Rubber, Electrical/Electronics, Basic Metals, Iron and Steel, ICT, Solid Minerals and other sectors performed between average and low in terms of sourcing their third most important raw materials locally.

Evidently, 43.0 percent of the companies under the Food, Beverages and Tobacco sector in the zone sourced their third most important raw materials locally; only 4.7 percent imported, 11.1 percent of those under the Textile, Wearing Apparels sector imported their third most important raw materials while only 8.9 percent of

them sourced them locally and 30.1 percent of Wood and Wood Products sector sourced their TMI raw materials locally. Only 2.7 percent imported their raw materials. In addition, 20.0 percent of the firms in the Pulp, Paper and Paper Products sector imported their TMI raw materials; none sourced them locally. As for the Chemicals and Pharmaceuticals sector, 55.6 percent of the firms imported their TMI raw materials while only 11.1 percent of them sourced them locally. About 21.4 percent of the responding firms under the Non-Metallic Mineral products, sector, sourced their TMI raw materials locally; none imported. It was further observed that 36.4 percent of those in the Motor Vehicles and Miscellaneous Assembly sector sourced their TMI raw materials locally whereas 18.2 percent of them imported (see Figure 3 below).

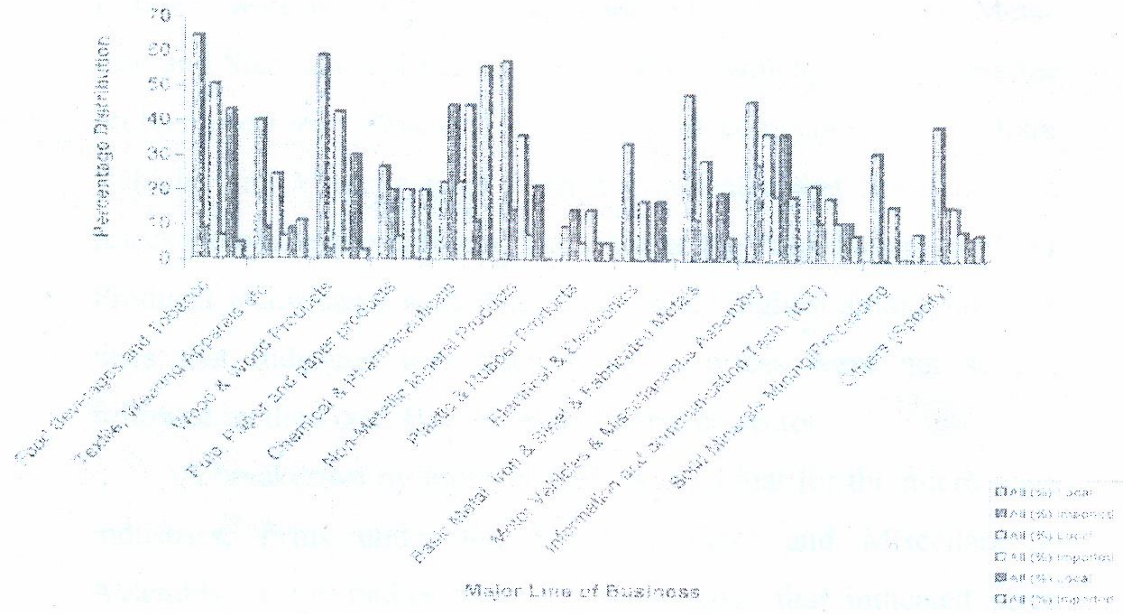
Figure 4.3: Distribution of 8Mls by Source of Most Important Raw Materials and Major Line of Business



A further breakdown by industry size shows that for the micro industries, the Food, Beverages and Tobacco and the Wood and Wood Products sectors ranked high in terms of sourcing their TMI raw materials locally. The same trend is evident under the small and medium industries. An exception, however, is found under the small-scale industries, where the Chemicals and Pharmaceuticals sector indicated a higher percentage of importation of their TMI raw materials.

A comparative analysis of the sources of the three most important raw materials indicated that the Food, beverages and Tobacco, Wood and Wood Products, Basic Metals, Iron and Steel, Non-metallic Minerals, and Textile/Wearing Apparels sectors, could conveniently source their raw materials locally. Only a small percentage of their raw materials are sourced through imports. However, the sectors that are heavily import-dependent are the Chemicals and Pharmaceuticals, Information and Communication Technology, Electrical and Electronics, and Motor Vehicles and Miscellaneous Assemblies. It is observed that the Food, Beverages and Tobacco, Non-Metallic Minerals, Wood and Wood Products sectors could source 100 percent of their raw materials locally, irrespective of whether they are under micro, small or medium scale industries. Worrisome, however, is the Textile, Wearing Apparel, Footwear and Leather Products sector whose raw materials, though available locally as indicated in the survey report, are performing only averagely in sourcing their raw materials locally. Their performance nonetheless, is quite impressive at the micro level (see Figure 4 below).

Figure 4: Distribution of SMIs by Source of Second Most Important Raw Materials and Major Line of Business



Severity of Storage Problem

Evidence with respect to the severity of storage problem revealed that some of the industries indicated that poor supply of electricity was a major obstacle to effective storage of their products and raw materials. The implication is that they needed to install generating plants, which would in turn increase their cost of production. In doing so, however, they might loose their competitive edge.

Looking at the breakdown by industry size, it is evident that the micro and small-scale industries appeared to share common features. For example, firms under the Textile, Wearing Apparels, Pulp, Paper and Paper Products, Solid Minerals and Chemicals and Pharmaceuticals sectors revealed that the problem of storage was very

severe. Basic Metals, Iron and Steel, Motor Vehicles Assembly and Food, Beverages and Tobacco sectors for the micro and small industries indicated non severe storage problem.

For the few industries that responded under the medium-scale industries, ICT and Motor Vehicles Assembly indicated that the problem was very severe. However, Plastic and Rubber Products and the Textile, Wearing Apparels sectors indicated that the problem was not severe.

We can infer from the above analysis that those firms under the Pulp, Paper and Paper Products sector have the most severe problems of storage; firms under Motor Vehicles and Miscellaneous Assembly ranked highest, among the industries that indicated that problem is severe, while Solid Minerals Mining/Processing ranked highest among industries that indicated non service problem of storage (see attach disc).

In the regions, most of the industries appeared to experience the problem of storing their products. The problem was however not very serious. Prominent among those industries with severe storage problems are those in the Food, Beverages and Tobacco and Chemicals and Pharmaceuticals. Those with severe problems of storage are Motor Vehicles and Miscellaneous Assembly, Non-metallic Mineral Products and Textile, Wearing Apparels. Sectors that indicated not having problems with storage include the Solid Minerals Mining/Processing and others. The problem only affected relatively few companies.

Severity of fluctuations in prices in business operation

The survey shows that in the regions, the majority of industries under the Textile, Wearing Apparels sector indicated that the problem of price fluctuations is very severe. This is followed by the Basic Metal, Iron and Steel and Fabricated Metals sector, which also indicated the severity of the problem. The majority of companies under Motor Vehicles and Miscellaneous Assembly indicated fluctuations in prices as severe problem affecting their operations. Those under the Pulp, Paper and Paper Products sector came next. The latter ranked highest among business lines that indicated fluctuations in prices as not severe, followed by the Food, Beverages and Tobacco sector.

A breakdown by industry size revealed that for the micro scale industries, firms under the Motor Vehicles and Miscellaneous Assembly sector ranked highest among those that indicated price fluctuations as very severe; it is followed by those in the Solid Minerals Mining/Processing and the Textile, Wearing Apparels sectors. Business lines that indicated that price fluctuations are just severe include Plastic and Rubber Products which ranked highest. These are followed by those in the Wood and Wood Products and Pulp, Paper and Paper Products sectors. The Food, Beverages and Tobacco sector ranked highest among businesses that indicated prices fluctuations as not severe.

A similar trend was observed under the small-scale industries. For instance, Non-metallic Mineral Products ranked highest among businesses that said price fluctuations are very severe; it is closely followed by Textile/Wearing Apparels and Basic Metal, Iron and

Steel sectors. Motor Vehicles and Miscellaneous Assembly ranked highest among businesses that said price fluctuations are severe; it is followed by Plastic and Rubber Products and the Pulp, Paper and Paper Products. Likewise, Pulp, Paper and Paper Products ranked highest among businesses that indicated price fluctuations are not severe.

The medium scale industries, however, seemed to portray a slightly different picture from that under both the micro and small-scale industries. For instance, all the businesses sampled under Basic Metal, Iron and Steel sector indicated that price fluctuations are very severe; businesses under the Information and Communication Technology and Plastic and Rubber Products sector follow it. A similar trend is also discernible under the Motor Vehicles and Miscellaneous Assembly sector, which ranked highest among the businesses that indicated that price fluctuations are severe. None of the businesses indicated that price fluctuations are not severe.

Overall, the general picture portrayed is that price fluctuations constituted severe problems for the businesses in the regions. This is more severe for the Motor Vehicles and Miscellaneous Assembly, Solid Minerals, Textile/Wearing Apparels, Basic Metals, Iron and Steel and ICT sectors. The implication is that the revenue profiles of the businesses are also unstable, a problem which made business planning extremely difficult. This may also be a factor affecting investments in these sectors, which in the long run, may have negative consequences for employment and industrial performance.

4.4 Production Technology

4.4.1 Sources of Most Important Machinery and Equipment

The survey conducted on the small and medium scale industries in these regions with respect to production technology and as far as machinery and equipment are concerned, posed two important questions. These centred on whether the business firms used local or imported machinery and equipment. In general, some business firms favoured local machines and others preferred imported equipments for use in their operations. Differences were noted along the major lines of businesses.

Industries under the Food, Beverages and Tobacco, Solid Minerals Mining, Electrical and Electronics, Plastic and Rubber Products, Motor Vehicles Assembly, Pulp, Paper and Paper Products sectors, accounted for over 50 percent of the companies' operations using imported machines. Non-metallic Minerals Products sector had the highest percentage of utilization of local machinery going by first most important machinery and equipment.

In analysing the lines of business against micro, small and medium scale industries, responses showed that all these industries had fair shares of both imported and local machines and equipments in their production processes. Under the micro industries, firms under Pulp, Paper and Paper Products and Electrical and Electronics sector topped the list of users of imported machines with about 56 percent and 67 percent shares respectively. However, Solid Minerals and Non Metallic Minerals sectors are the highest users of local machineries under the micro industries group.

