

## Small and Medium Scale Industries A Pathway to Nigeria Economic Development

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**Abstract:** This paper discussed on small and medium scale industries pathway to Nigeria economic development. It also point out the problems facing the entrepreneurship development of Nigeria economy. It also examines the importance of entrepreneurship in Nigeria. The methodology adopted was systematic review method. It also found that entrepreneurship can enhance economic development in Nigeria primarily by generating employment opportunity. The study also revealed that initiatives by government failed because of over bearing bureaucracies, corruption, inadequate and inefficient infrastructure facilities, financial backup and maladministration. The paper also recommended that government and banks should recognize the important entrepreneurship to her economic development growth by providing the enabling environment for small and medium scale industry to develop. Specifically, government should provide infrastructural facilities (electricity, road network, and communication). It is also recommended that government should re-activate all the institutions established to promote small and medium scale industries in Nigeria.

**Keywords:** Economic development, Maladministration, Small scale, Medium scale, Entrepreneurship.

### INTRODUCTION

Entrepreneurship is one of the building blocks behind the monumental growth and development of the Nigeria's economy. Nigeria need to consider its imperative to pursue small and medium scale industry in order to attain economic development and phase out the social vices associated with unemployment. The experience collected over many years of Nigeria political independence has shown that there is need for small and medium scale industry development for the improvement of our dearest country.

Development of entrepreneurship can be stimulated through a set of supporting institutions and through deliberate innovative action which stimulates changes and fully supports capable individuals or groups. Therefore, policies and programmes designed specifically for entrepreneurship promotion can greatly affect the supply of entrepreneurs and thus indirectly represent an important source of entrepreneurship.

### Problems Facing Small and Medium Scale Industries in Nigeria (SMIS)

The key problem facing small and medium industries in Nigeria is inadequate finance. This factor affects to established firms as well as new one. Secondly, there is inability and unwillingness of the government to implement genuine policies for the informal sector of the economy in spite several restructuring processes.

The introduction of commercials bank in 1892 and many funding programme thereafter including the current small and medium enterprises equity investment scheme (SMEEIS) were therefore part of the financial restricting process aimed at enhancing access to investment fund through equity financing programmer for the promotion of small and medium scale industries (SMIS). Then, finally, the high rate of interest charge on loan which scarred potentials small and medium scale industries in Nigeria is another major problem.

Therefore, this study attempts to resolve these issues facing SMEs

### MATERIALS AND METHODS

The study used both questionnaires and interview, the methodology is open and close method, therefore, the study was quantitative as some interviews were conducted.

This study is basically non-empirical, since information is collected directly without changing the environment.

### RESULTS AND DISCUSSION

The role of small and medium scale industry in development of Nigeria economy for both developing and developed countries cannot be over emphasized. Small and medium scale industries plays important role in the process of industrialization and economic development. Apart from increasing per capital income and output, small and medium industries create employment opportunities and enhance regional economic development and growth [5]. In newly industrialized nation, more than 98 percent of all industrial enterprises belong to small and medium sector and account for the bulk of the labour force.

Reported that the small and medium scale industries sector provided an average of 50 percent of Nigeria employment and 50 percent of industrial output [2]. Therefore, small and medium scale industry is believed to be the engine room for the development of Nigeria economy because they form the bulk of its business activities. Furthermore, [2] further identified the role of small and medium scale industries in the following ways.

- **Employment Generation:** Small and medium scale industries not only provide employment to the substantial percentage of workers but also have a lot of employment potential. Their labour intensity structure account for their recognition as a job creation avenue.
- **Economic Growth and industrialization:** National economic development prospect hinge on the entrepreneurial energy of vibrant small and medium industries. As they protect Nigeria from the geographical cost-benefit per mutation of a few multinational who are ever ready to close up their business and relocate at the light provocation of appearance of economic domination.
- **Contribution to National income of the National:** Small and medium scale industries contribute to the national income of the nation, through the payment of taxes tariff, rates, duties and rents. They also contribute to social life of the environment where they are located. They do so by contributing to victims of misfortune and disaster. They also help. In constructing of town hall and recreational centre public.

- **Better Utilization of Indigenous Resource:** The considerable low capital out by required for setting up small and medium scale industry enable them to convert nominal resources into productive venture. They are veritable outlets for technological advancement especially in business with local technology requirement.
- **Easy Adaptations:** Small and medium scale industry can be easily adapted to local markets and local source of raw material. Since the owners of most of the small and medium scale industry are residence of the local area in which they operate they are in a better position to access and satisfy the local and changing need of the people.

### Problems of Small and Medium Scale Industries in Nigeria

Other factors such as entrepreneurship skill and management skill, as well as absence of the enabling environment for investment in small and medium scale industries in Nigeria affect SMEs operation [5]. Outlined the following problems:

- **Constraint Access to Money and Capital:** The banking sector tends to be weak in meeting the credit requirement to small and medium scale industries. This is because project proposal are poorly prepared, financial documentation and inadequate collateral are not provided, as well as the inability to promote small and medium scale industries project to raise the requirement equity contribution. Moreover; the banks regard many small and medium scale industries as high-risk venture because of the absence of succession plans and even the death of proprietor. As a result, working capital is still a major problem on production as most small and medium scale industries are funded from family member and friends and are therefore unable to unanticipated challenge in a family manner.
- **High Rate of Enterprise Mortality:** The incidence of inadequate working capital which constraint productive capacities of small and medium scale industries as well as absence of succession plans in the event of the death of the proprietor, lead in many cases to frequent early demise of small and medium scale industry.
- **Shortage of Skilled Manpower:** Lack of education is often a barrier to expansion. Many entrepreneurs have no formal education or attended only primary. An enterprise run by entrepreneurs with such a low level of education may function successfully at a micro scale for many years, but many may not be able to grow from micro to small and medium scale enterprises.
- **Financial Indiscipline:** Some small and medium industries proprietors deliberately divert loan obtained from project support to unnecessary luxury. Others refuse to pay back as at when due, the interest and principal, because of political

involvement and the misconceived notion of sharing the so called National cake. There are however, genuine cases of loan default due to operational difficulties and macroeconomic shocks.