In the small-scale industrial sector, it was observed that except for Non-Metallic Mineral Products, all other major lines of business favoured imported first most important machinery and equipment. For example, 79 percent of the respondents in the Textiles and Wearing Apparels use imported machines for their production operations, while the responding 80 percent of the firms under Plastic and Rubber sub-sector are equipped with imported machinery. The highest users of local machineries and equipment fall under the Non-metallic Minerals Product sector with about 57 percent for the small-scale industries.

In view of the fact that the medium scale industries, due to their size, are relatively few in the regions, there are some lines of business that did not respond to this section of the questionnaire. These are Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, and Non-metallic Mineral Products all under the medium-scale industries. However, companies under the Plastic and Rubber Products, Basic Metals, Motor Assemblies and Information Technology sectors were net importers of machines and equipment for their operations. Others include those in the Solid Minerals Processing, Food, Beverages and Tobacco sectors, which recorded a fair share of both local as well as imported machinery and equipment. As observed, the more advanced the line of business, the higher the technical requirements in the production process; hence, the sourcing of the first most important machinery and equipment' through import.

Going by the second most important machinery and equipment, responses from the regions indicated a fair distribution between local and imported machinery and equipment. For example, the response

from the Food, Beverages and Tobacco sector on the second most important machinery is 39 percent and 38 percent with respect to local and imported machinery and equipment respectively. The same may be said of other sectors like Wood and Wood Products, Solid Minerals and Mining and other unspecified lines of business. In the Pulp, Paper/Paper Products, 47 percent of the responding firms are in favour of imported machineries. Motor Vehicles and Miscellaneous Assembly indicated that in general, they are in favour of imported machinery and equipment.

An analysis by industry size indicates that the micro scale industries are relatively dependent on imported machinery and equipment as a second most important source. More than 50 percent of the companies under the Pulp, Paper and Paper Products and Motor Vehicles and Miscellaneous Assembly sectors depend on foreign sources. The few respondents under the Chemicals and Pharmaceuticals as well as Solid Minerals Processing sectors are relatively in favour of utilizing local machinery and equipment as the second most important source.

The trend under the micro industries bore resemblance to that in the small-scale industries. However, industries under the Pulp, Paper and Paper Products sector did not indicate any use of local machinery and equipment. The same is true of the Motor Vehicles and Miscellaneous Assembly line of business. It is however important to note that all respondents under the medium-scale industries with respect to the Wood and Wood Products sector are wholly dependent on the use of local machinery and equipment as the second most important machinery and equipment. Other local machinery and

equipment users among the medium-scale enterprises include Basic Metals, Iron and Steel and Fabricated Metals as well as Solid Minerals and Mining/Processing. An important issue worth noting is that even though there were responses from the medium-scale industries, they were relatively few with respect to this section of the questionnaire.

The pattern of response in the first and second most important machinery and equipment also characterised the source of the third most important machinery and equipment under the different major lines of business.

4.4.2 Reasons for Importing Machinery and Equipment

Although there may be many reasons for importing production inputs, prominent among these reasons may be as follows: non-availability of such inputs; low cost of importation these equipments; low quality of domestic substitutes; and many other reasons that could not be captured in the survey.

In these regions, responses from all the major lines of business indicated that non-availability is the main reason for importing machinery and equipment. This is clear from the high percentage response in most lines of business under the micro-scale industries as indicated in such sectors as the Solid Minerals Mining and Processing (80.0 percent), Plastic and Rubber Products (61.5 percent), Information and Communication Technology (53.3 percent), Electrical and Electronics (50 percent), as well as in the Pulp, Paper and Paper Products (45 percent), all in favour non-availability as reason for importing machinery and equipment.

The trend under the micro-scale industries is about the same as the small and medium scale industries. High among the firms in the small-scale industries that claimed non-availability as the reason for importing machinery and equipment are the Chemicals and Pharmaceuticals sector with 80.0 percent of the firms; Motor Vehicles and Miscellaneous Assembly 100 percent, Textiles, Wearing Apparels etc 79 percent, as well as Wood and Wood Products with about 67 percent of the firms. It is only under the Plastics and Rubber Products sector that a significant number of firms (20 percent in the small scale category) claimed that imported machinery and equipment are cheaper.

The issue of low quality products as reason for importing machinery and equipment had its own share among the micro and small-scale business firms. The Chemicals and Pharmaceuticals sector's response under the micro-scale industries was in favour of low quality of domestic substitutes to the tune of about 50 percent. In general however, it could be said that non-availability of these plants and machinery locally, was the main reason for the importation of machinery and equipment in all the different major lines of business.

4.4.3 Sources of Most Important Spare Parts

The sources of spare parts are crucial to the maintenance of existing plants and machinery for the smooth operations of the firms. The issue of spare parts is crucial in the sense that available local spare parts may not be adequate for the operations of the firms. But if an industry relies mostly on imported spare parts, its operations may

be hampered by non-availability due to a number of reasons, among which the principal is high cost of foreign exchange.

Survey reports showed that the sources of the most important spare parts in the Northwest zone are divided into local and imported sources. Accordingly, firms under the Basic Metals line of business responded by 28.2 percent and 26.9 percent in favour of local and imported spare parts respectively. Those in the Solid Minerals and Mining Processing line of business indicated that about 30.8 percent and 46.2 percent of their firms were in favour of local and imported sources respectively, of the first most important spare parts for their operations.

An analysis along industry size indicates that the trend seems to be the same as local and imported spare parts had their fair shares in most of the lines of business. In the micro scale industries for example, ICT indicated a ratio of 13.3 and 33.3 percent of its firms favouring local and foreign first most important source of spare parts respectively. Food, Beverages and Tobacco in the small-scale business responded with 29.4 percent and 32.4 percent in favour of local and imported sources of spare parts respectively.

A serious problem, however, is the fact that a lot of the firms especially those under the medium-scale, did not respond to this part of the questionnaire completely. Thus, a generalization may be fraught with danger.

Nonetheless, under the small-scale industries, there appeared to be a greater dominance of imported spare parts just as was the case with the micro industries. The situation under the medium-scale

industries however is slightly different as the sources of spare parts were more evenly distributed, on the average.

The general picture emanating from an examination of the sources of spare parts across the micro, small and medium scale industries indicate that imports constituted a higher proportion.

The same applied to the second as well as the third most important sources of spare parts. While in the medium-scale sector the sources were fairly evenly distributed, imports dominated the micro and small-scale industries. As a result, due to their high numerical value (frequency), the micro and small-scale industries dominated the general the pattern in favour of imported spare parts.

4.4.4 Reasons for Importing Spare Parts

Industrial productivity and performance require reasonable support and availability of spare parts. The general impression from the survey report with respect to the availability of spare parts indicated that about 60 percent could be sourced locally, especially now that there are pockets of iron and metal industries which can fabricate some specific spare parts. Accordingly, the summary of the reasons for importing spare parts in the Northwest zone indicated that non-availability took the dominant position. The distribution of sampled industries which favoured non-availability of spare parts locally ranged between 60.1 percent, with the Non-Metallic Minerals Product sector taking the lowest with 7.1 percent.

All the firms under the micro, small and medium scale industries indicated non-availability locally as their reason for importing spare parts.

4.4.5 Type of Production Process / Technique Employed

Survey results for the regions indicated that all the business lines in the three industrial classes sampled combined their production processes/techniques in pre-determined proportions. In terms of performance by the businesses, Pulp, Paper and Paper Products ranked highest, followed in order of ranking, by Chemicals and Pharmaceuticals, Motor Vehicles and Miscellaneous Assembly, Basic Metals, Iron and Steel, Solid Minerals Mining/Processing, Wood and Wood Products, and Electrical and Electronics. This finding implies that virtually all the business lines in the three industrial classes combined manual and mechanized techniques in their production.

An analysis of the business lines by industrial size revealed that in the micro industries, with the exception of a few cases, most of the businesses combined their production techniques. For instance, the firms operating in the Pulp, Paper and Paper Products sector ranked highest among the businesses under the micro sector that indicated the combination of both manual and mechanized techniques during production. Those in the Chemicals and Pharmaceuticals sector closely followed them. Other lines of business that showed impressive performance in this category are Plastic and Rubber Products, Basic Metal, Iron and Steel, Electrical and Electronics, Wood and Wood Products, and 'Other' sectors.

Interestingly, few of the businesses are still making use of the manual technique for their production. Survey evidence, for instance, revealed that the Solid Minerals Mining and Processing sector ranked highest in this category, followed by Motor Vehicles and

Miscellaneous Assembly, and Textiles, Wearing Apparels, Footwear and Leather Products.

An insignificant percentage of the businesses under the micro industries in the regions indicated only mechanised techniques. Overall, it could be inferred that most of the businesses under the micro industries combined their production processes/techniques.

For the small-scale industries, all the business with the exception of Non-metallic Minerals Products and Chemicals and Pharmaceuticals, which revealed the predominance of manual and mechanized production techniques respectively, all other businesses combined their production process. Survey results indicated that in this category, firms operating in the Motor Vehicles and Miscellaneous Assembly sector ranked highest among business lines that combined their techniques, followed by Food, Beverages and Tobacco, and Textile, Wearing Apparels, Footwear and Leather Products. Other business lines that combined their production techniques are, in order of ranking, Basic Metals, Iron and Steel, Solid Minerals Mining/Processing, Wood and Wood Products, Others, and Pulp, Paper and Paper Products. An interesting revelation became evident under the Chemicals and Pharmaceuticals, which indicated that whereas 40 percent of the firms employed only mechanized techniques, another 40 percent indicated the combination of both manual and mechanized production processes.

Business lines in the medium-scale industries showed impressive performance in their choice of production techniques. The majority of the businesses under the Textiles, Wearing Apparels, Footwear and Leather Products, Motor Vehicles and Miscellaneous

Assembly, Solid Minerals Mining/Processing, Food, Beverages and Tobacco, and Plastic and Rubber Products sectors indicated that they combined their production techniques. An exception however, is the Wood and Wood Products sector where survey evidence revealed that all the businesses employed only manual techniques during production. An interesting case was observed in the lCT sector where 50 percent of the firms indicated using only manual techniques, and another 50 percent said they combined both manual and mechanized techniques.

Overall, our findings have shown that for the three categories of industries sampled, most of the businesses combined their production techniques.

4.4.6 Acquisition of Patent Right for a Certain Production Process/Product.

The survey sought to explore whether there had been any major innovation or breakthrough among the business sectors within the three industrial classes, leading to the acquisition of patent rights for particular products or production processes.

The survey evidence showed that there had been acquisition of patent rights among the industries, even though the result is not very impressive. As the survey results revealed that the Textiles, Wearing Apparels, Footwear and Leather Products ranked highest among the business lines that indicated acquiring patent rights for the production of certain products. It is followed by Electrical and Electronics, Food, Beverages and Tobacco, Motor Vehicles and Miscellaneous Assembly, Pulp, Paper and Paper Products, Wood and Wood

Products, Others, Solid Minerals and Non-metallic Minerals sectors, in that order.

A breakdown of the lines of business a long the three industrial classes revealed that the performance of the medium-scale industries was quite impressive when compared with the small and micro industries. For instance, all the businesses in the Wood and Wood Products, Basic Metals, Iron and Steel, and Motor Vehicles and Miscellaneous Assembly under the medium-scale industries indicated acquiring patent rights for some of their products. This is encouraging and shows that given the right incentives and encouragement that they need, these businesses could do better and serve as veritable sources of revenue and job creation.

The performance of the small-scale industries was also encouraging, considering the difficult environment in which they operate. Survey evidence revealed that firms under the Pulp, Paper and Paper Products ranked highest among businesses that indicated acquiring patent rights for some of their products/production processes with 50 percent of the firms. Other lines of business that had also done that include, in order of ranking, Solid Minerals Mining/Processing, Textile, Wearing Apparels, Plastic and Rubber Products, and Food, Beverages and Tobacco.

Business lines under the micro industries that had acquired patent rights for their production processes/products, as revealed by the survey, include Electrical and Electronics, Textile and Wearing Apparels, Motor Vehicles and Miscellaneous Assembly, and Food, Beverages and Tobacco.

4.4.7 Mode of Maintaining Machinery and Equipment

The ability of any business organization to maintain its plants and machinery is crucial to the survival and success of that business. This is because without maintenance, incessant breakdowns may hinder the required optimality in operation and also trigger high production costs. It was observed that all responding business organizations had two ways of doing this. The exceptions were those companies under the Chemicals and Pharmaceuticals sector. These ways include the in-plant and the out-plant modes of maintenance. However, the in-plant mode of maintenance was the most predominant in the zone. The Chemicals and Pharmaceuticals with 100 percent in-house maintenance is immediately followed by the Pulp, Paper and Paper Products sector, with 93 percent in-house mode of maintenance. Others are Food, Beverages and Tobacco (87 percent), Plastic and Rubber Products (91 percent), Electrical and Electronics (83 percent), Basic Metals (75 percent), Motor Vehicles and Miscellaneous Assembly (91 percent) and Information and Communications Technology (lCT), with about 68 percent in-house maintenance. It is not surprising that Information and Communications Technology had the lowest percentage of in-house maintenance. This is because trained personnel in this area (lCT) are insufficient in Nigeria.

In analysing the mode of maintenance by major lines of business as well as the size of industry covered, it becomes apparent that the micro-scale industries favoured in-house maintenance of machinery and equipment the most. In the micro sector accordingly, Chemicals and Pharmaceuticals are wholly in support of the in-house

maintenance culture. Their response was thus: 100 percent in favour. Others include Food, Beverages and Tobacco (83 percent), Pulp, Paper and Paper Products (89 percent), Plastic and Rubber Products (92 percent), Electrical and electronics (83 percent), Basic Metals and Motor Vehicles Assembly, each having about 75 percent of the firms engaged in in-house mode of maintenance of machinery and equipment respectively.

The trend under the micro scale industries is similar to that under the small-scale industrial category. However, Electrical and Electronics line of business did not feature in either the small or medium-scale industries in the collated questionnaires.

In the medium-scale industrial concerns, all the responding business firms, except Information and Communications Technology, are in favour of in-house mode of maintaining their machinery and equipment. The ICT under this industrial category showed an even application of in-plant and out-plant modes of maintenance. All the responding businesses under the medium-scale category employed only in-house mode of maintaining machinery and equipment.

4.4.8 Frequency of Maintaining Machinery and Equipment

The question on how often the firms under the various lines of business maintained their plants and machineries forms an important part of the enquiries central to the baseline studies. The cross-tables displayed the options provided in the form of daily, weekly, monthly, quarterly, bi-annually, yearly, and 'when necessary' modes of maintenance. In view of the fact that different types of machineries characterised different lines of business, the response patterns

therefore, was differentiated along these lines as well as industry size. It was observed that 25 percent of the respondents under the Food, Beverages and Tobacco sector maintained their machinery when necessary. About 24 percent under the Food, Beverages and Tobacco conducted some form of maintenance on daily basis. Few respondents in the same line of business did their maintenance on weekly, monthly and quarterly basis. Statistical information generated from the survey indicates that daily maintenance, weekly and when necessary were the most popular ways that most business firms maintained their machines. For example, the firms under Textile, Wearing Apparels etc, indicated that about 14 percent, 33 percent and 19 percent of them maintained their plants daily, weekly and when necessary, respectively. Pulp, Paper and Paper Products sector responded with 33 percent on a daily basis and 33 percent on a monthly basis, with only 11 percent maintaining their plants and machineries only when necessary under the micro scale industries.

The daily maintenance culture along the different lines of business involved the Non-Metallic Minerals Product sector, which had the highest proportion of about 57 percent. Chemicals and Pharmaceuticals closely followed it, with about 50 percent of the firms engaged in daily maintenance, while ICT had the least of about 13 percent daily maintenance, among all others, under the micro scale industries.

However, maintenance on a weekly basis was spearheaded by Solid Minerals sector involving about 40 percent of the firms. Other lines of business with high weekly maintenance culture also include the Textiles, Wearing Apparels etc. A significantly high proportion of

monthly maintenance was also observed under Electrical and Electronics with 50 percent and Pulp, Paper and Paper Products with about 33 percent under the micro scale industries. Relatively few micro firms conducted quarterly maintenance. Accordingly, only 14 percent of the companies under the Non-Metallic sector maintained their plants on a quarterly basis. They are closely followed by ICT where about 13 percent of the respondents were in favour of quarterly maintenance. The general impression with respect to maintenance is that it is conducted by majority of the firms on daily, weekly, monthly and quarterly basis. However, the intensity of the maintenance differed between the different lines of business while under the micro-scale industries a distinction was made between major and minor maintenance.

The trend in the small-scale industries is similar to the one under the micro industries. Daily maintenance culture was more prominent in the Plastic and Rubber Products sector, with about 60 percent responding companies in its favour. However, companies under the Non-metallic sector conducted their maintenance mostly on a weekly basis, involving about 43 percent of the firms. Under the Chemicals and Pharmaceuticals sector, maintenance is conducted fairly evenly on daily, weekly, monthly and quarterly basis. The emphasis however is on monthly maintenance.

It has by now become evident that the regions had relatively few industrial concerns under the medium scale category. In this category moreover, only the Textile, Wearing Apparels firms conducted daily maintenance with a proportion of about 60 percent. The survey also confirmed that most of the plant maintenance is

conducted on weekly basis in the Food, Beverages and Tobacco sector, involving about 66 percent of the responding companies. Companies under other lines of business with significantly high proportion of firms that engaged in weekly maintenance include Wood and Wood Products (100 percent), Plastic and Rubber Products (33.3 percent), ICT (50 percent), Solid Minerals and Mining/Processing also wholly (100 percent) in favour of weekly maintenance in the medium scale industries.

It is pertinent to note that the responding firms under the Motor Vehicles and Miscellaneous Assembly line of business in the medium scale industries were wholly (100 percent) in favour of quarterly maintenance.

The general picture that emerged from the survey indicates that all lines of businesses have a fair share of frequencies of maintaining plant and machinery on daily, weekly, monthly, quarterly as well as biannually, yearly and when necessary. Daily maintenance was highly significant among sectors like the Chemicals and Pharmaceuticals (33 percent), Non-metallic Mineral Products (36 percent) and Plastic and Rubber Products about 33 percent. The responding companies under Solid Minerals and Mining topped the list of those lines of business that favoured weekly maintenance in general with 31 percent. The Electrical and Electronics registered about 50 percent in favour of monthly maintenance in general. Few firms, in general, conducted quarterly, bi-annual and yearly maintenance of their machinery and equipment. However, the firms under all major lines of business did maintain their plants when necessary. Nevertheless, the degree of

response, on when necessary, differed between one line of business and another.

4.5 Infrastructural Facilities

4.5.1 Availability and Adequacy of Electricity from National Grid

From the survey carried out in the regions, it was required of the SMEs to indicate the availability and adequacy of electricity from Power Holding Company of Nigeria (PHCN), for their operations. Generally, the responses indicated that electricity from PHCN for industries in the regions was available but grossly inadequate. An average of 64 percent of the micro scale industries, 72 percent of small-scale industries and 77 percent of medium scale industries responded by saying that electricity from PHCN for business operation was available but inadequate. On the other hand, an average of 7.9 percent of micro scale industries and 22.2 percent of the small industries responded by claiming that electricity from PHCN was available and adequate. The same picture is portrayed when all the industries are considered together. The percentages representing the availability but inadequate supply of electricity from PHCN are of great magnitude when compared to those indicated under "availability and adequacy" of electricity from PHCN. The inadequacy of PHCN power supply for businesses in the Northwest zone had been affecting the industries adversely since a greater proportion of them are under the micro and small scale industries which could not afford alternative sources of power supply.

Considering the major lines of business in the zone, 69.2 percent of the micro scale industries surveyed under Food, Beverages

and Tobacco indicated availability but inadequate power supply, 3.8 percent indicated the availability and adequacy of electricity from PHCN while 15.4 percent responded to the contrary. The same trend of response was obtained under the small and medium scale industries within the same line of business.

Electrical and Electronics, Information and Communication Technology (lCT) and Chemicals and Pharmaceuticals appear to be the lines of business that are worst hit by the non-availability and inadequacy of electricity from PHCN in the zone. Among all the businesses surveyed under the Motor Vehicles and Miscellaneous Assembly, 81.8 percent responded that electricity from PHCN was available but inadequate while only 9.1 percent affirmed to the adequacy of the infrastructure. Under no line of business surveyed in these regions, had the response been up to 16 percent in favour of adequate supply of power from PHCN. Inadequate supply of electricity from PHCN is seen as one of the major constraints hindering the growth of SMEs in the regions.