- **Lack of infrastructure:** Inadequate provision of essential service such as telecommunication, access road, electricity and water supply constitute one of the greatest constraints to small and medium scale industry development in Nigeria.
- **Poor Implementation of Policies:** The poor implementation of policies have had unintended effects on the sub-sector. This has resulted into confusion and uncertainty in business decision and planning as well as weakened the confidence of small and medium scale industries.
- **Poor Management Practices and Low Entrepreneurial Skills:** Many small and medium scale industries do not keep proper account of their transaction. Lenders are therefore, faced with a lack of reliable information on borrowers and are not able to judge small and medium scale industries credit worthiness thus limiting access to credit from financiers.
- **Restricted Market Access:** Insufficient demands for the product of the small and medium scale industries also impose constraint on their growth. The small business pioneering a new idea naturally does not have a product or service of proven demand. And the difficulty of building adequate sales for something so great in terms of the time and express required that frequently.

Several pioneers go bankrupt in the process before one finally succeeds. Lack of communication facilities further compounded the absence of knowledge about the existence of the product and new markets for such product too.

#### **The Role of Government in Financing and Promoting Small and Medium Scale Industry**

The federal Government needs to take various measures in monetary fiscal and industrial policy to promote the development of small and medium scale industries in Nigeria.

Pointed that the government should activate or be active in the following areas [1].

- Funding and setting up of industrial estate to reduce overhead cost
- Activate the establishments of specialized financial institution including the small scale industry credit scheme (SSICS), Nigeria industrial development bank industry (NBCI) set up in 1973, to provide long-term credit facilities.
- Facilitating and guaranteeing external finance by the World Bank, Africa development bank and other International Financial Institution
- Provision of technical training and advisory service through the industry development center such as

Industrial Training Fund (ITF), raw material research and development council (RMRDC), Federal Institution of Industrial Research Oshodi, (FIRO) and Project Development Agency (PRODA) etc.

- Reducing the risk traced by firm in their production process by providing liquidity and capital. This will help in reducing high market failure rate.
- Enabling Investor (SMIs) to provide their portfolio diversification by providing insurance and project monitoring. In addition to this, entrepreneurs have to be insured against risk.
- Re-visit the people bank of Nigeria. The Nigeria agricultural and Cooperative Bank, and other development finance institution to facilitate the accessibility of credit to small and medium scale industry in Nigeria (SMIs) [5]. All the above mentioned programmed and institutions have in their various activities supported the promotion of small and medium scale industries in the economy.

#### **The Role of Commercial Banks in Promoting Small and Medium Scale Industries in Nigeria**

The banking system in any economy plays the important role in promoting economic growth and development through the process of financial intermediation (i.e. facilitating the flow of finance to the needy areas of the economy). Traditionally, banks are the catalyst of economy growth and direct government intervention in the form of financial subsidies or guarantees, the only sources of finance that can complement the often times inadequate saving of the small and medium scale industries owners.

What then is the level of assistance which commercial bank in Nigeria render to small and medium scale industries?

Suggested that the banking system plays the following role among others [3].

- Improving the efficiency of resources mobilization by pooling individual savings
- Providing a more efficient allocation of saving into investment than the individual savers (SMIS) can accomplish in their own.
- Reducing the risk faced by firms in their production process by providing liquidity and capital. This helps in reducing high marketing rate
- Facilitating a reliable system that provides support for the economy. This ensure prompt settlement of account of small and medium scale industries (SMIS) by their client cheque, credit card, electronic transfer are principle means of payment today.
- Commercial banks also need to facilitate the promotion and growth of small and medium, scale industries.

### Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

In order to make the small and medium scale industries (SMIS) sector to be vibrant, the central bank of Nigeria (CBN) need to be involved in the initiative towards improving accessibility and availability of credit. The scheme requires that commercial and merchant banks to commit 10% of their annual profit before tax (PBT) to the funding of the equity investment in small and medium scale industries, whereby micro credit institution and the conventional banks can adequately be funded [4].

### CONCLUSION

Based on the findings of the research work, it is therefore safe to conclude that federal government and commercial bank need to do more to contribute to the growth and development of small and medium scale industries in Nigeria. It is also revealed that commercial banks does not favour small and medium scale industries than large scale firms in advancing loan/credit facilities. Though finance is said to be the most persistent problem of small and medium scale industries in Nigeria, it is not the only factor responsible for their failure, other factors are technical know-how, managerial skills, and inadequate infrastructural facilities.

### RECOMMENDATION

Base on our findings, some specific and general recommendations has been made by the researchers to the promoters and sponsors of small and medium scale industries in Nigeria. These include:

- Bank are advised to improve on their marketing operation and customer relation by creating round table forum where entrepreneurs and the financing public can be in close constant so that the banks will know better the activities that will benefit small and medium scale industries
- commercial banks should employ the most effective media to reach out to the small and medium scale industries such as television, radio, personal contract is crucial in the field of credit.
- The small and medium scale industries should be given more support seeing that they are the engine of the economic growth and development rather than general and equal support given to all type of investment.
- Government should encourage them to do more by creating the enabling environment for them
- Government should strengthen other financing intermediaries such as cooperative societies, community banks and non-governmental organizations to share the burden of small and medium scale development with the commercial bank.
- Entrepreneurs and promoters should manage their assets efficiently as it can influence support for financed capital.

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