4.5.2 Availability and Adequacy of Telecommunications

The survey data further revealed the availability or non-availability of telecommunications in the regions. As can be inferred from the data, Electrical and Electronics sector ranked highest with 55.6 percent of the firms that indicated that telecommunications facility is available and adequate. It is followed by firms under the Electrical and Electronics sector which indicated 50.0 percent. Other firms which indicated that the facility was available and adequate include Pulp, Paper and Paper Products (46.7 percent) and Solid

Minerals Mining/Processing, which accounted for 46.2 percent of the responding firms. The lowest response in this category came from the Wood and Wood Products sector, with 20.5 percent. However, 42.9 percent of the firms under Information and Communication Technology ranked highest among business lines that indicated that the facility is available but inadequate; 40 percent of Textile, Wearing Apparels etc and another 40 percent of Pulp, Paper and Paper Products sectors, indicated that it is available but inadequate. Other firms which indicated that the facility is available but inadequate include Solid Minerals Mining/Processing (38.5 percent), other unclassified business lines (36.4 percent), Motor Vehicles and Miscellaneous Assembly (36.4 percent), Food, Beverages and Tobacco (36.2 percent) and Wood and Wood Products (35.6 percent). The least response in this category came from the Non-Metallic Mineral Products sector with only 21.4 percent. Interestingly, 50.0 percent of the firms under Electrical and Electronics indicated that the facility is not available in the zone; followed by Non-Metallic Mineral Products (28.6 percent), Wood and Wood Products (27.4 percent), Motor Vehicles and Miscellaneous Assembly (27.3 percent) and Basic Metals, Iron and Steel and Fabricated Metals, which accounted for 21.8 percent. The lowest response in this category came from firms under the Information and Communications Technology which accounted for only 3.6 percent of the firms from the sector.

When the issue is analysed in accordance with industry size, Plastic and Rubber Products ranked highest among firms under the micro industries that claimed that telecommunication facilities are available and adequate. In addition, 50.0 percent of those in the

Chemicals and Pharmaceuticals and 50.0 percent of those in Electrical and Electronics as well as 38 percent of those in Textiles, Wearing Apparels, Footwear and Leather Products lines of business, indicated that the facility is available and adequate. Firms under Pulp, Paper and Paper Products accounted for 44.4 percent. Interestingly, 80.0 percent of the firms under Solid Minerals Mining/Processing indicated that the facility is available but inadequate. Other firms under the micro industries which indicated that the facility is available but inadequate include Information and Communication Technology (53.3 percent), Pulp, Paper and Paper Products (44.4 percent), and Wood and Wood Products (37.8 percent). About 50.0 percent of the firms under Electrical and Electronics indicated that the facility is not available. About 43 percent of firms under the Non-Metallic Mineral Products sector and 29 percent of those under Textiles, Wearing Apparels, all indicated that the facility is not available.

The behaviour of the firms under small-scale industries followed similar pattern with those in the micro scale industries analysed above. For instance, Solid Minerals Mining/Processing ranked highest among firms that indicated that telecommunication facilities are available and inadequate in the regions. They are followed by firms under the Chemicals and Pharmaceuticals sector (60.3 percent), ICT (54.5 percent), Pulp, Paper and Paper Products (50.0 percent) and Basic Metal, iron and Steel and Fabricated Metals (45.8 percent).

About 58 percent of the firms under the Textiles, Wearing Apparels sector in the small-scale industries indicated that the facility was available but inadequate. They are followed by firms under Motor

Vehicles and Miscellaneous Assembly (50.0 percent), Others (45.3 percent) and Plastic and Rubber Products, 40.0 percent. Among firms that indicated that the facility availability are Plastic and Rubber Products (40.0 percent), Wood and Wood Products (25.9 percent) and Textile, Wearing Apparels etc (21.1 percent).

Under the medium-scale industries, all the firms (100 percent) under Solid Minerals Mining/Processing indicated that the telecommunication facilities are available and adequate in the zone. About 50 percent of them under the ICT indicated that it is available but inadequate, while 33.3 percent of firms under Food, Beverages and Tobacco indicated the same. Businesses under the medium-scale category that indicated the 'available but inadequate' option include Textiles, Wearing Apparels (l00 percent), Plastic and Rubber Products (66.7 percent), ICT (50.0 percent) and Food, Beverages and Tobacco (33.3 percent). Those firms that indicated that it is not available are Textiles, Wearing Apparels (l00 percent), Basic Metal, Iron and Steel and Fabricated Metals (l00 percent), Motor Vehicles and Miscellaneous Assembly (l00 percent) and Food, Beverages and Tobacco (33.3 percent).

4.5.3 Availability and Adequacy of Transportation Network

a. Road Transportation

The businesses were further interviewed to indicate whether road transportation is available and adequate. The survey revealed that 73.3 percent of the firms under Pulp, Paper and Paper Products favoured "availability and adequacy" of road transportation in the regions. Other firms within this category include Chemicals and Pharmaceuticals (66.7 percent), Electrical and Electronics (66.7 percent), Wood and Wood Products (56.2 percent), Basic Metal, Iron and Steel and Fabricated Metals (53.8 percent), ICT (53.6 percent), Plastic and Rubber Products (52.4 percent) and Food, Beverages and Tobacco sub-sector (50.3 percent).

About 46.2 percent of the firms under Solid Minerals Mining/Processing in the small-scale industries indicated that road transportation is available but inadequate. In addition, Motor Vehicles and Miscellaneous Assembly, Non-Metallic Mineral Products, Food, Beverages and Tobacco, Wood and Wood Products and Textile, Wearing Apparels sectors with 36.4, 35.7, 32.2, 31.5 and 31.1 percent respectively, of the firms, indicated that the facility is available but inadequate. About 11.1 percent of the firms under Chemicals and Pharmaceuticals sector favoured the 'not available' option by 11.1 percent, followed by Motor Vehicles and Miscellaneous Assembly: 9.1 percent, Food, Beverages and Tobacco: 8.1 percent, Non-Metallic Mineral Products: 7.1 percent, and Wood and Wood Products: 5.5 percent.

When analysed in accordance with industrial size, the majority of the firms under the micro, small and medium scale industries tended to support the view that telecommunications facility is available and adequate. Under the micro scale industries for instance,

Chemicals and Pharmaceuticals and Motor Vehicles and Miscellaneous Assembly sectors ranked high, having responded by 75.0 percent each. Firms (under Pulp, Paper and Paper Products, Electrical and Electronics, Wood and Wood Products, Plastic and Rubber Products, ICT, Textiles, Wearing Apparels etc, Basic Metal, Iron and Steel and Fabricated Metals and other unclassified business sectors responded favourably to the 'available and adequate' option by posting 66.7, 66.7, 60.0, 53.8, 53.3, 52.4, 50.9 and 50.0 percent respectively.

Firms under Solid Minerals Mining/Processing ranked highest (60.0 percent) among those that indicated that road transportation in the regions was available but inadequate and some in a poor state. Another sector that responded in favour of 'available but inadequate' option under the micro scale industries is the Non-Metallic Mineral Products with 42.9 percent. Those firms that indicated 'not available' include Non-Metallic Mineral Products: 14.3 percent and Food, Beverages and Tobacco: 11.5 percent.

Under the small-scale industries, the same pattern of response was observed. For instance, all lines of business, except Motor Vehicles and Miscellaneous Assembly, were unanimous in their response that road transportation is available and adequate. In percentage terms, Pulp, Paper and Paper Products accounted for 83.3 percent of the firms, Food, Beverages and Tobacco 60.3 percent, Chemicals and Pharmaceuticals 60.0 percent, Plastic and Rubber Products, 60.0 percent, Basic Metals, Iron and Steel and Fabricated Metals, 58.3 percent, Solid Minerals Mining/Processing, 57.1 percent,

Textile, Wearing Apparels, 52.6 percent, Wood and Wood Products, 51.9 percent and ICT, 45.5 percent.

Motor Vehicles .and Miscellaneous Assembly sector ranked highest among those under the small-scale industries which indicated that road transportation is available but inadequate, with 66.7 percent of the responding firms. This appears to be the only high response under this category. Other firms where relatively high responses were noticed include Textile, Wearing Apparels: 36.8 percent and other unclassified business lines with 35.8 percent. For the non-available option, the response was relatively low, with firms under the Chemicals and Pharmaceuticals sector accounting for only 20.0 percent, while Motor Vehicles and Miscellaneous Assembly accounted for 16.7 percent.

Under the medium-scale industries, all the firms (100 percent) under Basic Metal, Iron and Steel and Fabricated Metals, Motor Vehicles and Miscellaneous Assembly and Information and Communication Technology indicated that road transportation is available and adequate. However, 100 percent of the firms under Wood and Wood Products, and additional 100 percent under Solid Minerals Mining/Processing sectors indicated that it is available but inadequate. About 66.7 percent of firms under the Food, Beverages and Tobacco businesses are favourably disposed towards availability but inadequacy of road transportation. About 40 percent of the firms under Textile, Wearing Apparels etc indicated the same. Only 20.0 percent of the firms under the Textiles, Wearing Apparels indicated that the facility was not available.

b. Railway Transportation

Transport facilities especially railways, are extremely critical means of carrying raw materials and finished products from one location to another. In order to assess the availability and adequate as well as importance of rail transport in the zone, industries were asked to indicate their opinion. Survey findings revealed that virtually all the major lines of business claimed that rail transportation is not available. Prominent among these industries are: Food and Beverage industries, Pulp Paper and Paper products, Electrical and Electronics, Motor Vehicles and Miscellaneous Assemblies. Only few industries indicated that rail transport is available and these are in the Solid Minerals and Textiles, Wearing and Apparels sectors.

An analysis on the basis of sectoral averages revealed similar trends. For example, out of all industries sampled, 50 percent of them indicated that rail transportation is not available. These industries include Wood and Wood products, Food and Beverages, Pulp, Paper and Paper products, Chemicals and Pharmaceuticals, Non-Metallic Mineral Products, Electrical and Electronics, Motor Vehicles and Miscellaneous Assemblies. Only the Solid Minerals, Mining/ Processing sector indicated that rail transport is available. Under the small-scale industries, many of the firms did not respond to this section of the questionnaire, but the overall pattern of responses remains similar to that of the micro-scale firms where a high percentage of the industries indicated that rail transport is not available. With respect to the medium scale industries, it is also observed that few responses are received, which is a reflection of the relatively few medium scale industries in the zone. However, most of

those that responded indicated that rail transport is not available. Only Motor Vehicles and Miscellaneous Assemblies indicated that it is available and adequate.

The overall impression is that: only few industries are still patronizing rail transportation and these are basically industries that are involved in the production and transport of heavy products and construction materials. Majority of the industries can not been patronizing it due to its inefficiency and at times, non-availability.

c. Air Transportation

Transportation, particularly by air, is very vital for business transactions in view of its speed and efficiency. It is however comparatively more costly and can only be conveniently afforded by big and well-established industries. The availability of air transportation for the use of industrialists in the Northwest zone was very low. Based on the observed responses, Plastic and Rubber Products line of business indicated that 53.8 percent of the firms responded in favour of the availability and adequacy of air transport. The rest of the businesses under the remaining sectors indicated insignificant responses in favour of air transport. 'Not available' air transport option was the typical response among the micro, small and medium scale industries. When all these industries are considered together, a similar impression the same trend is maintained.

On the basis of individual lines of business, the use of air transport for the micro scale industries was generally poor. Lines of businesses such as Textiles, Wearing Apparels etc, Chemicals and Pharmaceuticals, Non-Metallic Minerals Products and Motor Vehicles

and Miscellaneous Assembly had not indicated their use of air transport. Solid Minerals, Mining and Processing and Wood and Wood Products indicated 40 percent and 2.2 percent response in favour of availability and adequacy of air transport in south-west and north central especially.

Two things are obvious concerning the micro scale industries with respect to air transportation in the regions. The first is that the micro scale industries might not have sufficient funds for use on air transportation and the second is that the air transport system in the regions is not a superior alternative to road transportation.

As for the small and medium scale industries too, responses on the availability of air transportation are not very encouraging. The use of this means of transport was either very minimal or insignificant in most cases. Only under the option of non-availability were the responses significant.

These percentages ranged from 14.3 percent to 51.5 percent for small-scale industries; and from 50 percent to 100 percent for medium scale industries. The availability and adequacy of air transport under the medium scale industries received significant responses only in the Textiles, Wearing Apparels sector; while all other lines of business showed no indication of utilizing air transport. Considering all the businesses surveyed, the use of air transport for business transactions is very limited.

d. Water/Marine Transportation

The responses analysed with regard to the availability and adequacy of water/marine transportation, in respect of micro and

small-scale industries, are relatively scanty; and in the case of medium scale industries no company indicated that this mode of transportation is available at all. However, there were few responses on the option of "available but inadequate". It is clear that water/marine transportation was not a major means of transportation across all industrial groups. This may have a lot to do with the landlocked nature of the zone. It is to be understood that those responses that attached importance to water/marine mode of transportation are only reflecting the importance of imports in their operations.

Public water supply is an essential factor in the location of an industry. The distribution of the public water supply was reflected in cluster patterns with certain proportions of the industry agreeing that it is available but not adequate while others indicated that it is available and adequate. Prominent among the industries indicating that it is available and adequate are those under Textiles, Wearing Apparels etc, Chemicals and Pharmaceuticals, ICT and Solid Minerals, Mining and Processing.

Industries such as the Food and Beverages and Wood and Wood Products, Pulp, Paper and Paper Products, Non-Metallic Mineral Products, Electrical Electronics, Basic Metals, Iron and Steel and Fabricated Metals, Solid Minerals and Processing and Others, indicated that public water is available but not adequate.

The pattern of distribution by industry size indicates that the micro industries for example, favoured the option that public water supply is available but inadequate. The affected sectors include: Wood and Wood Products, Pulp Paper and Paper Products, Non-Metallic and Mineral Products, Electrical and Electronics, Solid Minerals,

Mining Processing, Basic Metals, Iron and Steel and Fabricated Metals and Others. But industries under the ICT and Chemicals and Pharmaceuticals favoured the "available and adequate" option. Industries under the Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, Plastic and Rubber Products and ICT in the small scale category, claimed that public water is available and adequate while firms under the Food, Beverages and Tobacco, Textiles, Wearing Apparels, Wood and Wood Products, Basic Metals, Iron and Steel and Fabricated Metals and Motor Vehicles and Miscellaneous and sundry agreed that public water supply is available but inadequate. In the medium-scale industries, a different distribution pattern was observed even though most of the companies indicated that public water supply was available but inadequate. These include Textiles, Plastic and Rubber Products, Basic Metals, Iron and Steel and Fabricated Metals, Motor Vehicles and Miscellaneous Assemblies and ICT which claimed that public supply is available but inadequate. Industries under the Wood and Wood Products sector indicated that public water is available but inadequate. But the general picture is that, on the average, public water supply is available but inadequate.

4.6 Capital Invested

4.6.1 Sources of Capital, Composition of Invested Capital at Inception

Before one could set up any business venture, one needs a certain amount of capital, whether the business venture falls under the micro, small or medium scale category. With respect to this study, capital requirements are divided into four, which include Land, Building, Plant and Machinery as well as Working Capital. The

analysis begins by looking at the major lines of business that existed at the time of the survey in the regions of Nigeria under micro-scale industries and the scale of their capital requirements at inception.

With regards to the micro scale industries, it is obvious that most of the businesses that existed invested more in buildings than in land. It could also be seen that at inception, most micro scale industries invested more in plant and machinery than in land. At the same time, it was observed that most micro-scale industries, invested more in plant and machineries than in working capital. It is equally important to note that at inception, most micro scale industries invested more in working capital than in land. It is also very clear that micro businesses invested a relatively fixed proportion of their total turnover in working capital, which was in turn proportional to their capacity utilization. In general, it should also be noted that the amount invested in land by all the industries appeared to be directly related to their size. In other words, it is generally believed that the amount of money invested increases as the size of the enterprise grows from a micro to small and then to medium scale industry.

On a priori grounds, it is widely accepted that the full integration of the various industries in the regions into the formal sector of the Nigerian economy, progresses by the size of the industry. Thus, a lot of the micro industries were observed to be operating under conditions characteristic of both the formal and informal sectors. However, as the size of the enterprise reaches in general that of the small-scale industry, full integration proceeds in earnest.

An analysis of the composition of capital at inception across the expenditure items under the micro industries reveals that the amount

invested seems, on the average, to increase as one move from expenditure on land to that on Building and then Plant and Machinery. On the other hand, it was observed that those business lines (sectors) that invested the highest amounts in plant and machinery; include Pulp, Paper and Paper Products (NO.94 million), Motor Vehicles and Miscellaneous Assembly (NO.75 million) and Wood and Wood Products (NO.55 million). The group of businesses considered as others also invested on the average NO.53 million.

Working capital on the other hand appeared to remain a certain proportion of the capacity utilization and total turnover. Under the small-scale industries, the pattern of investment at inception was observed to have been more clearly based on the sequence of investment items arranged in this order: Land, Building and Plant and Machinery in the average. The highest expenditure/investment was made on Building under Solid Minerals (NO.93 million) and the Food, Beverages and Tobacco (NO.89 million). This is followed by Motor Vehicles and Miscellaneous Assembly (NO.85 million). Motor Vehicles and Miscellaneous Assembly sector also invested a relatively high amount of NO.84 million on the average, on Plant and Machinery.

The highest investment in working capital at inception (NO.6 million) is made under the Basic Metal, Iron and Steel and Fabricated Metals. It is followed by Motor Vehicles and Miscellaneous Assembly (NO.56 million) and Plastics and Rubber Products (NO.55 million).

Under the medium-scale industries, the trend remained the same In terms of investment at inception, in Land, Building, Plant and Machinery. However, for the first time in this analysis, it is observed

that some enterprises under the Food, Beverages and Tobacco business line, made substantial investments at inception, in Plant and Machinery. These include: Solid Minerals, Mining and Processing (an average of N1.62 million), Chemicals and Pharmaceuticals (N1.20 million), Plastic and Rubber Products (N1.20 million) and Motor Vehicles and Miscellaneous Assembly (NI.I0 million), all on the average.

It is obvious from the foregoing, that the amounts of capital invested by all the industries in Land, Building, Plant and Machinery as well as on Working Capital are not radically different from each other. For example, the amount spent on Land and Buildings was averagely the same at inception i.e. about N390,000 while that spent on Plant and Machinery was about N370,000. Working Capital consumed about N430, 000 on the average, at inception.

If we examine the peculiarities of all the industries in the regions in relation to the different lines of business, it becomes equally obvious that averagely, the Motor Vehicles and Miscellaneous Assembly sector invested more in Land, with N680,000, while the Pulp, Paper and Paper Products sector spent the least on Land with just NI 00,000. With regards to the average amounts invested in Building, the Solid Minerals, Mining and Processing sector invested the most with N850,000, while the Motor Vehicles and Miscellaneous Assembly sector invested N830,000. The companies in the Electrical and Electronics sector invested the least with just NI 00,000.

The Pulp, Paper and Paper Products sector invested the most in plant and machinery with N710,000 while the Information and Communication Technology (lCT) sector, invested N630,000 in the

same thing. Both the Food, Beverages and Tobacco as well as Wood and Wood Products sectors invested N560,000 in plant and machinery. The Non-Metallic Mineral Products sector invested the least, on the average, in plant and machinery with a paltry N50,000 only.

4.6.2 Sources of invested capital

There are variety of sources of capital for SMEs; however, quite a number of the SMEs surveyed claimed that their main sources of invested capital were from personal savings. In addition, a significant number of major business lines indicated that they obtained loans from friends and banks. Poor performance was observed in respect of loans from government agencies, funds from SMIEIS, equipment leasing and cooperatives. More specifically, all the companies under Solid Minerals and Mining claimed that their sources of capital are 100 percent from personal savings. The only companies under the micro industries that indicated significant patronage of banks for loans are those under Chemicals and Pharmaceuticals (25 percent), ICT (20 percent) and to a lesser extent, Plastics and Rubber Products (15.4 percent). Under the small-scale industries, most companies sourced their invested capital from a combination of personal savings and loans from banks. The involvement of government agencies also existed, but it was relatively insignificant.

Under the same industrial classification, it was observed that a few companies had enjoyed the SMIEIS scheme. These include Food, Beverages and Tobacco (15 percent), Textiles, Wearing Apparels (10.5 percent) and other unspecified sectors (19 percent).

Cooperatives have also been a major source of loans for businesses under the small-scale industries. The most important beneficiaries include, in order of importance, Basic Metals, Iron and Steel and Fabricated Metals (83 percent), Food, Beverages and Tobacco (74 percent), Wood and Wood Products (74 percent) and to a lesser extent, Motor Vehicles and Miscellaneous Assembly (16.7 percent).

Under the medium-scale industries, it was observed that the major source of investible capital still remained personal savings, and it was followed by both banks and equipment leasing. The most interesting sector however is the Basic Metal, Iron and Steel and Fabricated Metals, which indicated that 100 percent of the firms under it sourced their capital from personal savings, SMIEIS and cooperatives.

On the whole, if we are to rank these sources of invested capital in order of importance they would include: Personal savings (1), family and friends (1), loans from banks (2), equipment leasing (2), loans from government agencies (3), NGOs and donor agencies (3) and loans from cooperatives (3).

4.6.3 Willingness to Accept Other People or Banks to Co-Finance or Acquire Shares

The general impression is that in Nigeria as a whole, the small and medium scale industries are poorly financed. It is important therefore, to find out if these enterprises are ready and willing to accept others ready to inject funds by way of equity participation. They were therefore asked if they could accept others to co-finance or

acquire shares in their enterprises. Survey results indicated that an average of about 60 percent of all the industries indicated that they would be willing to accept others, including banks, to acquire shares in their enterprises. The pattern of distribution of the various responses to this clearly showed that Basic Metals, Iron and Steel and Fabricated Metals, ICT, and Wood and Wood Products sectors, maintained an average of over 70 percent. This is presumably due to the fact their business line required huge capital funds. Following closely are firms under Pulp, Paper and Paper Products, Chemicals and Pharmaceuticals, Plastic and Rubber Products, Electrical and Electronics, and Others indicating an average of about 60 percent, while Food, Beverages and Tobacco, Textiles, Wearing Apparels, Footwear and Leather Products, Solid Minerals Mining and Processing account for an average of about 50 percent. Motor Vehicles and Miscellaneous Assembly in the zone account for 36 percent.

Breaking down the distribution according to the sizes of the industries, the picture is a replica of the one above. Still, Basic Metals, Iron and Steel and Fabricated Metals and ICT took the lead with 77.4 percent and 73.3 percent respectively. This indicates that they are very willing to accept other people or banks to co-finance or acquire shares in their enterprises.

Under the small-scale industries the picture is only slightly different. The average distribution is about 70 percent. Specifically, ICT and Wood and Wood Products took the lead with 90.0 percent and 81.5 percent respectively, Chemicals and Pharmaceuticals had 80.0 percent of the firms. Others, Solid Minerals Mining and

Processing and Basic Metal, Iron and Steel and Fabricated Metals, Pulp, Paper and Paper Products, and Plastic and Rubber Products accounted for an average of 60 percent.

Those under the medium-scale industries that responded to this issue indicated 100 percent acceptance of financial support from banks and sale of shares in order to raise funds. Only Plastics and Rubber Products sector in the medium-scale category claimed just 23.3 percent low

The general conclusion is that the small and medium scale industries strongly favoured the acceptance of people and banks in co financing their enterprises within the regions. Micro industries indicated lower interest in this option.

However, the specific conclusion drawn here is that all the industries indicated their support for other people or banks to co-finance or acquire shares in their enterprises. This will undoubtedly facilitate an easy implementation of the SMIEIS project, especially if it is accompanied by vigorous enlightenment campaigns.

Using the lines of business as basis for the analysis revealed that businesses under the micro-scale industry had fair shares of new investments in all the sectors, except the Non-Metallic Mineral Products. Among the micro industries with significant new investment activities are the Information and Communication Technology (46.7 percent), Basic Metals (41.5 percent) and Solid Minerals and Mining/Processing with a positive net investment of 40 percent under micro industries.

In the small-scale industries, there were no new investment activities in the Electrical and Electronics sector. There were new

investments, however in the rest of the lines of business where the highest proportion was found in the Solid Minerals Mining/Processing sector with 57.1 percent, Food, Beverages and Tobacco (48.5 percent), Textiles, Wearing Apparels, Footwear and Leather Products (52.6 percent), Wood and Wood Products (51.9 percent) as well as Non-Metallic Mineral Products with about 43 percent new investment, all under the small-scale industrial set-ups.

All the firms (100 percent), under the Motor Vehicles and Miscellaneous Assembly, together with the Solid Minerals Mining/Processing sectors, undertook new investments; while 80 percent of those in the Textiles, Wearing Apparels, Footwear and Leather Products also undertook new investment activities in the medium-scale industries. The lowest new investment in the medium scale industries is registered under the Plastic and Rubber Products sector with 33.3 percent of the firms involved.

4.6.4 Purpose for Understanding New Investment

Opinions differed among the different business operators on the purpose(s) of the new investments among the SMEs in the regions. In general, the dominant purpose was to increase or expand production capacity. Other reasons are the development of new lines of production. Top among the few firms responding in favour of expansion of production capacity are the Basic Metals, Iron and Steel and Fabricated Metals with an average of about 40 percent of the firms. Others that favoured new investment for improved capacity are Chemicals and Pharmaceuticals (an average of 33 percent), Solid Minerals and Mining (an average of 30.0 percent) as well as the

Motor Vehicles and Miscellaneous Assembly with an average of about 27 percent in favour of expanded capacity.

It is pertinent to note that the expansion of production capacity was the main reason for new investment in micro and small-scale industries active in the Chemicals and Pharmaceuticals sector (50 percent) and Non-Metallic Products (57 percent), in the micro and small-scale industries respectively. All the responding medium-scale firms had indicated that the expansion of production capacity was the main reason for new investments in all the sectors (see attach Disk).

4.6.5 Reasons for not Undertaking New Investment

Responses on the reasons for not making new investment were scanty. In general, however, no responding firm attributed the reason for non-investment to lack of funds. The Chemicals and Pharmaceuticals sector was in favour of stifling government regulation as reason for not making new investment. Others that equally blamed government include the Pulp, Paper and Paper Products (6.7 percent), Basic Metals, Iron and Steel and Fabricated Metals with 2.6 percent of the firms indicating that stifling government regulations were the reason for not making new investment.

In the micro industrial category, complaints about stifling government regulations were made by the firms under Textiles, Wearing Apparels, Footwear and Leather Products to the tune of 4.8 percent. It should however be noted that responses on this issue are scanty. In the small-scale industry stifling government regulations were the most significant reason for not making new investment as

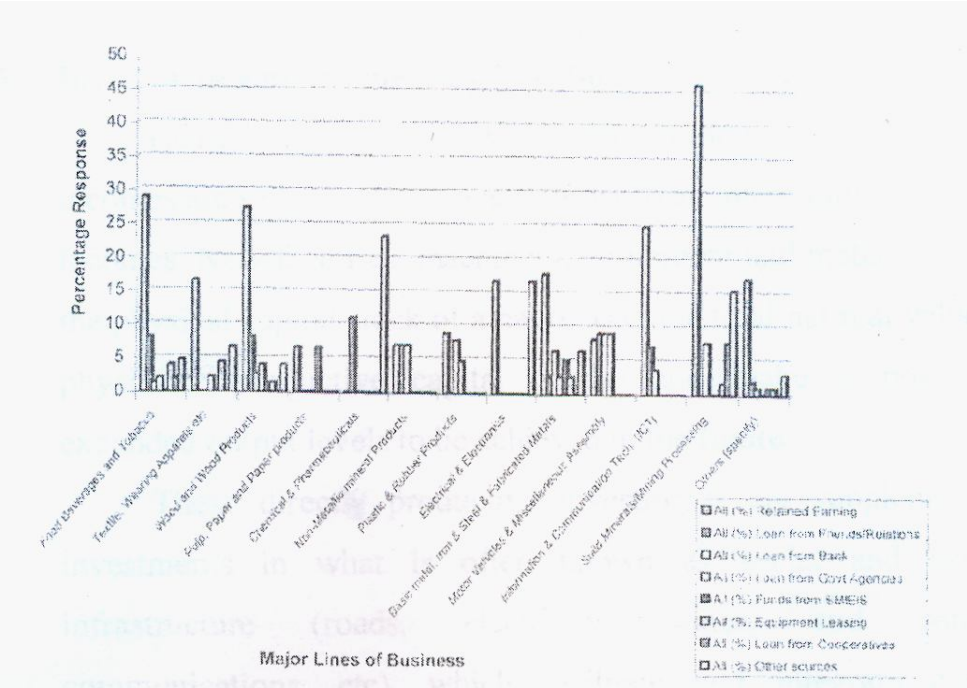
indicated under the Pulp, Paper and Paper Products (16.7 percent) and Chemicals (and Pharmaceuticals (20 percent).

In the medium-scale industrial concern, there was no response on reason(s) for not making new investment by any major line of business.

4.6.6 Sources of New Investible Funds

Among the sources of new investible funds along the major lines of businesses are retained earnings, loans from friends or relations, loans from banks, loans from government agencies, funds from Small and Medium Industries Equity Investment Scheme (SMIEIS), equipment leasing as well as loans from cooperatives and unspecified others. In the Northwest zone, retained earnings are the most important source of new investible funds going by responses along major lines of business. Exceptions are found in the Chemicals and Pharmaceuticals where there was no response. Top among those who favoured retained earnings are firms in the Solid Minerals and Mining Processing (46 percent), Wood and Wood Products (27.4 percent), and Information and Communications Technology (25 percent). Loans from friends and relations also featured prominently. However, 11.1 percent of the firms under the Chemicals and Pharmaceuticals and 9.1 percent of those in the Motor Vehicles and Miscellaneous Assembly sectors were in favour of loans from banks. Loans from government agencies, SMIEIS, equipment leasing and loans from cooperatives as well as other unspecified sources are relatively low in percentage terms. However, other unspecified sources in the Chemicals and Pharmaceuticals line of business benefited 23.2 percent of the firms. This was the general situation in the Northwest zone (see figure 5 below)

Figure 5: Distribution of Responding SMEs by Sources of New Investible Funds and Major Line of Business



The scenario under the micro and small-scale industries characterised what happened as a whole. Retained earnings formed the bulk of the sources of new investment in both the micro and small-scale industries. Highest among the responding lines of business in favour of retained earnings are the Wood and Wood Products and Information and Communication Technology with 33.3 percent each. The Solid Minerals Mining/Processing recorded a significantly higher response in favour of retained earnings under the small-scale industries than any other with 57.1 percent. Loans from friends and from banks in the small-scale industries were favoured by 14.3 percent of the firms in the Non-Metallic Mineral Products. As far as

sources of new investible funds are concerned, retained earnings are the most dominant. It is followed by loans from friends and relations.

4.7 Investment Environment by Location

Capital accumulation results when some proportions of present incomes are saved and invested in order to augment future outputs and incomes. New factories, machinery, equipment and materials increase the physical capital stock of a nation (i.e. the total net real value of all physically productive capital goods) and make it possible for expanded output levels to be achieved in the future.

These direct productive investments are supplemented by investments in what is often known as social and economic infrastructure (roads, electricity, water, and sanitation, communications, etc), which facilitate and integrate economic activities. For example, investment by a farmer in a new tractor may increase the total output of the vegetables which he can produce, but without adequate transport facilities to get this extra product to local markets his investment may not add much to the actual national food output.

The level of infrastructural development in a country is a crucial factor determining the pace and diversity of economic development. The volume of compensatory investment in infrastructure which has come to be associated with industrial manufacturing in Nigeria are:

a. Transportation: Poor road networks, dilapidated railways and poor inland water transportation facilities.

b. Telecommunication facilities: Poor telephone, telex, telefax, e-mail and internet interconnectivity, the services are poor and very expensive.

c. Poor water supply: Very unreliable.

d. High fuel costs.

e. Water and service facilities very poor.

Government's efforts at resuscitating the run-down power and communication sectors are highly commended. It is hoped that at the end of the exercise, the manufacturing industries would have at their door steps:

a. Uninterrupted and cheap power supply for their operations.

b. Reliable, fast, cheap and readily available telephone and other communication, facilities that would link them to the rest of the country and the outside world.

This would bring down to the barest minimum, their overheads costs and boost their production, quality of production and sales (both locally and internationally).

Respondent companies complained about poor infrastructure. There are persistent shortages in power and water supply. Most roads are in poor states and the post and telegraphic communications are inadequate and poorly equipped. Also, information and statistics are difficult to obtain. The problem of intermittent power failure, especially leads to low outputs due to equipment breakdown.

Consequently, some organizations spend huge amount of their capital in providing these infrastructures. Conscious efforts should be made to improve shortages in power (electricity and fuel) and water supply. Improvement of road network, availability of land for

industrial development, good post and telegraphic communication system and dissemination of information and statistics are other areas that merit serious consideration.

Lack of reliable infrastructural facilities has hampered the efficient exploitation of some raw materials in some locations.

CHAPTER FIVE: DISCUSSION OF THE RESULTS

This chapter examines and discusses the findings of the study with emphasis on the study objectives. The alternative funding arrangements for the SMEs and the impact these arrangement on the and expansion of SMEs is analyzed using the statistical technique of chi-square and the results are as discussed below.

5.1 Alternative Funding Arrangements for SMEs in Nigeria

5.1.1 Financial Institutions

5.1.2 The Small and Medium Industries Equity Investment Scheme (SMIEIS)

The Bankers Committee (a body constituted by representatives of banks in Nigeria) approved the scheme in 1999, as a policy measure for the promotion of SMEs. The scheme requires all banks in Nigeria to set aside 10% of their profit before tax (PBT) for equity investment in SMEs. The scheme aims, among other things to assist the establishment of new, viable SMEs projects, thereby stimulating economic growth, development of local technology, promote indigenous entrepreneurship and generate employment. The funds is to be use to finance projects in the real sectors like, agro-allied, information technology and telecommunications, manufacturing, educational establishments, services, tourism, solid minerals and construction. Available data as at February 2003 indicate that 80 banks have set aside N13.07 billion with 28 banks investing around N2.87 billion based on 67 investment in 47 enterprises.

5.1.3 Financial Cooperatives and Traditional Societies

These are indigenous grassroots institutions that have been contributing significantly to the establishment and development of micro and small scale enterprises that use savings, credit cooperatives and other informal mutual-aid institutions. In Nigeria, some of the traditional mutual-aid societies are "Esusu" and "Adashe". In the light of the scarcity of finance capital and the socio-economic crises prevailing in the country, the role of these societies in establishing especially micro and small scale enterprises is considerable. More specifically, in a country where there is no adequate banking service in the remote areas and, therefore the opportunity for grass roots business to have access to institutional credit is not available, they have served as alternative sources of funds for their members.

It is estimated that 73% of Nigerians live in rural areas and the majority of the rural population uses the facilities of "Esusu" "Adashe" for the mobilization of investment funds to start up income generating activities (Ekpenyong).

However, most of the "Esusu" or "Adashe" are organized and operate informally, and the fact that they are not legally instituted creates problems in serving members particularly in terms of default and therefore, depend on selection of reliable members, social sanctions and their small size to control the use and repayment of borrowed funds (Enquobahrie, 1997). Thus, it could be important that the government helps them to institutionalize their operation so that they can gain legal recognition.

5.2 Sources of Funding SMEs at Start-up and Expansion of Business

There are a lot of sources available for the funding of SMEs sector. This includes among others personal savings, cooperative societies, government agencies, financial institutions, non governmental organization, and international donor agencies among others. These sources of financing SMEs are available in Nigeria but having access to some of the sources is a major constraint and has hampered the growth of the SME sector. The field survey report is presented bellow on the sources of credit to SMEs sector in Nigeria.

Table 5.1: Sources of SMEs credit.

	Frequency	**percentage**	**Cumulative Percentage**
Valid .00	903	60.2	60.2
Personal saving	278	18.5	78.7
Cooperative societies	50	3.3	82.0
Government agencies	55	3.7	85.7
Banks	102	6.8	92.5
Family/ friends	57	3.8	96.3
NGO	47	3.1	99.4
NACRDB	1	0.1	99.5
SMIEIS	4	0.3	99.8
AGOA	3	0.2	100.0
TOTAL	**1500**	**100.0**	

Source: Field Survey 2007

The table 5.1 above shows that the major source of credit or financing small and medium scale business in Nigeria is through personal saving with about 18.5 percent, banking institutions has 6.8

percent, family and friends 3.8 percent and government agencies (most of which are fine tune) 3.7 percent. The other sources provide minimal rate of credit to the SMEs sector. This is an indication that most of the government instituted agencies set up to provide credit to the SMEs have performed poorly in terms of credit delivery, providing barely 1 percent of the credit to the SMEs. This finding seem to corroborate Odetola (1997) and Cowrie Consultants (1996) suggesting that owners savings, family and friends still constitute a major source of financing especially micro and small scale enterprises in Nigeria and other informal institutions. Most of the SMEs do not have access to the credit giving by financial institutions, government agencies, NGOs or International Donor Agencies.

5.3 Government Funding Arrangement and the Growth of SMEs

Government have put in place a number of funding arrangement for SMEs in recognition of the important role they play in national growth and development. The study, therefore, attempted to find out the extent to which this finding arrangement contributed to the growth of SMEs via the questionnaires administered in all the regions under consideration. The response of the respondents is as shown in the table below.

Table 5.2: Responses of respondents on whether funding arrangements by Government have contributed to the growth of SMEs in Nigeria?

Industries	Yes	No	Total
Micro	36	82	18
Small	312	1008	1320
Medium	20	42	62
Total	368	1132	1500

5.4 Test of Hypothesis

As earlier pointed out, the hypothesis formulated for the purpose of this research work would be tested using the statistical technique of Chi-Square (X^2). The research hypothesis states that:

H_o: Funding arrangements for SMEs in Nigeria do not contribute significantly to their growth and expansion.

H_1: Funding arrangements for SMEs in Nigeria contribute significantly to their growth and expansion.

The hypothesis would be tested at 5% significance level, using the data in table 5.2 as reproduced below.

Industries	Yes	No	Total
Micro	36	82	18
Small	312	1008	1320
Medium	20	42	62
Total	368	800	1500

Degree of Freedom (DF) = (r-1) (c-1)

= (3-1) (2-1) = 2

The critical value of X^2 , i.e the table value, at 5% (0.05) significance level = 5.991. Thus, we reject null hypothesis and accept alternative hypothesis if the calculated value of X^2 is greater than 5.991 and vise versa.

Industries	**Yes**	**No**	**Total**
Micro	36 (28.95	82 (89.05)	18
Small	312 (323.84)	1008 (996.16)	1320
Medium	20 (15.21)	42 (46.79)	62
Total	368	800	1500

O	**E**	**0 – E**	**$(0 – E)^2$**	**$(0 – E)^2/E$**
36	28.95	7.05	49.70	1.72
82	89.05	-7.05	49.70	0.56
312	323.84	-11.84	140.19	0.43
1008	996.16	11.84	140.19	0.14
20	16.21	4.79	22.94	1.51
42	46.79	-4.79	22.94	0.49
				$X^2 = 4.85$

The analysis above shows that the calculated value of Chi-square (X2) of 4.85 is less than the table value of 5.991; thus, we accept null hypothesis which states that the funding arrangements for SMEs do not contribute to their growth and development, and reject

alternative hypothesis. It is evidently clear from the analysis above, that government programmes toward financing SMEs have not yield desired results. This may not be unconnected with lack of access to these funds by the SMEs targeted by these programmes.

5.5 Sustainable Sources of Financing SMEs and New Initiatives for their Expansion and Development.

The field survey shows that a lot of government programs and policies were not sustainable largely because most of the programs were not back by institutional support and capacity utilization but could not be said to be without merit. It can be said that most of the programs had implementation problems coupled with bureaucratic tendencies that constraint the successful implementation of such programs.

From the field survey most of the suggestions are centered on:

a. Improving the rate of credit delivery by the financial institutions by deliberately giving incentives to SMEs in terms of reducing the rate of interest rate charge on loans by banks, reducing the administrative cost in servicing loans, and alternative sources of collateral to be used;

b. Adequate network of lending institutions particularly in the rural areas. In Nigeria most of these institutions are within the city centers thereby neglecting the rural areas. These also suggest that rural areas are mostly neglected in implanting some the policies and programs for lack of basic infrastructures.

c. The role of the Microfinance Institutions (MFls) is crucial in financing SMEs in Nigeria. In the NICs, the MFls appear well

adapted to financing SMEs to complement the effort of the lending institutions. The MFls in particular, will go a long way to meet the needs of the micro, small and medium enterprises in Nigeria. This is because the institution is established for the purpose of financing SMEs unlike the banking institutions.

CHAPTER SIX:
SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS

6.1 Summary of Major Findings

The SMEs sector is, without doubt, the key to unlocking the economic potentials of Nigeria. However, the results of the findings of this study is quite revealing.

a. Until recently, government policies, strategies and programs have laid undue emphasized on large scale enterprises and in a number of notable cases, have even discriminated against SMEs especially micro-scale enterprises.

b. The SMEs are mostly owned and run by "small" people especially Small and micro scale enterprises for local markets and using mostly materials from the locality of the businesses. A viable means of promoting self-reliance in economic development as well as introducing diversity into regional, national and local economies is through the deliberate promotion of SMEs and encouraging entrepreneurial spirit and skill in business venture.

c. Apart from the superior employment generating capacity and potentiality of the SMEs, there are the added advantages of their being flexible and easily adapt to changing market opportunities and conditions. The SMEs require limited capital and can more easily combine simple and advanced technology as may be appropriate.

d. There are different sources of funds available to the SMEs which include among others financial institutions, government agencies, non governmental organizations, personal savings, friends and family, international donor agencies, cooperatives.

e. Most of the SMEs operate under an unfavorable environment bedevil by a number of constraints emanating from lack of access to credit, poor infrastructures, lack of raw materials.

f. The granting of loans or credit to SMEs is still a major problem as many of the SMEs are unable to access such funds. Also there is the problem of information between the loan provider and the loan receiver as to the availability, cost and mode of assessing such fund.

g. Most of the SMEs are into the business of manufacturing, construction and provision of services.

h. The exploitation and processing aspects of the mineral raw materials are still very underdeveloped. They are characterized predominantly, by manual processing methods, involving mainly size reduction (crushing, grinding and pulverization) and physical separation (Magnetic and gravity) with little attention to chemical purification processes. Likewise, the equipments used are generally unsophisticated.

6.2 Conclusion

The development of SMEs and its effective promotion have not been approached seriously in Nigeria; hence, the lack of their impact in the economy. In Nigeria, various governments instituted various programs aimed at developing SMEs sector. Most of the programs

were not given the appropriate backing and as such the impact of the programs could not be felt in the economy. The Non-Governmental organization and Donor Agencies are currently involved in the promotion of SMEs in Nigeria.

Access to credit continues to pose a major problem to SMEs sector in Nigeria. The traditional financial institutions have not been able to meet the credit needs of the SMEs. Since the introduction of economic reforms, more SMEs have been forced to the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the SMEs.

The industrial development of Nigeria and other African countries particularly in the sub-region depends on the degree of attention given to the small and medium scale sector. In spite of the abundance of natural resources in these countries, many of its citizens are living under abject poverty with a slow economic development.

6.3 Recommendations

In recent times, most African Nations in general and Nigeria in particular are now realizing the importance of Small and Medium Scale Enterprises as being crucial to their economic development strategies. It is therefore, important to consider conditions that would ensure sustained growth in this sector. The SMEs should be seen as an important sector of the economy requiring specific incentives to assist its development. The problems of the SMEs are characteristic of the basic features of underdevelopment in the economy. From the findings of the study, the following recommendations are made to promote and develop a vibrant SMEs sub-sector in Nigeria:

a. There is the need for clear national development objectives to meet the needs of the SMEs sector. Sound policies and regulations pronouncement do not guarantee achievement of anticipated results because of what is encountered during execution, such as inconsistency of policy implementation.

b. Government can accelerate the development of markets for financial services suited to the special characteristics of SMEs by promoting product innovation and building institutional capacity. In financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable.

c. Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates.

d. The government could also assist by establishing a well funded National Credit Guarantee Fund that will act as buffer for credit facilities from banks and other financial institutions over and above the equity provided under SMIEIS.

e. Investment in agriculture is very low as to produce the needed agro based raw materials for sustainable industrial development. It is also to be noted that the capacity utilization of most agro based industries in the zone is relatively low mainly because the raw material resource endowment of the zone has not been fully exploited or developed. Therefore, there is a need for more investment in the agricultural sector to

provide for increased efficiency, productivity and the economy of the people.

f. Government should promote policies that will facilitate the rapid development of the agro based and solid mineral based raw materials for industrial development. Some existing industries rely on some raw materials which are currently being exported unprocessed at give-away prices, only to import the processed by-products at exorbitant prices.

g. To meet the present demand and quantity requirements for both local and export market production, and to guarantee sustainable industrial operation, it is extremely necessary for Nigeria to develop or build up the capacity for machinery, spare parts and equipment fabrication. Perhaps technology auditing in the economy would reveal a lot of useful information in this regard. It is recommended that the exportations of such raw materials especially those needed by the domestic industries be prohibited, and investors encouraged to go into the processing of these raw materials themselves, for maximum utilization and profits realizable.

h. There is the dire need for the provision of good infrastructural facilities such as roads, electricity, water supply and telephone facilities. It is necessary for the three tiers of government to provide improved infrastructural support services with a view to stimulating investors' interest facilitate mining and agro based activities as well as the development of agro based, and mineral based industries.

Infrastructural facilities should be brought to a level that will compare favourably with what obtains in the international business communities, especially in this era of globalization.

i. Uninterrupted and cheap power supply should be provided for the benefit of the SMEs sector and other investors in economy.

j. There is also the need for reliable, fast, cheap and readily available telephone and other communication facilities that would link the operations and host communities to the outside world. This would bring down to the barest minimum, their overheads and boost their production, quality of products and sales (both locally and internationally) and eventually increased profits.

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APPENDIX I

QUESTIONNAIRE

INTRODUCTION

This questionnaire on the subject "An Evaluation of Funding Arrangements for the Small and Medium Enterprises (SMEs) in Nigeria" has been designed purposely to source information on credit delivery to start-up and/or expand SMEs businesses in Nigeria through the internal and external sources of finance available. The information supplied will be treated in utmost confidentiality and use mainly for the purpose in which the study is intended.

Your honest and objective answers to the following questions will be highly appreciated and acknowledge. Please tick (.J) the appropriate box provided for the answers and make comment(s) where necessary.

SECTION A:

1. Sex:
   a. Male [ ]
   b. Female [ ]
2. Age:
   a. 21 – 30 years [ ]
   b. 31 – 40 years [ ]
   c. 41 – 50 years [ ]
   d. 51 – 60 years [ ]
   e. Above 60 years [ ]

3. Marital Status:
   a. Single [ ]
   b. Married [ ]
4. Educational Qualification:
   a. Secondary School Certificate [ ]
   b. OND/NCE [ ]
   c. HND/Degree [ ]
   d. Masters Degree and above [ ]
5. Position (Grade) in the business:
   a. Chairman [ ]
   b. Chief Executive Officer [ ]
   c. Manager [ ]
   d. Employee [ ]
6. Working experience (in the business):
   a. 1 – 10 years [ ]
   b. 11 – 20 years [ ]
   c. 21 – 30 years [ ]
   d. Above 31 years [ ]

Others (specify any experience aside your business)

.....

SECTION B

(i) Business Background Information:

7. Which locality or local government area is your business located

   .....

8. Which State of the Federation?

   .....

9. Which of the Geo-Political zone?

   .....

10. Which year was your business established?

    ... .

11. Is your business incorporated (that is, registered with Corporate Affairs Commission)?

    .....

12. How many business incorporated (that is, registered with Corporate Affairs Commission)?

    a. 1 – 10 employees [ ]

    b. 11 – 30 employees [ ]

    c. 21 – 50 employees [ ]

    d. Above 50 employees [ ]

13. Please state your business average annual turn-over

    N.....

14. What was your start-up capital and total investment outlay now (if possible)

15. What is the nature of your business (that is, in which industry does your business operate)

    a. Manufacturing [ ]

    b. Mining [ ]

    c. Power [ ]

    d. Construction [ ]

    e. Services [ ]

Please state the product(s) your business produce or service rendered

.....

.....

(ii) Sources of Funding Your Business (Sources of Finance):

16. How did you raise funds to start-up your business?

a.	Personal savings	[ ]
b.	Friends / Family	[ ]
c.	Banks	[ ]
d.	Non Governmental organization	[ ]
e.	Cooperative societies	[ ]
f.	International donor agencies	[ ]
g.	Government agencies	[ ]
	others (please specify)	

....

....

17. Did you seek additional fund after start-up to expand your business

a.	Yes	[ ]
b	No	[ ]
c.	State if successful ……	

……..

18. If yes, where did you seek for additional funding (as in question 17 above)?

……..

……

19. Do the funding arrangements made by government through its agencies contribute to the growth of your business?

    a. Yes [ ]

    b. No [ ]

20. What are/were the criteria/conditions used in granting the credit?

    a. Annual turn-over [ ]

    b. Total investment outlay [ ]

    c. Business plan [ ]

    d. Collateral security [ ]

    others (please specify).....

21. Is your business insured?

    a. Yes [ ]

    b. No [ ]

(iii) Business Support:

22. Do you belong to any organization or institution that support or enhance business development?

    a. Yes [ ]

    b. No [ ]

23. Do you have access to any form of technical or managerial support (or training) to grow your business?

    a. Yes [ ]

    b. No [ ]

24. If Yes, state the source (organization or institution).

    ……

(iv) General Comments:

25. Comments on the prospect of your business in the medium to long-term growth (5 - 10 years)

.....

.....

.....

26. What are the major challenges or difficulties that your business is facing (especially in the area of infrastructures and institutional support) in a globalize economy?

.....

.....

.....

27. Suggest ways of enhancing or facilitating credit delivery to the SMEs sub-sector that will ensure its growth, development and sustainability in Nigeria

.....

.....

INTERVIEW

The responding SMEs were also interviewed in some other aspects of their business. The questions are;

1. The sources of your raw materials, equipments and spare parts and maintenance of machinery.
2. The mode of transporting raw materials and finished products.
3. Quality of employees (semi-skilled, skilled etc).
4. Type of employment (permanent, temporal or casual).
5. Acquisition of patent right.

Thank you for contributing to the success of this study.

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